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The Honorable Charles Boustany, MD
Chairman
Subcommittee on Oversight
Committee on Ways and Means
United States House of Representatives
Washington, DC 20515

The Honorable John Lewis
Ranking Member
Subcommittee on Oversight
Committee on Ways and Means
United States House of Representatives
Washington, DC 20515

Dear Chairman Boustany and Ranking Member Lewis:

On behalf of the Credit Union National Association (CUNA), I am writing regarding the Subcommittee's July 25, 2012, hearing on "Public Charity Organizational Issues, Unrelated Business Income Tax, and the Revised Form 990." CUNA is the largest credit union advocacy organization in the United States, representing nearly 90% of America's 7,200 state and federally chartered credit unions and their 95 million members. We appreciate the opportunity to provide comments for this hearing.

The hearing record includes a statement from the American Bankers Association regarding the credit union tax status. We would like to take this opportunity to respond to some of their inaccurate and misleading assertions.

The bank lobby asserts that, "Credit unions were originally created for the purpose of promoting thrift and providing credit to members of the credit union and were granted their tax exemption to service people of modest means."[1] We would agree with the first half of their assertion, that credit unions were created for the purpose of promoting thrift and providing credit to members of the credit union. However, the credit union tax status has ***always*** been a function of the ownership structure of credit unions; it has ***never*** been about the power or mission of the credit union. The bank lobby absolutely refuses to accept this fact and chooses instead to proffer an alternate reality in which credit unions exist only to serve poor people. The fact of the matter is that credit unions exist to serve all of their members regardless of their means. "One member, one vote" is a critical component not only to the credit union ownership structure but also to the credit union philosophy; a member of greater means has just as much right to the use of the credit union as a member of small means. It's because of this ownership structure that Congress granted the tax status and has reaffirmed it several times.

[1] American Bankers Association. Statement for the Record of the Hearing of the Subcommittee on Oversight Committee on Ways and Means. July 25, 2012. 2.

The bank lobby also points out in its statement that credit unions are becoming increasingly complex; they further suggest that credit unions have "morphed" into full service institutions that are indistinguishable from banks.[2] Like other financial intermediaries, credit unions have evolved over time. It could certainly be said that the credit union of today in many ways looks nothing like the credit union of 1934. Exactly the same statement is true of small banks. Technology has evolved; there have been innovations in financial products and services; bank customers and credit union members today need different things from their financial institution than they needed 80 years ago. Indeed, if credit unions were not evolving to meet the needs and demands of their members in the 21st century, one might very well call into question whether they were fulfilling their mission. But as the bank lobby points out, the mission of credit unions is to promote thrift and provide credit to the members of the credit union: to do this today, for many credit unions, means offering a full and wide range of products and services.

Nevertheless, the bank lobby is squarely wrong to assert that credit unions are indistinguishable from banks. For all of the evolution and development that has taken place over the last century, one thing that has remained the same is the credit unions' cooperative ownership structure and democratic governance. The members of the credit union own the credit union; a bank is owned by its shareholders. This means what motivates credit union leaders and bank executives is different, and it boils down to this: credit unions use members' money to help members; banks use customer's money to make money for shareholders. The impact of this difference for credit union members is lower rates on loans, lower fees on services, higher returns on deposits, and overall better service. As a result of credit unions being in the market, consumers save approximately $10 billion per year. That's money that members can put to good use in a struggling economy.

The irony is that when the banks talk about how credit unions have evolved into complex and full service financial institutions, they think they are making the point that credit unions are not fulfilling their mission. But in reality, they are making the point that credit unions are. Congress provided a federal charter to credit unions to promote thrift and make credit available at a time when the banks were not doing that. They established credit unions to give people the ability to do business with a financial institution and also have a voice and a vote in how their money was to be used by the institution.

Today, the United States has a strong, vibrant and growing credit union system that provides measureable and tangible benefit to its members. Credit union members are able to access credit on fair terms; they are able to engage in the ownership and governance of the institution in which they invest their savings. While not every American can join

[2] Ibid. 3.

every credit union, we believe every American is eligible to join at least one credit union, if not more. Ninety five million Americans have made that choice; and, more are joining every day. Unlike the for-profit banking sector, the credit union system has never needed a taxpayer bailout. No credit union member has ever lost a penny of insured shares deposited in a credit union. There is no doubt about it: credit unions have been fulfilling their mission every day since their inception, and that is what scares the bank lobby.

When the bank lobby calls on Congress to tax credit unions, what they are really demanding of Congress is to do away with credit unions – after all, that would be the end result. If taxed, a very significant number of larger credit unions are expected to convert to banks and an equally significant number of smaller credit unions would simply liquidate. The remaining credit unions would have to pass the costs of taxation on to their members because they are wholly owned cooperatives, increasing the cost of accessing mainstream financial services. As a result, the ability of millions of American consumers and small businesses to rely on a system of financial cooperatives for affordable access to mainstream financial services, which is made possible by the credit union tax exemption, undoubtedly would be jeopardized. When that outcome is considered side-by-side with the credit unions' historic record of member service and mission fulfillment, the absurdity of the bank lobby's demand is self-evident.

On behalf of the 95 million members of America's credit unions, thank you for your consideration of our views.

Best regards,

Bill Cheney
President & CEO