America's Credit Unions

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The Honorable Elizabeth Warren
Chair
Subcommittee on Economic Policy
Committee on Banking, Housing,
and Urban Affairs
United States Senate
Washington, DC 20510

The Honorable John Kennedy
Ranking Member
Subcommittee on Economic Policy
Committee on Banking, Housing,
and Urban Affairs
United States Senate
Washington, DC 20510

Re: Today's Hearing: "The Macroeconomic Impacts of Potential Tax Reform in 2025"

Dear Chair Warren and Ranking Member Kennedy:

Ahead of the Subcommittee's upcoming hearing: "The Macroeconomic Impacts of Potential Tax Reform in 2025," I wanted to make clear the difference credit unions make in the lives of over 140 million Americans because of the industry's federal tax-exempt status.

I write on behalf of America's Credit Unions – 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 over 140 million members nationwide. As part of the 2025 tax policy debate, we expect credit union opponents to attack credit unions by distorting facts, making unsupported claims, and urging Congress to remove the credit union tax exemption. That is why it is 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 (FCU Act) 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 FCU Act to charter credit unions. Credit unions' not-for-profit cooperative model was intentional to provide safe, affordable financial services products for those left behind by the bankers who decided that serving working class Americans was not profitable and worth their time. The tax-exempt status afforded to credit unions allowed them to serve areas and people that banks would not serve. By every account, this legislation has been an unparalleled success. Data shows the credit union tax status brings $35 billion in financial benefits to members and non-members. It is one of the best investments the U.S. government makes with an approximate 1,400 percent annual rate of return.

The Credit Union Difference

At a time when the banking sector is experiencing noteworthy turmoil and consumers have real questions about financial stability, it is important to recognize the key factors that differentiate credit unions from banks and make credit unions Main Street America's best source of safe, affordable financial services:

- **<u>Not-for-profits</u>:** Credit unions are mutually-owned financial cooperatives. A person who opens a credit union account is not just a customer; rather, 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 the amount on deposit. Credit unions have statutory limits on interest rates, business lending activity, and maximum loan maturities, among other restrictions. Unlike banks, which focus on making money for shareholders, credit unions are not-for-profits. The 10 largest banks made $75 billion in stock buybacks in 2021, three times higher than the earnings of the entire credit union industry.
- **<u>Affordable</u>:** Because credit unions are not focused on paying profits to investors, they are committed to 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. For 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 and offer financial literacy programs to help members achieve their best lives.
- **<u>Member-focused</u>:** People are eligible to join a credit union based on their employment; the community where they live, work, or worship; or other factors that create a common bond. The group of people eligible to join a certain credit union are known as the credit union's field of membership. 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. Despite statutory limits on their business lending activities, credit unions are an important source of credit for small businesses. Many credit unions were the only ones who would help main street small businesses access Paycheck Protection Program (PPP) loans during the pandemic.
- **<u>Safe</u>:** The credit union industry is well capitalized, and a much larger share of credit union deposits are covered by federal deposit insurance than bank deposits. The average leverage ratio for credit unions is 10.8 percent, compared to only 9.2 percent for banks, and more than 90 percent of credit union deposits are insured, compared to approximately 60 percent of bank deposits.
- **<u>Diverse</u>:** More than half of credit union CEOs are women, while only 5 percent of banks have a woman CEO. Credit unions' commitment to diversity also shapes how they serve their members and communities. Additionally, three times as many credit unions as banks are minority depository institutions.
- **<u>Accessible</u>:** 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 over 8,600 branches since 2020. Meanwhile, a report from the Philadelphia Fed found that

while credit unions account for only about 20 percent of financial institution branches, they accounted for 36 percent of "cured" banking deserts since 2019.[1]

We urge you to keep these credit union differences in mind as our opponents come before you and call for a change to the credit union tax status.

Protecting Competition in Financial Services

Many credit union opponents call for changing the credit union tax status because they do not agree with the way the credit union industry runs its business. In reality, they want to limit competition from credit unions and increase bank profits as much as possible.

Credit unions and their member-owners have the right to operate their institutions – including marketing to their field of membership – in ways that they best see fit, not just in ways that banking trade groups believe they should. For some of these local financial institutions, that means sponsoring events, teams, and places that build a sense of pride in their local communities. It also includes stepping in when banks and other corporate entities abandon their communities because it does not help their profit motive. It is a shame that bankers and other credit union opponents focus on these activities to attack credit unions and ignore all the other key factors of what credit unions are doing for their members. We urge you not to fall for their tricks and traps in this regard.

Furthermore, some in the banking community also attack voluntary bank and credit union combinations or mergers. What they conveniently leave out is that the bank is ultimately the one that makes the choice to dissolve and combine with a credit union. These are not hostile takeovers fueled by the credit union tax exemption as some would have you believe. Bank and credit union combinations are a win-win for a local community that may otherwise lose its community-focused financial services – including local employees and branches – if a mega-bank buys the local community bank. Credit union-community bank combinations often mean employees retain jobs and branches remain open with a focus on the members in the community.

These mergers cannot occur without approval from the bank's board of directors and both bank and credit union regulators. This is a power that the National Credit Union Administration (NCUA) takes seriously, as evidenced by its rulemaking work in this area. Furthermore, credit unions that take over bank branches retain their credit union characteristics and are still subject to strict statutory prohibitions and limits on powers as set out in the FCU Act, including field of membership requirements for the newly acquired bank customers, limits on business lending, a usury ceiling, and capital limitations.

Tax Policy

There is an overall tax benefit to credit unions keeping an institution open in a community that may close otherwise. Credit unions paid over $12 billion in direct taxes in 2023 through payroll,

[1] https://www.philadelphiafed.org/-/media/frbp/assets/community-development/reports/banking-deserts-report-feb-2024.pdf.

property, excise, and other taxes, and generated over $20 billion more indirectly in tax revenue for governments by being in the marketplace.

Finally, as you examine tax policy, remember that credit unions delivered an estimated total of $35 billion in financial benefits in the year ending March 2024 for American consumers. These benefits arise from member-ownership and the absence of stockholders demanding a market return on investment, and they take the form of lower loan interest rates, higher savings yields, and fewer/lower fees. In contrast, the Joint Committee on Taxation (JCT) estimates the value of the credit union federal tax expenditure was $2.6 billion in 2023. The fact is the credit union federal tax exemption is one of the best returns on the tax expenditure dollar for the federal government.

As Congress considers tax policy changes for 2025, we hope you will keep these facts about credit unions in mind. We thank you for the opportunity to share our thoughts and look forward to working with you on policies that benefit America's credit unions and their more than 140 million member-owners. Should you have any questions or require any additional information, please contact me or Greg Mesack, America's Credit Unions Senior Vice President of Advocacy, at gmesack@americascreditunions.org.

Sincerely,

Jim Nussle, CUDE
President & CEO

cc: Members of the Subcommittee on Economic Policy