**How tax-subsidized credit union bank purchases harm local communities**

By **[BANKER NAME]**

The dangerous trend of credit unions using their federal tax exemption to acquire taxpaying community banks has harmful consequences for local communities, which is why many states have begun to fight back. Because these taxpayer-subsidized transactions diminish access to financial services in local communities, **[BANK NAME]** and other community banks across the country urge policymakers in Washington, D.C., and **[STATE CAPITAL]** to respond to this growing trend.

**Acquisitions expand costly credit union tax exemption**

Credit union purchases of community banks — which peaked in 2019 and are again on the rise — are facilitated by a federal credit union tax exemption worth more than [$2 billion per year](https://www.jct.gov/publications/2020/jcx-23-20/) and rising. Meanwhile, taxpaying community banks contributed more than $12 billion in tax revenue in 2020.

The consequences are important to local communities like **[TOWN NAME]**, which rely on the tax revenues of community banks. While credit unions paid nothing in federal taxes in 2020, nurses, teachers, and cashiers had a total tax liability of more than $56.6 billion, $19.8 billion, and $11.8 billion, respectively. And each purchase of a community bank increases that federal tax exemption for more than $2 trillion in credit union assets.

**Acquisitions restrict access to local financial services**

These deals also restrict access to financial services. For instance, each acquisition expands the portion of the financial services industry exempt from the Community Reinvestment Act. This law requires financial institutions to lend to low- and moderate-income consumers and small businesses in their local market, but it does not apply to credit unions.

Further, these deals risk displacing a critical provider of capital to small businesses. The nation’s community banks account for roughly 60% of U.S. small-business loans and made 60% of federal Paycheck Protection Program loans to save an estimated 49 million jobs during the pandemic — outpacing credit union PPP lending by a factor of 16 to 1.

**Acquisitions lack transparency**

Finally, these acquisitions [lack transparency](https://chipfilson.com/2021/07/chapter-ii-bank-purchases-by-credit-unions-just-another-market-transaction/), with credit union executives using their members’ savings to buy out bank owners in largely private deals. In fact, credit unions can leverage the savings from their tax exemption to make inflated offers for healthy institutions.

Credit unions were established a century ago to serve people of modest means with a common bond, but the data show they are falling short of that mission. Community banks outnumber credit unions by a 2-1 margin in low-income or distressed communities and are more likely to lend in census tracts with above-average poverty and unemployment, according to Home Mortgage Disclosure Act data.

Ultimately, consolidation reduces the availability of locally based financial institutions, including the traditional credit unions that are declining while larger credit unions expand. Credit unions in every asset category under $500 million [lost](https://www.cutoday.info/site/THE-tude/The-Other-Financial-Well-Being-That-Really-Matters) members and loans in 2020, while those over $1 billion [comprise](https://www.ncua.gov/files/publications/analysis/quarterly-data-summary-2022-Q2.pdf) 8% of the industry but 74% of its tax exemption.

**Federal action is needed now**

To counter the negative impact of these deals, policymakers in several states have begun responding. Mississippi enacted a [law](https://legiscan.com/MS/bill/HB1360/2022) requiring acquired bank assets to remain under the control of an FDIC-insured institution. The Nebraska banking department separately [ruled](https://www.cutoday.info/site/Fresh-Today/Nebraska-Banking-Department-Rejects-GreenState-s-Bid-To-Buy-Premier-Bank) that out-of-state credit unions may not acquire the state’s banks. And Colorado state lawmakers voted down [legislation](https://leg.colorado.gov/bills/hb22-1277) to allow credit unions to hold municipal deposits and other public funds.

While states have started to respond, this is a matter of national importance, and taxpayers are entitled to know more about how the subsidy they fund is being used to underwrite financial services consolidation. Congress should respond by [holding hearings](https://www.icba.org/docs/default-source/icba/advocacy-documents/letters-to-congress/icba-letter-to-request-senate-finance-hearing-on-credit-union-tax-exemption.pdf), [requesting](https://www.icba.org/docs/default-source/icba/advocacy-documents/letters-to-congress/letter-seeking-gao-study-of-credit-unions-and-ncua.pdf) a Government Accountability Office study on the credit union industry, and implementing an [“exit fee”](https://www.icba.org/docs/default-source/icba/advocacy-documents/letters-to-regulators/icba-letter-to-treasury-on-credit-union-acquisition-of-community-banks.pdf) on these acquisitions to capture the value of the tax revenue lost once the acquired bank’s business activity becomes tax-exempt.

There is precedent for reconsidering a financial services tax exemption. In 1951, Congress revoked the tax exemption for building and loan associations, cooperative banks, and mutual savings banks, finding that these institutions operated much like commercial banks and should be taxed accordingly.

As credit union banking acquisitions continue, policymakers in Washington and **[STATE CAPITAL]** should join the growing number of states investigating these deals and whether government policy should continue supporting them.

***[BANKER NAME]*** *is* ***[BANKER TITLE]*** *of* ***[BANK NAME]*** *IN* ***[CITY, STATE]****.*