May 15, 2012

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<tr><td>The Honorable Charles Boustany, Jr. MD
Chairman
House Ways and Means Committee
Subcommittee on Oversight
U.S. House of Representatives
Washington, D.C. 20515</td><td>The Honorable John Lewis
Ranking Member
House Ways and Means Committee
Subcommittee on Oversight
U.S. House of Representatives
Washington, D.C. 20515</td></tr>
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Re: Hearing on Tax Exempt Organizations

Dear Chairman Boustany and Ranking Member Lewis:

On behalf of the National Association of Federal Credit Unions (NAFCU), the only trade association exclusively representing the interests of our nation's federally chartered credit unions, I write today in advance of tomorrow's subcommittee hearing and in response to the recent false propaganda of the various banking trade associations. Credit unions are in a unique position to reach traditionally distressed areas across the country, they and their 94 million member-owners welcome the opportunity to disarm desperate arguments the banking trades have fabricated in an attempt to extend Congressional oversight hearings to credit unions.

As you know, not-for-profit credit unions have been statutorily exempt from corporate federal income taxes since 1934. Today, nearly 94 million Americans rely on their local credit union to meet their financial service needs. Despite what the banking trades may want you to believe, the institutional framework credit unions operate within is vastly different from that of banks and thrifts. Credit unions are not making daily $2 billion trades like the mega-banks. Credit unions are not-for-profit member-owned cooperatives. Every dollar earned at credit unions is returned to members through enhanced services including lower fees, higher rates on savings and/or lower rates on loans. Simply put, the differences between credit unions and others who operate in the banking sector extend far beyond tax treatment.

The banking trades continue to ignore the fact that many for-profit banks still rely on massive amounts of taxpayer funding in the wake of the financial crisis. Still, record bank failures continue despite the billions in taxpayer dollars from multiple bailouts that the banking industry has taken. According to a report released last month by the Special Inspector General for TARP, **nearly 400 banks still struggle to repay TARP funds with absolutely no exit strategy** on the table. To quote the report, "the status of those banks is one of the major issues facing TARP nearly four years after the financial crisis." This is even after many banks were allowed to refinance their dividends and exit TARP through additional taxpayer dollars as part of the "Small Business Lending Fund" created last September under the guise of job creation. In short, the record bank failures continue even as they receive a government bailout for their government bailout. While the banks are waiting for the next taxpayer giveaway, credit unions continue to do what they have always done – serve those within their field of membership who may otherwise be unbanked.

In addition, the Subcommittee members should be aware that when attacking the credit union tax exemption, the banking industry also conveniently forgets to mention that a large number of banks do not pay corporate federal income taxes because of their Subchapter S status. There are a total of 2,377 Subchapter S banks that avoid federal income taxes today and that number is expected to grow with Congress recently loosening Subchapter S requirements. **What the banking trades don't want you to know, is that the estimated value of the Subchapter S tax break for banks is $2.05 billion for 2010, *which is actually greater* than the estimated value of the entire credit union tax expenditure ($1.27 billion) for FY2010 as included in the President's FY2012 budget message.** Perhaps the real issue should be the unfair advantage over credit unions that our nation's banks get with their Subchapter S tax breaks and multiple bailouts. Given the fact that there are still tax-exempt Subchapter S banks that still haven't paid back millions in taxpayer funded TARP funds, perhaps the Subcommittee should examine the Subchapter S issue further.

In addition, numerous studies have shown that the value of the credit union tax exemption to society far outweighs the nominal revenue that the government would gain from taxing credit unions. While banks argue for the elimination of the credit union federal tax exemption, even the Americans for Tax Reform (ATR) has said that, "…any tax imposed on credit unions would have a direct impact on Americans' pocketbooks. Credit unions often charge lower loan rates than banks, distribute billions of dollars in dividends to their members and, by virtue of their competitive position, reduce costs for people who do not do any direct business with them." In terms of the total number of people impacted, **the elimination of the credit union tax exemption would be one of the largest tax increases in our nation's history.**

It is with the above concerns in mind that NAFCU would like to reiterate that removing the credit union tax exemption would have a disastrous impact on working-class Americans, especially those who are unable to obtain credit from profit making mega-banks and those struggling to regain economic footing after the most devastating financial meltdown since the Great Depression.

Thank you for your attention to this important matter. If we can answer any questions or provide additional information, please do no hesitate to contact me or NAFCU's Vice President of Legislative Affairs, Brad Thaler, at (703) 522-4770.

Sincerely,

B. Dan Berger
Executive Vice President, Government Affairs

cc: Members of the Committee on Ways and Means