

February 5, 2016

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

The Honorable Ron Wyden  
Ranking Member  
Senate Finance Committee  
Washington, D.C. 20510

The Honorable Kevin Brady  
Chairman  
House Ways & Means Committee  
Washington, D.C. 20515

The Honorable Sander Levin  
Ranking Member  
House Ways & Means Committee  
Washington, D.C. 20515

Dear Chairmen Hatch and Brady and Ranking Members Wyden and Levin:

The undersigned organizations, representing the 53 State Bankers Associations and bankers from every state in the country, write to strongly urge you to investigate the tax implications of the latest increase in powers that the National Credit Union Administration (NCUA) has proposed to provide to the credit union industry.

Congress established federal credit unions in the 1930's with the targeted purpose to provide small-dollar loans to people of modest means, with a customer base limited to small, close-knit groups of individuals tied by a "common bond." To help support this focused mission, Congress exempted credit unions from federal income taxation.

However, the credit union marketplace has dramatically changed since the time this policy choice was made. As credit union regulators have allowed credit unions to expand their operations, credit unions have grown into a *\$1.1 trillion industry* where common bond restrictions and its focus on serving people of modest means have withered. The revenue impact of the tax exemption has grown as well. **The Treasury Department's Office of Tax Analysis estimates that the credit union tax exemption is worth \$26.75 billion for FY 2016-2025, making it one of the single largest corporate tax loopholes.**

Now, NCUA has put forth a new proposal on credit union membership that has the potential to exponentially explode this already-sizeable tax subsidy, with its concomitant impact on federal and state budgets. Through reforms that are, by NCUA's own account, the most sweeping in the agency's 45-year history, NCUA would create a menu of options whose cumulative effect would be to allow almost any federal community credit union to serve almost any geographic area or population center it wants, including entire states in some cases, limited by population caps NCUA has indicated it is looking for reasons to raise. The proposal also allows credit unions based on employer or associational groups to serve consumers through websites, allowing a credit union in Florida to add new customers in Utah or Texas, leaving geographic limitations added by Congress effectively meaningless. NCUA's Vice Chairman even admitted that the reason the agency is pursuing these changes now is because Congress is "deadlocked," leaving regulatory overreach from an agency once called "rogue" by a federal judge the only path forward for this ever-expansive industry.

In essence, the NCUA proposal would further the evolution of credit unions into tax exempt banks able to serve anyone, while *significantly increasing the lost revenue implications* of the existing tax exemption. Every new customer added through this proposal represents lost federal tax revenue, and would likewise harm already strapped state coffers. As a matter of tax policy, NCUA's quasi-legislative proposal greatly impacts your respective Committees' prerogatives, and in reality means less money to support education, public safety, teachers, and highways.

**The proposed changes should call into question whether the 82 year-old tax exemption is appropriate in the modern era.** Large, fast-growing, and increasingly complex credit unions have diversified to the point that they bear no resemblance to the traditional credit unions that Congress envisioned as worthy of preferential tax treatment. This trend will continue, fueled by this proposal and other efforts by NCUA at the hands of a "deadlocked" Congress, including business lending reform and the acceptance of investor capital.

While other financial institutions with cooperative, customer-owned structures have been subject to federal income taxes for decades, including mutual insurance companies, mutual savings banks, and mutual savings and loan associations, credit unions still maintain their preferential tax status. Previous administrations – both Democratic and Republican – have long recommended ending the credit union industry's tax exemption.

The time has come for Congress to act. Repealing the credit union tax exemption for this new breed of "tax-exempt banks" would be a fiscally sound way to help reduce the U.S. debt while ensuring that all players can compete fairly and on an equal playing field in the financial services industry.

Sincerely,

Alabama Bankers Association  
Alaska Bankers Association  
Arizona Bankers Association  
Arkansas Bankers Association  
California Bankers Association  
Colorado Bankers Association  
Connecticut Bankers Association  
Delaware Bankers Association  
Florida Bankers Association  
Georgia Bankers Association  
Hawaii Bankers Association  
Heartland Community Bankers Association  
Idaho Bankers Association  
Illinois Bankers Association  
Illinois League of Financial Institutions  
Indiana Bankers Association  
Iowa Bankers Association  
Kansas Bankers Association

Kentucky Bankers Association  
Louisiana Bankers Association  
Maine Bankers Association  
Maryland Bankers Association  
Massachusetts Bankers Association  
Michigan Bankers Association  
Minnesota Bankers Association  
Mississippi Bankers Association  
Missouri Bankers Association  
Montana Bankers Association  
Nebraska Bankers Association  
Nevada Bankers Association  
New Hampshire Bankers Association  
New Jersey Bankers Association  
New Mexico Bankers Association  
New York Bankers Association  
North Carolina Bankers Association  
North Dakota Bankers Association  
Ohio Bankers League  
Oklahoma Bankers Association  
Oregon Bankers Association  
Pennsylvania Bankers Association  
Puerto Rico Bankers Association  
Rhode Island Bankers Association  
South Carolina Bankers Association  
South Dakota Bankers Association  
Tennessee Bankers Association  
Texas Bankers Association  
Utah Bankers Association  
Vermont Bankers Association  
Virginia Bankers Association  
Washington Bankers Association  
West Virginia Bankers Association  
Wisconsin Bankers Association  
Wyoming Bankers Association

cc: The Honorable Richard Shelby

The Honorable Sherrod Brown

The Honorable Jeb Hensarling

The Honorable Maxine Waters

Members of the Senate Committee on Finance

Members of the House Committee on Ways & Means

Members of the Senate Committee on Banking, Housing and Urban Affairs

Members of the House Committee on Financial Services