July 30, 2019

The Honorable Charles E. Grassley
Chairman, Committee on Finance
United States Senate
Washington, D.C. 20510

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

The Honorable Richard E. Neal
Chairman, Committee on Ways & Means
United States House of Representatives
Washington, D.C. 20515

The Honorable Kevin Brady
Ranking Member, Committee on Ways & Means
United States House of Representatives
Washington, D.C. 20515

Dear Chairmen Grassley and Neal and Ranking Members Wyden and Brady:

On behalf of the 51 state bankers associations from every state in the country, including Puerto Rico, we call on Congress to conduct renewed oversight and hold hearings on whether the tax-exempt credit union industry lives up to the ideals of its founding, and if it continues to be appropriate to exempt federal credit unions from Form 990 transparency and reporting requirements required of other non-profits. Moreover, Congress should further examine whether the National Credit Union Administration (NCUA) is promoting policies that make the industry less safe, less sound, more bifurcated, and less directed toward its statutory mission to serve consumers of "small means."

The credit union income tax exemption was granted at the height of the Depression to encourage credit unions to promote financial services to groups of "small means" consumers united by a common bond. Against this mission to serve a higher purpose, new research by Federal Financial Analytics and respected analyst Karen Shaw Petrou shows that modern credit unions are a contributing factor to the *widening* of economic inequality. The report details how credit unions, especially larger credit unions, are increasingly expanding services to high-income customers, promoting lucrative business lines (including commercial real estate development and aircraft finance), and making high-risk loans without adequate capital. Credit unions are increasingly even buying up tax-paying banks, leveraging their tax exemption to permanently take taxpayers off the tax rolls (more of these deals have already been announced in 2019 than all of last year). Petrou concludes that these efforts come at the expense of serving the needs of low- and moderate-income individuals, the very population segment credit unions were created to serve.

The Federal Financial Analytics report also highlights another alarming trend: as credit unions engage in riskier behavior, NCUA capital requirements and other safety-and-soundness rules are increasingly substandard. Citing the repeated findings of NCUA's Inspector General that the credit union supervisory process lacks a timely and aggressive approach, the report establishes significant evidence of what Petrou calls "charter arbitrage," with troubling parallels to the 1980s Savings & Loan crisis, which of course ended in a taxpayer bailout.

This study could not come at a more important time, as NCUA is continuing efforts that will exacerbate the very concerns that Federal Financial Analytics has identified. Even though credit unions are not-for-profit, NCUA has announced that later this year it will unlock the corporate debt markets and allow profit-seeking investors, potentially including institutional investors like hedge funds, to invest. NCUA has proposed allowing outside deposits up to 50 percent of an institution's deposit base, further diluting the idea of a common bond. This month, NCUA approved a new rule to facilitate additional credit union involvement in commercial real estate, exempting transactions below $1 million from appraisals—an exemption level twice that permitted by every other federal financial regulator, after those regulators studied the issue just last year. NCUA is currently proposing to delay its risk-based capital rule, which applies only to the largest credit unions, until 2022, despite every single bank in the country being subject to similar rules for nearly a decade.

Each of these actions have economic equality implications, fueling greater risk while driving credit union resources to higher return products not directed to serving people of modest means.

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The credit union debate is often framed in competitiveness terms – whether credit unions use tax benefits to compete with an advantage over community banks. To be sure, state bankers associations have argued for decades that there is no reason why the largest 5 percent of credit unions, which enjoy 75 percent of credit union industry profits and look and act just like the taxpaying banks they compete with, should be completely free of federal income taxation. Credit unions have successfully used that "banks vs. credit unions" rhetoric to avoid anyone taking a serious look at what is actually happening in their industry. As a result, when the inevitable loud reply to this letter comes from the credit union lobby trying to shift the conversation toward banks, keep in mind this misdirection is intentional, and ultimately non-responsive to the serious issues Petrou raises.

There's a reason for that: Many credit unions know that the equality-essential mission is increasingly just rhetoric, despite it being baked into the law and a primary reason for both advantageous regulation and an income tax exemption. We urge you to read the report, attached here, and decide for yourself. We believe you will conclude that congressional oversight and serious reforms should be urgent priorities.

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

Idaho Bankers Association
Illinois Bankers Association
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: Members of the Senate Committee on Finance

Members of the House Committee on Ways & Means
Chairman Mike Crapo, Committee on Banking, Housing, and Urban Affairs
Ranking Member Sherrod Brown, Committee on Banking, Housing, and Urban Affairs
Chairwoman Maxine Waters, Committee on House Financial Services
Ranking Member Patrick McHenry, Committee on House Financial Services