CUNA
Credit Union National Association

Legislative Briefing Paper

Credit Unions are the Best Way for Consumers to Conduct Their Financial Services

Credit unions are not-for-profit financial cooperatives. Overall, 99 million U.S. consumers are member-owners of, and receive all or part of their financial services from, the nation's 6,800 credit unions. Credit unions are a small, but constant and stable presence in the financial services industry. Credit unions hold about 6.7% of depository institution assets, up from about 5.5% two decades ago.

As cooperatives, owned and controlled by their members, credit unions take pride in their "people helping people" philosophy. Every credit union's board of directors is elected by its members; each member has an equal vote, regardless of deposit size. Credit unions have no outside stockholders, so after reserves are set aside, earnings are returned to members in the form of dividends on savings, lower loan rates or lower fees on services. Because credit unions are in business to serve their members, they provide superior member service and consistently rank first among financial institutions in consumer satisfaction. Credit unions primarily engage in consumer, residential real estate and small business lending.

Credit unions saw a resurgence in interest during and following the financial crisis, thanks in large part to the fact that Americans recognized that credit unions did not engage in the activity that caused the crisis, and they did not need a taxpayer bail-out, unlike other financial institutions. While credit unions were affected by the crisis, credit union asset quality remains very high in the current market with first mortgage delinquencies at 1.28% and overall loan delinquencies at 1.02% as of September 2013. Credit union capital is equal to 10.4% of total assets - far above the 7% regulatory minimum to be considered "well capitalized".

All Consumers Benefit by Having Credit Unions in the Marketplace

Benefits to Credit Union Members

- Lower interest rates and fees than for-profit banks.
- Higher rates of return on deposits than for-profit banks.
- One member, one vote gives credit union members a voice in credit union operations.
- Great service from a financial institution that exists to serve members.

Benefits to All Consumers

- The presence of credit unions in a market motivates banks to keep their rates and fees competitive, benefiting all consumers.
- Credit unions provide stability to the financial industry.
- Credit unions did not need a taxpayer bailout because the not-for-profit structure discourages excessive risk-taking.

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Preserving the Credit Union Tax Status

Did You Know?

- Credit unions are exempt from Federal and most State income taxes because they are member-owned, democratically operated, not-for-profit cooperatives, generally managed by volunteer boards of directors, with a specified mission of promoting thrift and providing access to credit for provident purposes. This rationale for the tax-exempt status has been reaffirmed by Congress several times since it was first enacted in 1937.
- Even though credit unions are exempt from Federal income tax, they pay other types of taxes. Federal credit unions pay real property taxes, tangible personal property taxes (referred to as "ad valorem" taxes in some states) and payroll taxes for their employees. In addition, state chartered credit unions also pay unrelated business income tax (UBIT). Credit union members pay taxes on dividends (interest) that their accounts earn.

Our Ask:

- Members of Congress should be outspoken in their support for the credit union tax status, and should not use the tax status as a mechanism to prevent improvements to the Federal Credit Union Act.

What are the Policy Issues?

- **A tax on credit unions would be a tax increase for millions of credit union members.**
  - Today, 99 million Americans use credit unions to conduct financial services - building savings and accessing credit, and a tax on credit unions would adversely affect them.
- **The credit union tax status still serves the purpose for which it was created.**
  - For a modern day example of how important the credit union option is for Americans, look no further than how credit unions responded during the financial crisis.
    - During and following the financial crisis, Americans saw credit unions as a safe haven in the financial services sector - more than 2.4 million memberships were opened in credit unions in 2013!
    - Credit unions continued to lend to consumers, homebuyers and small businesses when other lenders were unable or unwilling to do so.
    - This counter-cyclical effect - the ability to continue to provide credit during crisis - is one of the key reasons that credit unions were originally established by Congress as an alternative to the for-profit banking sector.
- **The credit union tax status is good public policy.**
  - Credit unions employ the tax status to the benefit of all Americans - credit union members and those who are not credit union members.
    - While the Joint Committee on Taxation estimates that the credit union "tax expenditure" will "cost" the federal government $0.5 billion in 2012 and 2013, consumers benefit to the tune of $8 billion annually because credit unions are tax-exempt.
    - Credit union members see this benefit in terms of lower rates on loans, lower fees on services, and higher returns on deposits.
    - Non-members benefit as well because credit union competition helps keep bank savings rates higher and loan prices lower. Imagine how expensive other lenders would make credit cards or auto loans if credit union competition did not exist!

What are the Implications for Credit Unions?

- **Eliminating the credit union tax status eliminates credit unions.** It is that simple.
  - Credit unions are people helping people. They exist to serve their members, as opposed to banks which exist to make profit for their shareholders.
  - If credit unions are taxed, there would be no incentive for them to remain not-for-profit; the large credit unions would likely convert to banks; the small credit unions would likely liquidate; and our economy will lose the only sector of the financial industry that is not driven by profit, but rather driven by a dedication to serve its members.
  - It would be poor public policy, resulting in negative consequences for millions of savers and borrowers.

Credit unions are the best way for consumers to conduct their financial services. Taxing credit unions takes this option away from consumers, and will drive up the cost of financial services for all.

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