



AMERICAN
BANKERS
ASSOCIATION®

1120 Connecticut Avenue, NW
Washington, DC 20036

1-800-BANKERS
www.aba.com

*World-Class Solutions,
Leadership & Advocacy
Since 1875*

Edward L. Yingling
President and CEO
Phone: 202-663-5328
Fax: 202-663-7533
E-mail: eyinglin@aba.com

July 27, 2007

The Honorable Henry M. Paulson, Jr.
Secretary
U. S. Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20004

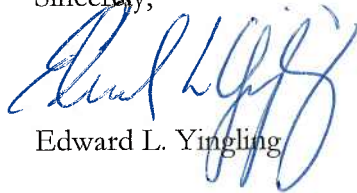
Dear Secretary Paulson:

On behalf of the American Bankers Association, I applaud the Treasury Department's efforts to lower corporate tax rates to help maintain U.S. global competitiveness. This is critical to maintaining the long-term strength of our economy and the financial services industry. Identifying wasteful uses of tax preferences is an excellent way to make the tax system more equitable. One such wasteful tax preference – which is noted in your report in Table 2.1 – is the tax exemption for credit unions.

Credit unions have a mandate to serve people of “modest means.” Their tax exemption exists for this purpose, as recently was documented in hearings before the House Committee on Ways and Means in 2005. Many traditional credit unions continue to hold true to this mission. However, a newer breed of credit union has grown rapidly, leveraging their tax-preferred status, and serving only those segments of the community they choose to serve. These credit unions are altering their charters in order to include millions of people within their field of membership. In fact, there are 123 credit unions operating today with more than \$1 billion in assets – making them larger than 92 percent of banks. These new-breed credit unions also offer a wide range of complex financial products – including business loans, trust and asset management services, and investment products – making them virtually indistinguishable from taxpaying banks. And, as GAO noted (2006), in spite of their generous tax benefit, credit unions serve fewer low- and moderate-income people than do taxpaying banks.

The ABA believes your initiative is extremely important. We agree with the Treasury Study that “[t]he revenue forgone from the existence of corporate tax preferences comes at a significant cost to economic efficiency.” It distorts competition both globally and, certainly in the case of the credit union tax exemption, domestically. While many traditional credit unions have remained true to the chartered mandate of serving people of modest means and are deserving of their tax benefit, the tax exemption for those new breed of credit unions should be eliminated.

Sincerely,

A handwritten signature in blue ink, appearing to read "Edward L. Yingling". The signature is stylized and cursive, with the first name "Edward" being the most prominent part.

Edward L. Yingling