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National Association of Federally-Insured Credit Unions

April 25, 2018

The Honorable Orrin Hatch
Chairman
Senate Committee on Finance
United States Senate
Washington, DC 20510

The Honorable Ron Wyden
Ranking Member
Senate Committee on Finance
United States Senate
Washington, DC 20510

Re: The Importance of the Credit Union Tax Exemption

Dear Chairman Hatch and Ranking Member Wyden:

On behalf of the National Association of Federally-Insured Credit Unions (NAFCU), the only trade association exclusively representing the federal interests of our nation's federally-insured credit unions, I write in response to an April 25, 2018, letter from various organizations attacking the credit union tax exemption. We thank you for the opportunity to set the record straight and want to commend you and the other Finance Committee members for your efforts on last year's *Tax Cuts and Jobs Act*. Credit unions share your goal of helping create a vibrant American economy, and we would encourage the Committee to pursue these efforts by reducing regulatory burdens that impact the ability of consumers and small businesses to have access to capital. We stand ready to work with you in this regard.

As member-owned cooperatives providing local communities with basic financial service products, credit unions are proud of their track record in serving Main Street throughout the financial crisis. While meeting the needs of roughly 110 million members, credit unions also provide an important source of capital to our nation's small businesses. All told, the cumulative benefit credit unions provide the greater economy totals over $16 billion a year according to an independent study released by NAFCU last year. A summary of the key findings of this study is enclosed for your review.

As the study also shows, 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. Eliminating the credit union tax exemption would result in the loss of 900,000 jobs over the next decade, a shrinking of the GDP and a net *loss* of revenue to the federal government.

Simply put, the tax exemption is an issue of survival for credit unions. In other countries where the tax exemption has been eliminated for credit unions, the number of credit unions has declined dramatically. If the tax exemption was removed, many would convert to banks or just go away. Without credit unions, which effectively provide checks and balances in the marketplace, for-profit banks would likely increase rates and fees on consumers. Furthermore, despite what the letter claims, credit unions do have limits on their powers and fields-of-membership, and are highly regulated by a number of regulators, including the National Credit Union Administration (NCUA).

All financial institutions have grown since the passage of the *Federal Credit Union Act* in 1934. When bankers and their cohorts target credit unions based on size, it should be noted that the total market share of household financial assets held by credit unions is roughly the same today as it was 30 years ago. The defining characteristics of credit unions remain unchanged today from when Congress passed the *Federal Credit Union Act* – they are not-for-profit cooperatives that serve a defined field of membership and cannot issue capital stock. These defining characteristics are the same for both the largest and smallest credit union.

Despite what some claim, credit unions actually pay many taxes. They pay property taxes, federal payroll taxes, and various local taxes. Credit union members also pay federal income taxes at the individual rate on the higher dividends that they receive from their credit union. Furthermore, while many in the banking industry claim that credit unions have such an unfair advantage, only 2 banks have converted to a credit union, while 38 credit unions have converted to a bank in the last 20 years.

Credit unions help facilitate economic growth through lower loan rates, higher interest on deposits, and lower fees. Any effort to strip credit unions of their federal tax exemption will have a drastic and immediate negative impact on credit unions and their 110 million members. Credit union members will ultimately bear the cost of any new tax imposed on credit unions. Because this issue strikes at the very core of how credit unions have operated since their inception, protecting the credit union tax exemption is the chief priority of NAFCU.

Thank you for this opportunity to set the record straight. If my colleagues or I can be of assistance to you, or if you have any questions regarding this issue, please feel free to contact me or NAFCU's Associate Director of Legislative Affairs Allyson Browning at (703) 842-2836.

