NAFCU
3138 10th Street North
Arlington, VA 22201-2149
703.522.4770 | 800.336.4644
F: 703.524.1082
nafcu@nafcu.org
National Association of Federal Credit Unions | www.nafcu.org

July 24, 2013

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

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

Re: The Credit Union Tax Exemption Helps America

Dear Chairman Baucus and Ranking Member Hatch:

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 July 23, 2013 from Camden R. Fine of the Independent Community Bankers of America (ICBA) to set the record straight on credit unions.

As you know from previous correspondence, the cumulative benefit credit unions provide the American economy totals over $10 billion a year according to an independent study released by NAFCU last year. The study also 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. 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. Enclosed please find a copy of the study summary.

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 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 – perhaps this is the ultimate goal of the ICBA.

While the banks like to claim credit unions threaten the business done by other financial institutions, this is simply untrue. Credit unions often step in when banks fail to help our nation's small businesses. For example, a 2011 study commissioned by the Small Business Administration's (SBA) Office of Advocacy found that bank commercial 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. Clearly, credit unions were making business loans to help create jobs when banks did not want to.

During the financial crisis, credit unions continued to lend to consumers and small businesses left behind by our nation's banks. Credit unions didn't participate in the TARP bailout and are proud of their continued service to Main Street America.

A report released by the Special Inspector General for TARP this past April and subsequently reported in *The Wall Street Journal,* 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 Troubled Asset Relief Program, while a number did not. As noted by Christy Romero, special inspector general for TARP, said it best, stating, "Small-business loan levels by TARP banks in [the] Small Business Lending Fund came up short", with one community banker describing it in an October 20, 2011 *Wall Street Journal* article entitled "Tale of Two Loan Programs" by saying, "It's a bit of a shell game."

The bankers continually 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 ICBA did not tell you 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 nearly 96 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. Perhaps examining ways to raise new revenue from Subchapter S banks is something the Committee should consider in this process.

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 Senior Associate Director of Legislative Affairs, Jillian Pevo at (703) 842-2836.

Sincerely,

Brad Thaler
Vice President, Legislative Affairs

cc: Members of the United States Senate

Enclosure: Key Findings of Feinberg-Meade Study on the Economic Benefits of the Credit 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

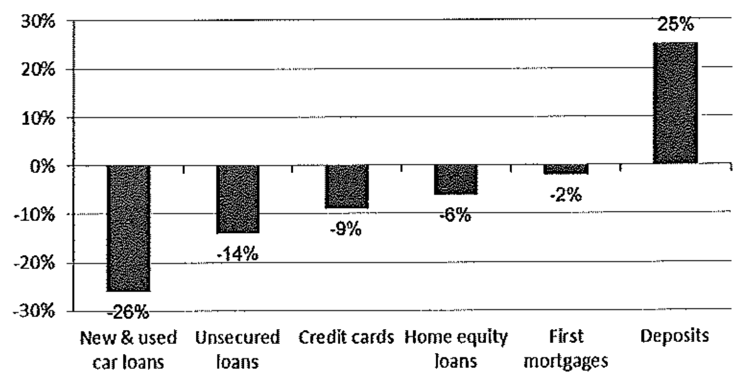
The National Association of Federal Credit Unions (NAFCU) commissioned a study to examine *what would happen to the U.S. economy if the presence of credit unions was reduced significantly as a result of eliminating the credit union tax exemption.* The authors of the study are Robert Feinberg Ph.D., Professor 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.

