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Fred R. Becker, Jr.
President/CEO

June 21, 2013

The Honorable Max Baucus
Chairman
Senate Finance Committee
Washington, D.C. 20510

The Honorable Dave Camp
Chairman
House Ways and Means Committee
Washington, D.C. 20510

The Honorable Orrin Hatch
Ranking Member
Senate Finance Committee
Washington, D.C. 20510

The Honorable Sander Levin
Ranking Member
House Ways and Means Committee
Washington, D.C. 20510

Chairman Baucus

Re: The Importance of Retaining the Credit Union Tax Exemption

Dear Chairman Baucus, Chairman Camp, Ranking Member Hatch and Ranking Member Levin:

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 letter dated June 20, 2013 from Camden R. Fine of the Independent Community Bankers of America (ICBA).

NAFCU recognizes the process that both committees have set up to collect information and comments about tax reform and we have appreciated the opportunity to participate in that process. Unfortunately, the bankers continue to choose to go around the process that has been clearly set. While we respect the process that has been established, we must defend our industry from these attacks of misinformation.

To that end, we continue to urge you to protect the credit union federal corporate income tax exemption as you move forward with tax reform. As we have communicated to you before, the cumulative benefit credit unions provide the greater economy totals over $10 billion a year according to an independent study released by NAFCU last year. 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. I have included a copy of the study summary along with this letter.

Simply put, the federal corporate income tax exemption is an issue of survival for credit unions. 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. If the federal corporate income tax exemption was removed, most 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 to enrich their shareholders at the public's expense.

Furthermore, we are perplexed as to why, the ICBA seems to ignore the good work of your staff on the Joint Committee on Taxation (JCT) and the JCT's own estimate of the cost of the credit union federal tax expenditure that puts the five-year (2013-2017) cost of the credit union at $3.9 billion (p. 35), much less than the numbers found in Mr. Fine's letter ("Estimates of Federal Tax Expenditures For Fiscal Years 2012-2017," February 1, 2013).

We would note also that, nearly 1/3 of banks are Subchapter S corporations and pay no corporate income tax. Some estimates put the value of their tax break as greater than the value of the credit union tax exemption. Perhaps that's an issue that should be examined greater in the tax reform process.

Finally, a report released by the Special Inspector General for the Troubled Asset Relief Program (TARP) found that out of the 332 banks participating in the small business lending fund program run by the Treasury Department, 137 used more than half of about $4 billion disbursed by the program to help fund their exits from the TARP, with one community banker describing it as "...a bit of a shell game." ("Tale of Two Loan Programs," *The Wall Street Journal*, October 20, 2011).

Thank you for the opportunity to respond to these attacks against our industry. We urge you to retain the credit union federal income tax exemption as tax reform moves forward. 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,

Fred R. Becker
President and CEO

Enclosure: Key Findings on the Economic Benefits of the Credit Union Tax Exemption to Consumers, Businesses, and the U.S. Economy, National Association of Federal Credit Unions, September 2012

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

Background: The National Association of Federal Credit Unions (NAFCU) commissioned a study to examine *what would happen to the U.S. economy if the credit union federal income tax exemption is eliminated.* Previous studies demonstrated that changes to the credit union tax status in Canada and Australia led to a severe reduction in the number of credit unions. NAFCU's commissioned study shows that reduced competition for consumer financial services leads to higher interest rates on consumer loans and lower interest rates on deposits for consumers.

The results were then modeled by Inforum's Long-term Interindustry Forecasting Tool (LIFT) to estimate the broader economic impact of the loss of the federal tax exemption on consumers. The model estimated the total direct and indirect losses of personal income and consumption from the elimination of the credit union federal tax exemption.

Key Findings:

- Eliminating the federal credit union tax exemption will reduce U.S. GDP by about $148 billion (in 2010 dollars) over the next decade ($14.8 billion per year); resulting in a loss of 150,000 jobs per year, or a total of 1.5 million jobs over the next decade.
- The total benefit to U.S. consumers from the presence of the federal tax exemption for credit unions is approximately $10 billion per year. From 2005-2011, the direct consumer benefit totaled $72.6 billion.
- $1.5 billion per year in federal income tax revenue will be lost due to the reduction in consumers' personal income as a result of the anticipated reduction in the number of credit unions in the marketplace. This number is three times the Senate Budget Committee's 2010 estimate of lost revenue from the credit union federal tax exemption ($500 million for FY'12) – forecasting that the Federal Government will ultimately lose revenue by imposing a federal income tax on credit unions.
- Credit union savings and loan rates outperform bank rates across the board. Total direct benefits to credit union members from these better loan and deposit rates for the period 2005-2011 are estimated at nearly $43 billion.
- Bank customers benefit from better credit union loan and deposit rates due to increased competition. The study estimates that if the credit union market share was reduced by 50%, the total cost to bank customers of higher loan rates and lower deposit rates would have totaled almost $30 billion over the seven year period examined, 2005-2011.

The authors of the study are Robert M. Feinberg Ph.D., professor of economics at American University; and Douglas Meade, Ph.D., director of research at Interindustry Economic Research Fund, Inc.

For additional information, please contact NAFCU's Director of Research and Chief Economist David Carrier, Ph.D. at dcarrier@nafcu.org or visit www.nafcu.org/cutaxexemption.