American Bankers Association
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The Honorable Maxine Waters
Chairwoman
Committee on Financial Services
United States House of Representatives
Washington, D.C. 20515

The Honorable Sherrod Brown
Chairman
Committee on Banking, Housing & Urban Affairs
United States Senate
Washington, D.C. 20510

The Honorable Patrick McHenry
Ranking Member
Committee on Financial Services
United States House of Representatives
Washington, D.C. 20515

The Honorable Patrick Toomey
Ranking Member
Committee on Banking, Housing & Urban Affairs
United States Senate
Washington, D.C. 20510

Dear Chairs Waters and Brown and Ranking Members McHenry and Toomey:

In advance of upcoming oversight hearings of prudential regulators, we write to highlight a significant event that underscores a disturbing trend in the financial services space. On March 31, a tax-exempt credit union with $10 billion in assets announced it was acquiring a $1.6 billion taxpaying Georgia bank. The acquisition, made by Vystar Credit Union headquartered in Jacksonville, Florida, is the 43rd such deal since 2013. It is also the first time a credit union has acquired a bank with more than $1 billion in assets, making it the largest bank acquisition by a credit union in history. The credit union is paying an 80% premium to do so, which given the industry's tax exemption is significantly subsidized by the American taxpayer.

This transaction highlights in stark terms the changing face of the nearly *$2 trillion* credit union industry. Over the years, several growth-oriented credit unions have become indistinguishable from traditional tax-paying banks -- while continuing to enjoy an exemption from federal and most state income taxes, lighter regulation, and no federal community reinvestment obligations to support the needs of low- and moderate-income communities.

It is time for Congress to address these concerns.

A bad deal for taxpayers. These transactions are effectively corporate inversions without leaving the country. Credit unions are exempt from federal and most state income taxes, and when the deal closes, the base is eroded as a taxpayer permanently falls off the income tax rolls. All subsequent growth is tax-exempt, with the former bank's services no longer funding the nation's schools, roads and infrastructure. At a time when state and local government financing is also a major public concern, the increasing frequency of these deals and loss of income-tax revenue also becomes an expanding problem for local communities.

A bad deal for communities, especially low-income communities. Credit unions are exempt from the Community Reinvestment Act, which means that required community engagement obligations are lifted in these transactions. Since credit unions have no responsibilities either to invest in or disclose the degree to which they serve low- and moderate-income segments of their markets, communities lose resources as these acquisitions occur. Credit unions effectively say "trust us," but recent research confirms that credit unions are actually a contributing factor in *increasing* economic inequality.

Indeed, with no mandate to serve those most at risk, credit unions that buy banks do not appear to prioritize doing so. Between 2012 and 2019, 70% of acquired bank branches were in upper- or middle-income census tracts, and *only ten branches* were in low-income tracts. This example is consistent with the general pattern of credit unions opening more branches (on net) in upper- and middle-income census tracts and closing more branches (on net) in low- and moderate-income census tracts.

A bad deal for consumers, including those served by both the bank and the credit union. Part of the justification for the credit union tax exemption is that they are customer-owned and their profits are supposed to be reinvested for the benefit of existing members in the form of lower rates on loans and higher returns on savings. This argument no longer remains credible—Vystar's existing members are seeing credit union resources diverted to pay the acquisition premium for this bank's assets.

Moreover, given the credit union industry's less-stringent regulatory requirements, what were previously bank customers now find themselves with fewer consumer and other protections when they become credit union customers. Capital requirements, appraisal standards, and consumer protection supervision are among the areas where credit unions simply don't measure up to bank regulatory requirements. Indeed, the National Credit Union Administration's own Chairman has pointed out the disparities in protecting consumers, arguing "new members of the acquiring credit union deserve to have the same level of consumer financial protection … as they had at their bank."

A bad deal for other credit unions, and the credit union idea. Small institutions—including other credit unions—will be forced to compete with these large, tax-exempt credit unions after these bank acquisition deals close. That is a big change from the original credit union idea, where limited fields of membership meant credit unions rarely competed with one another. Indeed, credit unions were created to provide access to financial services for people of "small means" who shared a common bond (think a group of factory workers lacking access to financial services). Small credit unions and others that believe in the original credit union mission should be paying attention to how these deals are changing the industry. Many credit unions now have open (or effectively open) membership, and market themselves or their services as banks or banking. Analysis shows they now serve more middle- and upper-income customers instead of those of "small means." They market wealth-management services and luxury goods financing, and they increasingly offer commercial banking services. These activities are not what credit unions were created to do.

Policymakers must engage. The Vystar acquisition is symptomatic of a broader concern. Both credit union acquisitions of banks and dramatic growth rates by the largest credit unions reduce the tax base that supports local educational, police, fire and infrastructure needs, as well as national needs. It eliminates any responsibility to serve low- and moderate-income communities as embodied in the Community Reinvestment Act. And it raises the specter of safety and soundness and consumer protection risk to consumers and local markets as these large credit unions are not subject to the important rules and oversight applicable to our nation's banks.

It is time for Congress to engage and determine whether credit union acquisitions of banks and the negative consequences that follow these transactions meet the public policy goals Congress intended when it created tax-exempt credit unions in the first place. We believe any thoughtful review will lead lawmakers to firmly conclude that it is time for Congress to make the changes needed to return credit unions to their original mission or at least end their outdated tax-exemption.

Sincerely,

Rob Nichols

cc: Members of the House Financial Services Committee
Members of the Senate Banking, Housing, and Urban Affairs Committee