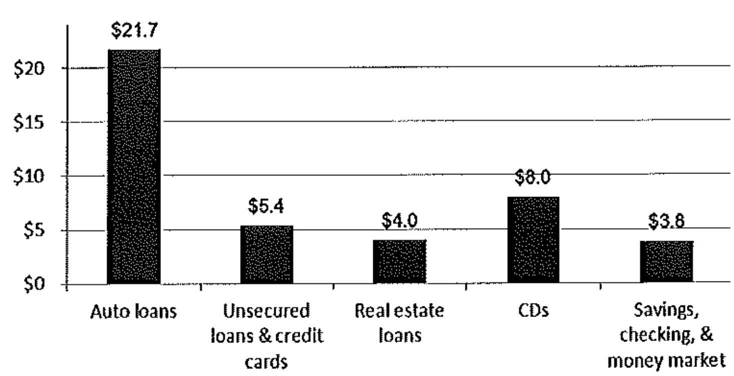
Key Findings

- Credit union rates outperformed bank rates across the board. Rates on deposits were 25% higher, and on car loans they were 26% lower than bank rates.
- The direct benefits to credit union members of these better loan and deposit rates were estimated to range from $4.3 to $8.0 billion annually from 2005-2011.
- Total direct benefits to credit union members of these better loan and deposit rates were estimated to be almost $43 billion.
- Bank customers saved money too, due to competition from credit unions. A 50% reduction in the credit union market share would have cost bank customers almost $30 billion from 2005-2011.almost $30 billion from 2005-2011.

Interest rate differences, credit unions vs. banks
(percent difference, 2005-2011 average)



Estimate of direct benefits to credit union members from better loan and deposit rates, 2005-2011
(figures in billions$)

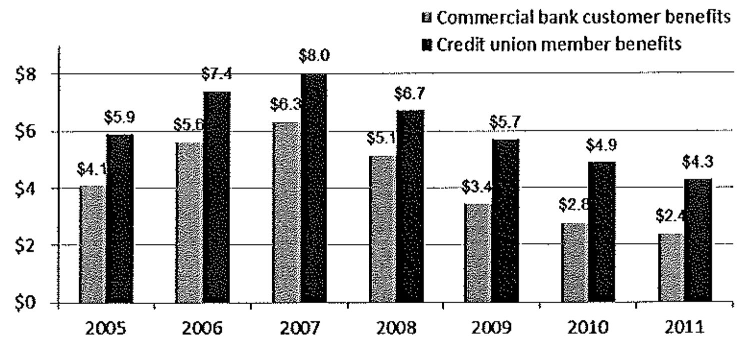


Total credit union member benefits from 2005-2011 = $42.9 billion

Credit Union Members *and* Bank Customers Benefit from the Credit Union Tax Exemption

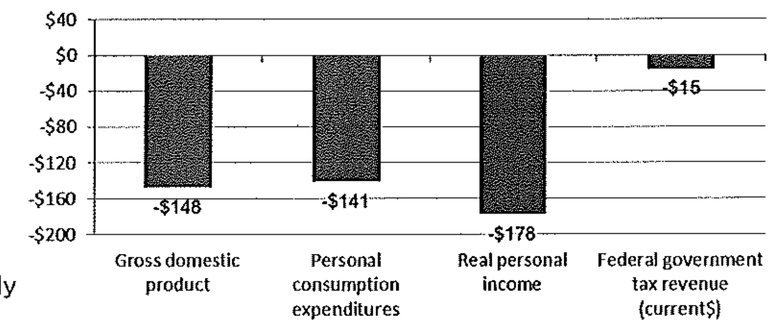
- The total benefit to U.S. consumers from the presence of tax-exempt credit unions in financial markets is about $10 billion per year, with direct consumer benefits totaling $72.6 billion from 2005-2011.
- The results were modeled by Inforum's Long-term Interindustry Forecasting Tool (LIFT) to estimate the broader economic impact of these lost consumer benefits.
- The model predicts that the elimination of the credit union tax exemption would reduce U.S. GDP by about $148 billion (in 2010 dollars) over the next decade.
- This decline in GDP would result in a loss of 150,000 jobs per year or 1.5 million job-years lost over the next decade.
- The model also estimates that the $178 billion reduction in personal income would lead to a loss of $1.5 billion per year in Federal income tax revenue. This number is three times the Senate Budget Committee's 2010 estimate of foregone revenue from the credit union tax exemption ($500 million for FY'12). The Federal government would ultimately lose revenue by taxing credit unions!

Estimate of total consumer benefits of competition from credit unions, 2005-2011
(figures in billions$)



Total consumer benefits from 2005-2011 = $72.6 billion

Total Economic Impact from Loss of Credit Union Tax Exemption
Forecasted impact from 2013-2022 (figures in billions 2010$)



Total employment losses from 2013-2022 = 1.5 million job-years

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 Director of Research and Chief Economist David Carrier at **dcarrier@nafcu.org** or **visit www.nafcu.org/cutaxexemption.**