Credit Union Bill Would Increase Deficit, Not Lending

By Max Cook, Missouri Bankers Association, and Linda Koch, Illinois Bankers Association

Sometimes in Washington, the facts get in the way.

Credit unions are once again pleading with Congress to increase their business lending authority. Sound good? Not so fast. This legislation from Sen. Mark Udall (D-Colo.) will shift small business lending from tax-paying community banks to tax-exempt credit unions.

They say it will increase small business lending. Don't believe it.

The credit unions are pushing bad public policy by distorting the facts. They have lost sight of their industry's historic mission and continue to promote a harmful agenda that would take business away from tax-paying community banks that serve small towns and neighborhoods across America.

Contrary to their claims, doubling the business lending cap for the less than one percent of the nation's credit unions would not increase credit availability for small business borrowers. It would shift loans that are already in the pipeline at community banks to credit unions that don't pay taxes. You simply can't be for community banks if you support the credit unions' agenda.

It's important to remember that credit unions already have ample small business lending authority. This legislative proposal applies only to a new breed of credit union with little resemblance to the mom-and-pop variety that first inspired the industry's tax exemption. These "morphed" credit unions are not satisfied with making small business loans. If they were, they would have no need to raise their member business lending cap, since credit unions today can make as many loans under $50,000 as they want. These aggressive institutions want to go after the corporate loans that tax-paying community banks make every day.

If Congress does the bidding of this small minority of aggressive credit unions, it could be the beginning of the end for community banks. One doesn't have to be an economist to know that an industry subsidized by the federal government will easily out-price one that pays roughly one-third of its revenue in taxes, a typical bank's tax burden. Or to know that this is a classic example of catering to a special interest group.

Another thing is also clear: If Congress sanctions the exodus of commercial loans from an industry that pays taxes to one that does not, the U.S. Treasury will go even deeper in debt. A similar bill in the last Congress would have cost taxpayers $354 million in lost revenues over the next ten years. This one will cost even more – just as lawmakers are trying to address our country's historic budget deficits.

At a time in our country when there's not enough money to maintain our roads and bridges, to keep our military bases open and our armed services strong, and to fund our schools, does it make sense that 7000 credit unions around the country should escape the responsibility of paying their fair share of taxes? The United States Office of Management and Budget says the credit union tax exemption costs the federal government and us, the American taxpayers, more than $1.5 billion every year in lost revenues.

Why should Congress approve an increase in credit union business lending that would take business away from tax-paying community banks, and decrease tax revenues? That would be flawed public policy. This bill should be defeated, and credit unions should pay their fair share of taxes just like the rest of American citizens and businesses.