Sincerely,

Brad Thaler
Vice President of Legislative Affairs

cc: Members of the Senate Committee on Finance

Enclosure: Key Findings of 2017 Feinberg-Meade Study on the Economic Benefits of the Credit Union Tax Exemption to Consumers, Businesses, and the U.S. Economy

Economic Benefits of the Credit Union Tax Exemption to Consumers, Businesses, and the U.S. Economy

The National Association of Federally-Insured Credit Unions (NAFCU) commissioned a study to examine *what would happen to the U.S. economy if the presence of credit unions was reduced significantly as a result of eliminating the credit union tax exemption*. The authors of the study are Robert Feinberg, Ph.D., Professor of Economics at American University; and Douglas Meade, Ph.D., Director of Research at Interindustry Economic Research Fund, Inc.

Previous studies had demonstrated that changes to the credit union tax status in Canada and Australia led to a severe reduction in credit union presence. The resulting reduced competition for consumer financial services led to higher interest rates on consumer loans and lower interest rates on deposits for consumers in those countries. The results of the 2017 study indicate that similar impacts on consumers would be seen here in the United States should the credit union tax exemption be eliminated.

Key Findings

- Removing the credit union tax exemption would actually cost the federal government $38 billion in lost income tax revenue over the next 10 years. GDP would be reduced by $142 billion, and nearly 900,000 jobs would be lost over the course of next decade as well.
- As shown in Chart 1, credit unions outperformed banks, with lower interest rates on loans and higher returns on savings and deposits.
- The direct benefits to credit union members of these better loan and deposit rates were estimated to range from $4.4 billion to $6.9 billion annually for the period 2006-2015. (Chart 2)
- A 50 percent reduction in the credit union market share would cost bank customers an estimated $6.9 billion to $15.7 billion per year in higher loan rates and lower deposit rates. (Chart 2)
- Total credit union member benefits over the 2006-2015 period were estimated to be $56.7 billion.
- Bank customers benefitted from credit unions as well (due to the competition from credit unions) by an estimated $102.2 billion over the 2006-2015 period.
- Credit union members benefitted most from lower interest rates on car loans, with $31 billion in savings from 2006-2015.
- Bank customers benefitted most from lower rates on real estate loans, saving over $40 billion during the ten-year period of the study.
- The total benefit to U.S. consumers from the presence of credit unions in financial markets was $159 billion over the ten-year period of the study, or $16 billion per year.

Chart 1: Interest rate differences, credit unions vs. banks
percent difference, 2006-2015 average

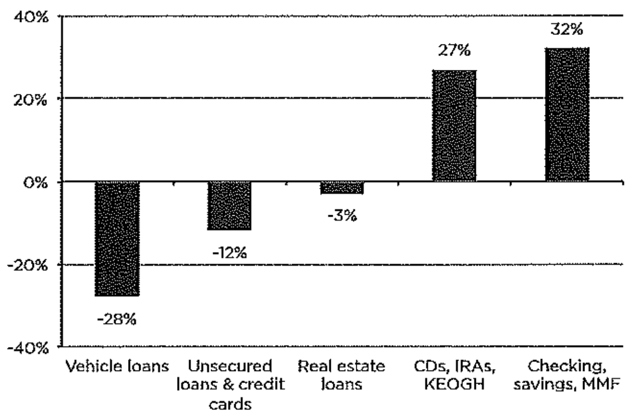

Chart 2: Credit unions & bank consumer benefits by year
2006-2015, billions $

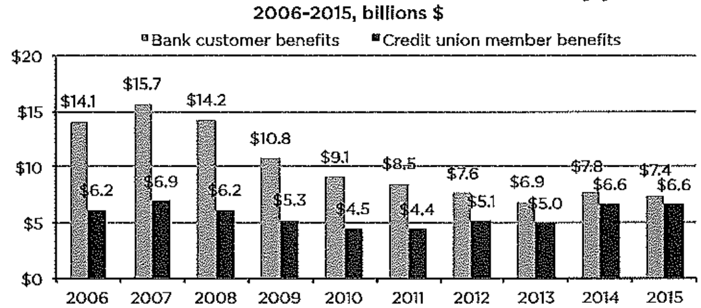

Chart 3: Credit union & bank consumer benefits by product
2006-2015 total, billions $

