

Credit Unions: A Changing Industry

The Facts: Many Credit Unions Are Indistinguishable From Community Banks

Over the past thirty years, changes in the financial marketplace have allowed many credit unions to evolve from niche players into full-service retail depository institutions. Today, credit unions have the ability to offer complex financial products, just like banks. They have been able to extend their membership to virtually everyone, again just like banks. In fact, from the public's perspective, those credit unions that have aggressively expanded their product offerings and membership base are viewed as banks.

Yet, credit union regulation has lagged behind these marketplace realities: credit unions don't pay taxes, they don't have community reinvestment responsibilities, and they are subject to permissive regulatory oversight from a government agency – the National Credit Union Administration – that often acts more like an industry cheerleader than a responsible government overseer.

Some Examples

Policymakers only have to look to real-world examples to see that many credit unions are now indistinguishable from banks:

Credit unions offer the same products as banks. Many credit unions offer mortgages, auto loans, business loans, credit cards, checking and savings accounts, insurance and securities products, and other typical bank products. These product lines mirror those offered by community banks, and sometimes even mid-size banks.

Credit union membership has expanded to such extent that many can no longer be considered “niche” financial players. Since the beginning of 2000, over 650 federal credit unions and at least the same number of state chartered credit unions have opted for community charters that permit them to serve anyone who lives, works or worships in a “community” (which is often defined very broadly). Wescom Credit Union's field of membership includes the *18 million people* living in Los Angeles and four other counties in California. In Texas, Credit Union of Texas, formerly Dallas Teachers CU, can serve the 3 million residents of Dallas, Rockwall, and Collin Counties.

While both credit unions and community banks have grown over the years, credit union marketshare vis-à-vis all depository institutions has doubled since 1992, while community bank marketshare has declined by 30 percent. And credit unions have now targeted the business sector, where last year alone business loans at credit unions grew by 15 percent. According to the Credit Union National Association, 35 percent of all credit unions offer some type of small business services ranging from business checking to cash management.

The fact is, many credit unions look much more like community and mid -size banks than they do traditional credit unions. Consider that today there are 156 credit unions with more than \$1 billion in assets, with some 1,386 over \$100 million in assets. These are banks in every way but regulation.

Credit Unions Don't Support Government Services

Since credit unions don't pay taxes, they don't contribute to the tax base that supports such important services as hospitals, police and education. Policymakers should take note that an ever-expanding tax-exempt credit union industry means an ever-expanding loss of tax revenue – OMB pegs the current tax loss at \$4.4 billion over the next five years, and that doesn't include the multi-billion dollar tax loss at the state level. Some states have recently taken note of this. It's time for Congress to do the same.