America's Credit Unions

Jim Nussle
President & CEO
202-508-6745
jnussle@americascreditunions.org

99 M Street SE
Suite 300
Washington, DC 20003

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The Honorable Jason Smith
Chairman
Committee on Ways and Means
U.S. House of Representatives
Washington, DC 20515

The Honorable Richard Neal
Ranking Member
Committee on Ways and Means
U.S. House of Representatives
Washington, DC 20515

Re: Today's Hearing: "Hearing with Treasury Secretary Janet Yellen"

Dear Chairman Smith and Ranking Member Neal:

On behalf of America's Credit Unions, I am writing regarding the Committee's hearing entitled, "Hearing with Treasury Secretary Janet Yellen." America's Credit Unions is the voice of consumers' best option for financial services: credit unions. We advocate for policies that allow the industry to effectively meet the needs of their nearly 140 million members nationwide.

As banks attack credit unions, even during this time of uncertainty in the banking sector, it is important to understand how credit unions are different from banks and why they remain a stable, necessary, and popular choice for millions of Americans. Considering these baseless attacks from bank lobbyists, we thought it was important to remind Congress why credit unions were granted tax-exempt status, and why nearly 90 years since the passage of the Federal Credit Union Act (FCUA), the work that credit unions do to serve those left behind by the big banks is more important than ever. During the depths of the Great Depression, when banks and savings associations were closing across the country, Congress passed the FCUA to charter credit unions, not-for profit financial cooperatives that provide safe, affordable financial services products for those left behind by the bankers who decided that serving working class Americans wasn't profitable and worth their time. The tax-exempt status afforded credit unions allowed them to reach out to areas banks could not and serve those that banks would not. By every account, this legislation has been an unparalleled success. Today, credit unions still stick to that basic mission of providing safe, affordable financial services products to Main Street America.

Not-for-profit

Credit unions are not-for-profit, mutually-owned financial cooperatives that exist to serve their members. Unlike banks, they do not issue stock or pay dividends to stockholders. Credit union profits are returned to their members in the form of lower fees and better loan and deposit rates. Credit unions are not a threat to the market share of banks. In fact, banks control over 92 percent of financial institution assets and reported $257 billion in profit in 2023. America's Credit Unions estimates that credit unions provided nearly $23 billion in direct financial benefits to credit union members last year. These benefits are equivalent to $166 per member or $348 per member household.

Ownership

Credit unions are owned by their members. Coming from diverse socioeconomic backgrounds, every credit union member has equal ownership. A person who joins a credit union is not just a customer – instead, they become an owner of that institution, joining with other members to elect the credit union's board of directors and have an equal say over how the credit union is run. Each member has one vote, regardless of amount on deposit. A credit union is governed by a volunteer board of directors, elected by and from its membership.

Eligibility

People can qualify for credit union membership through their employer, as well as through organizational affiliations like religious institutions and social groups. In addition, people can join a community-based credit union. The common bonds that unite credit unions' membership mean that credit unions emphasize relationship banking, focusing on a high level of customer service and always placing people over profits.

Insured

Like banks, credit union deposits of up to $250,000 per depositor are federally insured by the National Credit Union Share Insurance Fund (NCUSIF), a fund that is backed by the full faith and credit of the U.S. government. Higher insurance levels are available to certain types of accounts like joint accounts and trusts.

Different

Unlike recently closed banks like Silicon Valley Bank and Signature, over 91 percent of deposits in credit unions are insured, compared to approximately 50 percent of bank deposits.

Safe

The credit union industry is well capitalized, and the current average credit union net worth ratio is 10.95 percent (as of December of 2023), a signal that credit unions are healthy and stable.

Regulated

The National Credit Union Administration (NCUA), as well as state financial regulators, provide thorough oversight, examination, and supervision of America's 4,800 credit unions. Credit unions have statutory limits on interest rates, business lending activity, and maximum loan maturities, among other restrictions. And unlike banks, which focus on making money for shareholders, credit unions are not-for-profit institutions.

Taxed

Credit unions pay taxes (~$25 billion annually) in payroll, sales, property, and other taxes. In 1937, Congress exempted credit unions from the federal income tax. In return, they provide financial benefits back to their communities in the form of more affordable financial services. In fact, they are two times more likely than banks to offer free checking accounts. Taxing credit unions would be a tax increase on over 140 million credit union members. It would also threaten credit union member benefits and limit consumer financial choices.

Stable

Credit union managers don't face stockholder pressure for maximum short-term profits. They also don't have compensation packages that encourage risky market behavior. Thus, credit union managers avoid high-risk, higher return business practices. They also provide responsible loans and stable financial products to members.

Responsible

As in past crises, credit unions worked around the clock during the pandemic to provide their members with necessary resources to stay in their homes with the lights on and food on the table. Nearly all their members had access to loan modifications and waived fees. They provided over 200,000 Paycheck Protection Program loans to local small businesses, with an average loan size of $47,600. During government shutdowns, many credit unions provide low or no interest bridge loans to government employees.

Empowerment

Credit unions exist to help people meet their financial goals, making their members fiercely loyal. Sixty-one percent of credit union members have incomes between $25,000 and $100,000 and nearly 60 percent of credit union branches are in low- and moderate-income neighborhoods. They know that their credit union will be there for them in good times and bad. They assist their members in becoming better-educated consumers of financial services. Credit union members benefit from lower fees, lower loan rates, and higher deposit yields.

Because credit unions are not focused on paying profits to investors, they can focus on making financial services more affordable for their members. A credit union returns its earnings to its members in the form of reduced fees, lower interest rates on loans, higher savings rates, and institutional improvements. As an example, credit unions on average pay a higher rate on certificates of deposits of all term lengths than banks and the average annual total value of fees collected by credit unions is less than that of large banks. Credit unions also frequently work with their members to waive fees when appropriate.

Credit unions are focused on providing financial services to their local communities, and despite statutory limits on their business lending activities, credit unions are an important source of credit for small businesses. Since 2007, the credit union industry has seen a sixfold increase in small business loans while banks have increased their small business lending by less than 10 percent. Over the past five years, 57 percent of credit unions' business loans were under $150,000, compared to 46 percent of business loans made by other lenders. Furthermore, a small number of banks that go out of business have opted to merge with credit unions in order to ensure service continues in their communities. It should be noted that these are not hostile takeovers, but decisions by the bank itself to merge, often because merging with a credit union will ensure its consumers in the community continue to get service after the bank disappears.

Diversity

More than half of credit union CEOs are women, while only five percent of banks have a female CEO. And credit unions' commitment to diversity also shapes how they serve their members and communities. Three times as many credit unions as banks are minority depository institutions, and compared to banks, credit unions direct a larger share of their mortgage loans to Black, Hispanic, and women borrowers and make a larger share of their mortgages in low- and moderate-income neighborhoods.

Accessibility

Credit unions are far more accessible to their members than banks are to their customers. Banks of all sizes, and particularly the largest banks, have closed thousands of branches in the last decade. Since 2020, that trend has accelerated, with banks closing 200 branches per month. During the same time, credit unions continue to open new branches. Additionally, credit unions outperform banks in consumer satisfaction surveys.

If bankers raise issues about credit unions, we hope you will keep these facts in mind. We thank you for the opportunity to share our thoughts. On behalf of America's Credit Unions and the 140 million credit union members, thank you for holding this important hearing.

Sincerely,

Jim Nussle, CUDE
President & CEO

cc: Members of the Committee on Ways and Means