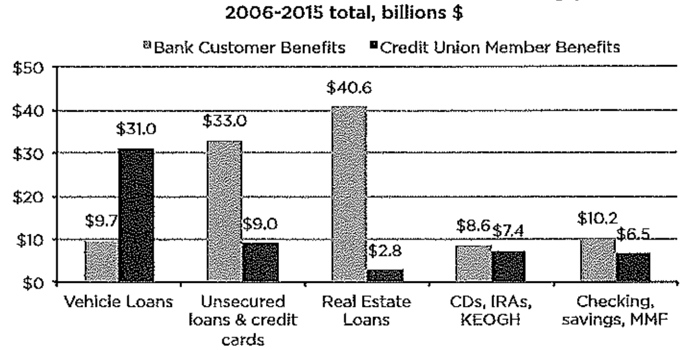

Table 1. Estimated benefits to credit union members and bank customers by state, 2006-2015

In order to examine these effects on a state-level basis, these gains were apportioned on the basis of each state's share of total credit union and bank deposits in 2015. Credit union and bank consumers from larger states received substantial gains from the presence of credit unions in their markets. The largest consumer benefits amounted to $18.8 billion in California, $16.8 billion in New York, $11.3 billion in Texas, $7.7 billion in Virginia, $7.4 billion in Florida, and $6.3 billion in Illinois.

