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National Association of Federally-Insured Credit Unions

March 26, 2021

The Honorable Ron Wyden
Chairman
Committee on Finance
United States Senate
Washington, D.C. 20510

The Honorable Mike Crapo
Ranking Member
Committee on Finance
United States Senate
Washington, D.C. 20510

The Honorable Richard Neal
Chairman
Committee on Ways and Means
U.S. House of Representatives
Washington, D.C. 20515

The Honorable Kevin Brady
Ranking Member
Committee on Ways and Means
U.S. House of Representatives
Washington, D.C. 20515

Re: Bank and Credit Union Mergers

Dear Chairman Wyden, Chairman Neal, Ranking Member Crapo, and Ranking Member Brady:

I write to you today on behalf of the National Association of Federally-Insured Credit Unions (NAFCU) in response to recent letters to your Committees from the Independent Community Bankers of America (ICBA) regarding the mergers of banks and credit unions. In their letters to you, the ICBA continues to misrepresent the facts on these types of transactions in order to fit their political agenda of eliminating competition for banks. First and foremost, it is important to recognize that bank-credit union mergers are voluntary, market-based transactions that require a community bank's board of directors to vote on selling to a credit union. These are not "hostile" takeovers. *The bank is the one that ultimately makes the decision to sell to, and merge with, a credit union.* Perhaps, ICBA's concerns would be better addressed by sending a letter to their members asking why they are choosing credit unions over banks.

Bank and credit union mergers are typically a win-win for a local community that may lose its community-focused financial services, or even local employees and branches, if a national bank buys the local community bank. Credit union-community bank mergers often mean employees retain jobs and branches remain open with a focus on the members in the community. These mergers also cannot occur without approval from both bank and credit union regulators. This is a power that the National Credit Union Administration (NCUA) takes seriously as evidenced by their work on rulemaking in this area last year. Furthermore, credit unions that merge with a bank retain their credit union characteristics and are still subject to strict statutory prohibitions and limits on powers as set out in the *Federal Credit Union Act*, including field of membership requirements for the newly acquired bank customers, limits on business lending and the capital limitations of credit unions.

While the ICBA attacks the tax status of credit unions in their letters to you, what they do not tell you is that these mergers are often purchase and assumption transactions (if the bank is a C-corporation, which is most common) and are subject to taxation at the bank level (unlike bank-to-

The Honorable Ron Wyden, The Honorable Mike Crapo
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March 26, 2021
Page 2 of 2

bank transactions, which are often stock transactions). We estimate that over \$100 million in taxes have been paid in the past several years due to these transactions. Additionally, the credit union actually pays many taxes, such as local property taxes and payroll taxes, when the former bank remains open as a credit union. ICBA's ongoing attacks on the credit union tax exemption continue to ring hollow.

In their letter, the ICBA also implies that the growth in the credit union industry means that some credit unions are now no different than banks. They are wrong. We urge you to visit www.nafcu.org/cu-difference to help set the record straight on how credit unions are different.

While banking trade groups like ICBA have called on Congress to change the tax status of credit unions, they fail to disclose that the banking industry received tens of billions of dollars in annual tax breaks from the *Tax Cuts and Jobs Act*. They also fail to point out that nearly one-third of all banks are Subchapter S corporations and do not pay corporate income taxes themselves. These annual tax breaks for banks far outpace the annual tax expenditure of the credit union tax exemption. They also do not take into account how the credit union tax status benefits the economy at large.

The fact is that the estimated benefit credit unions provide the greater economy totals roughly \$16 billion a year, or \$159 billion over 10-years, according to NAFCU's own independent study. You can read the study at www.nafcu.org/cutaxexemption. The study shows that altering the tax status of credit unions would have a devastating impact not only on credit union members across the country, but also on consumers and small businesses in general.

Simply put, the credit union tax exemption helps grow the greater economy and create jobs, which is what a corporate tax exemption should be doing. Both credit union members and non-members benefit from credit unions' role in the marketplace, as they serve as a check on the rates and practices banks would otherwise implement to maximize profit. Do not be fooled, ICBA wants you to tax credit unions to eliminate a major source of competition.

It is with these facts in mind that we ask you to continue to support credit unions as an important cog in our nation's economic well-being and urge you to continue to protect the credit union tax exemption. We thank you for the opportunity to share our views with you. If you have any questions or need any assistance, please do not hesitate to contact me or Sarah Jacobs, NAFCU's Associate Director of Legislative Affairs, at sjacobs@nafcu.org.

Sincerely,



Brad Thaler
Vice President of Legislative Affairs

cc: Members of the U.S. Senate Committee on Finance
Members of the U.S. House of Representatives Committee on Ways and Means