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National Association of Federal Credit Unions | www.nafcu.org

The Honorable Dave Camp
Chairman
Committee on Ways and Means
1102 Longworth House Office Building
United States House of Representatives
Washington, D.C. 20515

March 11, 2014

Dear Chairman Camp:

On behalf of the National Association of Federal Credit Unions (NAFCU), the only trade association that exclusively represents the interests of our nation's federal credit unions, I write to thank you once again for your continued support of credit unions and their 97 million members and to respond to the tired attacks that the banking trades continue to make against credit unions.

In the American Bankers Association's own words, "A specific tax imposed on a single industry sector is wholly inconsistent with the fundamental purpose of tax reform -- to broaden the tax base, lower rates, simplify the code, and reduce economic distortions that impede growth." Yet time and time again they continue to attack credit unions and ask for them to be taxed. Credit unions serve a unique purpose and despite what the bankers claim, there remain significant regulatory and statutory differences between not-for-profit member-owned credit unions and other types of financial institutions -- including limits on who they can serve and their ability to raise capital. Taxing credit unions would penalize the members they serve and be wholly inconsistent with the fundamental purpose of tax reform.

As we have communicated to you before, the cumulative benefit credit unions provide the greater economy totals over \$17 billion a year according to an independent study released by NAFCU just last month. 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 150,000 jobs a year, a shrinking of the GDP and a net *loss* of revenue to the federal government. You can read the study at: www.nafcu.org/cutaxexemption. A summary of the results of the study is enclosed with this letter.

While the banking trades claim credit unions threaten the business done by other financial institutions, this is simply untrue. What they did not tell you is that a 2011 study commissioned by the Small Business Administration's Office of Advocacy found that bank business lending was largely unaffected by changes in credit unions' business lending, and credit unions' business lending can actually help offset declines in bank business lending during a recession (James A. Wilcox, *The Increasing Importance of Credit Unions in Small Business Lending*, Small Business

Research Summary, SBA Office of Advocacy, No. 387 (Sept. 2011)). The study shows that during the 2007-2010 financial crisis, banks' small business lending decreased, while credit union business lending increased in terms of the percentage of their assets both before and during the crisis. Clearly, credit unions were making loans when banks did not want to.

Furthermore, the banking trades claim that credit unions have unfair advantages and should be taxed. If credit unions have such an extraordinary advantage, why aren't banks lining up to convert to credit unions? What the bankers forgot to mention in their attack is that nearly 1/3 of banks are Subchapter S corporations and pay no corporate income tax. Yes, they pay other taxes, but so do credit unions and their over 97 million member-owners who pay personal income taxes on the dividends they get from their credit union. Credit unions actually pay many taxes, such as payroll taxes and state and local taxes. Next time a banker complains to you about credit unions, we would urge you to ask them if they have looked at converting to one.

As you know, during the financial crisis credit unions continued to lend to consumers and small businesses that were left behind by our nation's mega-banks. Credit unions didn't participate in the TARP bailout and are proud of their continued service to Main Street America. Perhaps if the banking trades put the same focus on serving their customers that they seem to put on credit unions, the banks they represent would not have needed such a massive bailout.

In other countries where the tax exemption has been eliminated for credit unions, the number of credit unions has declined dramatically. Even the bankers have admitted in previous correspondence to you that new taxes on financial institutions would amount to a levy on lending, savings, credit and other financial services to the American consumer and our nation's small businesses and would adversely impact economic growth and job creation. If the credit union tax exemption was removed, many credit unions would convert to banks or just go away. Without credit unions, which serve to provide checks and balances in the marketplace, for-profit banks would likely increase rates and fees on consumers.

Thank you once again for your support of credit unions and for the opportunity to respond to these attacks against our industry. 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 Vice President of Legislative Affairs Brad Thaler at (703) 842-2204.

Sincerely,



B. Dan Berger
President and CEO

cc: Members of the House Ways and Means Committee