Millions current $	Total consumer benefits 2006-15	Bank customer benefits 2006-15	CU member benefits 2006-15	Bank customer benefits 2015	CU member benefits 2015	State pctg of bank deposits 2015	State pctg of CU deposits 2015
U.S.	**$158,896**	**$102,172**	**$56,724**	**$7,428**	**$6,587**	**100%**	**100%**
Alabama	$1,847.6	$882.3	$965.2	$64.2	$112.1	0.9%	1.7%
Alaska	$560.5	$110.8	$449.7	$8.1	$52.2	0.1%	0.8%
Arizona	$1,759.7	$1,019.2	$740.5	$74.1	$86.0	1.0%	1.3%
Arkansas	$709.3	$586.4	$122.9	$42.6	$14.3	0.6%	0.2%
California	$18,750.2	$11,204.8	$7,545.4	$814.6	$876.2	11.0%	13.3%
Colorado	$2,108.7	$1,126.3	$982.4	$81.9	$114.1	1.1%	1.7%
Connecticut	$1,637.0	$1,161.8	$475.3	$84.5	$55.2	1.1%	0.8%
Delaware	$3,430.0	$3,324.7	$105.3	$241.7	$12.2	3.3%	0.2%
Dist. of Col.	$828.2	$435.4	$392.8	$31.7	$45.6	0.4%	0.7%
Florida	$7,438.3	$4,852.9	$2,585.4	$352.8	$300.2	4.7%	4.6%
Georgia	$3,066.8	$2,058.0	$1,008.8	$149.6	$117.1	2.0%	1.8%
Hawaii	$870.6	$370.6	$500.0	$26.9	$58.1	0.4%	0.9%
Idaho	$527.0	$210.1	$316.9	$15.3	$36.8	0.2%	0.6%
Illinois	$6,292.2	$4,490.9	$1,801.4	$326.5	$209.2	4.4%	3.2%
Indiana	$2,091.7	$1,094.2	$997.4	$79.6	$115.8	1.1%	1.8%
Iowa	$1,409.3	$755.5	$653.8	$54.9	$75.9	0.7%	1.2%
Kansas	$937.4	$657.7	$279.7	$47.8	$32.5	0.6%	0.5%
Kentucky	$1,107.1	$721.1	$386.0	$52.4	$44.8	0.7%	0.7%
Louisiana	$1,440.0	$943.9	$496.0	$68.6	$57.6	0.9%	0.9%
Maine	$563.8	$240.5	$323.3	$17.5	$37.5	0.2%	0.6%
Maryland	$2,282.8	$1,265.3	$1,017.5	$92.0	$118.2	1.2%	1.8%
Massachusetts	$5,099.6	$3,584.1	$1,515.5	$260.6	$176.0	3.5%	2.7%
Michigan	$4,312.4	$1,838.5	$2,473.8	$133.7	$287.3	1.8%	4.4%
Minnesota	$3,032.5	$2,056.1	$976.4	$149.5	$113.4	2.0%	1.7%
Mississippi	$721.0	$478.3	$242.8	$34.8	$28.2	0.5%	0.4%
Missouri	$2,154.1	$1,516.4	$637.7	$110.2	$74.1	1.5%	1.1%
Montana	$431.6	$206.0	$225.6	$15.0	$26.2	0.2%	0.4%
Nebraska	$776.7	$582.7	$194.0	$42.4	$22.5	0.6%	0.3%
Nevada	$1,734.0	$1,633.5	$100.5	$118.8	$11.7	1.6%	0.2%
New Hampshire	$619.3	$301.8	$317.5	$21.9	$36.9	0.3%	0.6%
New Jersey	$3,544.9	$2,919.0	$625.8	$212.2	$72.7	2.9%	1.1%
New Mexico	$759.8	$291.0	$468.8	$21.2	$54.4	0.3%	0.8%
New York	$16,775.4	$13,361.4	$3,414.0	$971.4	$396.5	13.1%	6.0%
North Carolina	$5,739.8	$3,409.6	$2,330.2	$247.9	$270.6	3.3%	4.1%
North Dakota	$407.3	$249.6	$157.8	$18.1	$18.3	0.2%	0.3%
Ohio	$3,986.6	$2,846.9	$1,139.6	$207.0	$132.3	2.8%	2.0%
Oklahoma	$1,437.3	$801.7	$635.6	$58.3	$73.8	0.8%	1.1%
Oregon	$1,549.6	$634.3	$915.3	$46.1	$106.3	0.6%	1.6%
Pennsylvania	$5,441.8	$3,438.2	$2,003.6	$250.0	$232.7	3.4%	3.5%
Rhode Island	$514.4	$270.4	$244.0	$19.7	$28.3	0.3%	0.4%
South Carolina	$1,290.3	$724.7	$565.5	$52.7	$65.7	0.7%	1.0%
South Dakota	$4,489.9	$4,346.9	$143.0	$316.0	$16.6	4.3%	0.3%
Tennessee	$2,236.2	$1,267.8	$968.4	$92.2	$112.5	1.2%	1.7%
Texas	$11,307.7	$7,044.9	$4,262.8	$512.2	$495.0	6.9%	7.5%
Utah	$5,906.9	$4,974.4	$932.5	$361.7	$108.3	4.9%	1.6%
Vermont	$300.9	$116.7	$184.2	$8.5	$21.4	0.1%	0.3%
Virginia	$7,703.5	$2,658.8	$5,044.7	$193.3	$585.8	2.6%	8.9%
Washington	$3,411.4	$1,304.2	$2,107.2	$94.8	$244.7	1.3%	3.7%
West Virginia	$472.8	$305.7	$167.1	$22.2	$19.4	0.3%	0.3%
Wisconsin	$2,810.5	$1,353.4	$1,457.1	$98.4	$169.2	1.3%	2.6%
Wyoming	$269.8	$143.0	$126.8	$10.4	$14.7	0.1%	0.2%

Source: NCUA 5300 call report data and FDIC Summary of Deposits

The authors of the study are Robert Feinberg, Ph.D., Professor of Economics at American University; and Douglas Meade, Ph.D., Director of Research at Interindustry Economic Research Fund, Inc. For more information on the study, please contact NAFCU's Research Department at **research@nafcu.org** or visit **www.nafcu.org/cutaxexemption**.