

June 21, 2013

The Honorable Barack H. Obama
President of the United States of America
1600 Pennsylvania Avenue, NW
Washington, DC 20500

Dear Mr. President:

As your administration and lawmakers identify policies to improve the fiscal situation of the United States, the American Bankers Association (ABA)¹ would strongly recommend that the tax status of the credit union industry be reviewed. Every year the Office of Management and Budget estimates the significant tax cost of this credit union subsidy, which is almost \$10 billion over the next five years. With large annual federal deficits, our country can no longer afford to subsidize the \$1 trillion credit union industry which increasingly operates like a tax-free banking system. Previous administrations – both Democratic and Republican – have recommended ending the credit union industry’s tax exemption. The changes in the nature of the credit union industry² and a move by elected officials towards a more sound fiscal policy warrant a re-examination of the industry’s tax status.

Congress established federal credit unions in the 1930s to provide small-dollar loans to people of modest means. To encourage lending to people of modest means, Congress exempted credit unions from federal income taxation. However, credit unions are not required to demonstrate that they are fulfilling this mandate. On several occasions the Government Accountability Office (GAO) has reported that credit unions lagged behind banks in serving low- and moderate-income households.³ Many tax-exempt credit unions have morphed from serving “people of small means” to become full service, financially sophisticated institutions. Today’s credit unions are increasingly targeting their services to wealthier customers and expanding their product offerings beyond their tax exempt purpose including the originations of large commercial real estate loans. Quite simply, the credit union tax exemption is subsidizing financial services for individuals who do not need taxpayer assistance.

Today, the credit union industry is a \$1 trillion industry. Over 200 credit unions have more than \$1 billion in assets, making them larger than 90 percent of taxpaying community banks. Evidence indicates the bulk of the credit union industry profits and tax benefits reside with the largest credit unions.

¹ The American Bankers Association represents banks of all sizes and charters and is a voice for the nation’s \$14 trillion banking industry and its two million employees. The majority of ABA’s members are banks with less than \$165 million in assets.

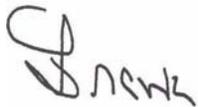
² United States Government Accountability Office, *Credit Unions: Financial Condition Has Improved, but Opportunities Exist to Enhance Oversight and Share Insurance Management*. October 2003.

³ United States Government Accountability Office, *Credit Unions: Greater Transparency Needed on Who Credit Unions Serve and on Senior Executive Compensation Arrangements*. November 2006.

Preferential tax treatment cannot be justified by the credit unions' structure as not-for-profit, cooperatively owned institutions. In fact most financial institutions that are "cooperative, member-owned and not-for-profit" are now subject to federal income taxes, including mutual insurance companies, mutual savings banks, and mutual savings and loan associations. Each of these other financial institutions lost their tax exemption years ago—mutual insurance companies in 1942, and mutual savings banks and mutual S&Ls in 1951.

There are credit unions that have remained loyal to their purpose of serving people of modest means. The credit union tax exemption, however, can no longer support the public policy of providing financial services to low- and moderate-income consumers, especially among the largest credit unions that have diversified to the point that they bear no resemblance to the traditional credit unions that Congress envisioned to be worthy of preferred tax status. The United States can no longer afford to provide non-traditional credit unions with this tax exemption whose purpose can no longer be justified. It does not make fiscal sense. The tax code should no longer be used to pick winners and losers. In conclusion, the credit union tax exemption is a depression era tax break that has outlived its purpose. The time has come to abolish this exemption. It would be a fiscally sound way to help reduce the U.S. debt and eliminate distortions in the financial services industry.

Sincerely,

A handwritten signature in black ink, appearing to read "Frank Keating". The signature is written in a cursive, somewhat stylized font.

Frank Keating

cc: Jacob J. Lew, Secretary of the Treasury
Gene B. Sterling, Director, National Economic Council