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B. Dan Berger
President & Chief Executive Officer

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The Honorable Tom Coburn
United States Senate
Washington, D.C. 20510

Re: The Importance of Retaining the Credit Union Tax Exemption

Dear Senator Coburn:

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 today in response to the "Tax Decoder" report released earlier today and its recommendation to eliminate the credit union tax exemption. First and foremost, NAFCU strongly supports maintaining the credit union tax exemption.

As we have communicated to Congress before, the cumulative benefit credit unions provide the greater U.S. economy totals over $17 billion a year according to an independent study released by NAFCU in February of this year. This far outpaces the cost of the credit union tax exemption and any potential revenue that would be raised by eliminating the exemption. As the study also shows, the credit union tax exemption not only benefits credit unions and their members, but also bank customers and the American economy at large. 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. I have included a copy of this study along with this letter.

In particular, the study found that the economy in Oklahoma benefited to the tune of over $1.4 billion and nearly 15,000 jobs due to the presence of tax-exempt credit unions over the eight years examined in the study. Clearly, the credit union tax exemption has benefit well beyond its costs to the American people.

While the report also questions credit union business lending, the fact is that a 2011 study commissioned by the Small Business Administration's (SBA) 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, while banks' small business lending decreased, credit union business lending increased in terms of the percentage of their assets both before and during the crisis. This is a clear demonstration of how credit unions help American small businesses and keep our nation competitive.

The report also mentions that "large credit unions are on the rise." However, regardless of their size, all credit unions remain member-owned not-for-profit cooperatives, just as they were when Congress granted their tax exemption in 1937. A big reason for the growth of "larger" credit unions can be found in the fact that the number of credit unions continues to decline, dropping by 21.9% (more than 1,700 institutions) since 2007. Many of these institutions ultimately have to be merged into other surviving institutions, which has served to spur this growth. The average annual asset growth rate of credit unions since the passage of the *Credit Union Membership Access Act* in 1998 (~6%) actually mirrors the same growth rate in banks over that time (~6%), indicating that credit unions have not grown at a faster pace than other types of institutions in the financial services industry over that timeframe.

As you know, credit unions are drowning in regulation as the burden placed on them by the *Dodd-Frank Act* and the rules stemming from the Consumer Financial Protection Bureau have been immense. The increasing cost and complexity of complying with the ever-increasing onslaught of regulations has forced many smaller institutions out of business, as they do not have the economies of scale that larger institutions have to handle the tidal wave of new compliance burden. Enacting meaningful regulatory relief so that small institutions can survive should be the priority.

Finally, despite what the report indicates, credit union membership remains fundamentally grounded in the principle of common bonds. The *Federal Credit Union Act* provides that credit union membership is limited to a group, or multiple groups, each defined in the credit union's charter, each of which have a common bond of occupation or association or are located within a well-defined neighborhood, community, or rural district. While NCUA's rules and regulations offer guidelines under which federal credit unions can operate and grow legitimately, these avenues were established within purview of the *Federal Credit Union Act*. For example, NCUA will only grant an associational common bond federal credit union charter if the association consists of individuals that participate in activities developing common loyalties, mutual benefits, and mutual interests. Further, NCUA will only add an association to a federal credit union's field of membership if the association demonstrates that its members and mission are integrally related to the goals and purposes of the federal credit union's charter.

We thank you for the opportunity to respond to this report. 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

Enclosure