Illinois'

Credit Unions:

Growing, Consolidating, and Often Indistinguishable from Commercial Banks

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About This Report: This report provides a data-driven overview about credit unions headquartered in Illinois with an additional focus on the largest Illinois-based credit unions. The data clearly demonstrate that large multi-branch, full-service Illinois credit unions have grown to be mainstream federally-insured financial institutions that are indistinguishable from commercial banks either by the products they provide or whom they serve. Despite their tax-subsidized operations and separate regulatory treatment, bank-like credit unions are a competitive force in the Illinois financial services marketplace. The report also assists policymakers to consider whether bank-like credit unions continue to meet a public purpose deserving of marketplace-distorting tax and regulatory treatment.

About the Contents:

- The Report's Key Findings
- Illinois Credit Union Data Year-End 2012
- Illinois Credit Union Growth Trends 2004-2012
- Illinois Credit Union Charter Types and Key Ratios
- Illinois Credit Union Services and Products
- Illinois Credit Union Loan Portfolio Distribution
- Illinois Credit Union Savings Account Distribution
- Credit Union Membership and Capital Ownership
- Large Illinois Credit Unions: Assets, Loans, Members, Branches, Key Ratios, and Business Loans
- Large Illinois Credit Unions Membership Eligibility
- Credit Union Income Tax Exemption and Estimated Taxes
- Large Illinois Credit Unions: 2012 Net Income & Estimated Tax
- Illinois-Based Credit Unions Insured by American Share Insurance
- Credit Unions' Public Purpose, and the Community Reinvestment Act
- Evolution of Illinois Credit Unions to Continue

About the Author: Marvin Umholtz is President & CEO of Umholtz Strategic Planning & Consulting Services based in Olympia, Washington south of Seattle. He is a 37-year credit union industry veteran who has held many leadership positions with credit union organizations and financial services industry vendors during those years. A former association executive and lobbyist, he candidly shares his credit union industry knowledge and analysis with public policymakers, financial industry executives, and vendor companies.

The Report's Key Findings:

- As of December 31, 2012 there were **331 federally insured credit unions with their headquarters based in Illinois** holding combined assets of over $34 billion and reporting over 2.5 million members (customers) and 658 branches.

- The **eleven federally insured Illinois credit unions above $500 million** in assets represent 68.85% of the total combined assets and 50.66% of the total members (customers).

- The Illinois credit union industry is now dominated by **significantly fewer and dramatically larger institutions** than in the past. Like the United States as a whole, the Illinois credit unions have approximately doubled in assets each decade since 1970.

- The 331 federally insured Illinois credit unions include 86 federally chartered that are supervised by the National Credit Union Administration (NCUA) and **245 state chartered credit unions** that are supervised by the Illinois Department of Financial & Professional Regulations' (IDFPR) Division of Financial Institutions' Credit Union Section.

- When viewed as an overall industry, Illinois credit unions are for the most part financially healthy according to several **key safety and soundness ratios**. Large and mid-sized credit unions tend to be healthier than smaller credit unions. Illinois credit unions total loans to total shares (deposits) ratios are at historic lows.

- The **customer services and products** offered by federally insured Illinois credit unions are very similar to those that are offered by community banks. The larger the credit union the more likely it is to offer many bank-like products.

- The December 31, 2012 snapshot of federally insured Illinois' credit unions consolidated loan portfolio confirmed that credit unions are **significant real estate-backed lenders** (54.31%) with new and used auto lending (30.90%) as the second largest category.

- The distribution of **customer savings accounts** is also similar to what one might expect at a community bank – checking, basic savings, certificates, Money Markets, and IRA/KEOGH, among others.

- At year-end 2012 Vernon Hills-based $1.8 billion in assets **Baxter Credit Union had 37 branch offices** – the most of any of Illinois' credit unions. Peoria-based $4.8 billion in assets Citizens Equity First Credit Union (CEFCU) had the second-most branches with 25. The state's largest (6th largest in the U.S.) Chicago-based $8.3 billion in assets Alliant Credit Union had only 14 branches, with several of those branches located in other states (AZ, CA, CO, NJ, TX, and VA).

- The low-income designation by NCUA or the Illinois IDFPR DFI provides additional bank-like authorities to Illinois credit unions including: (1) the potential expansion of business lending, (2) authority for supplemental capital, (3) non-member deposit-taking authority, and (4) eligibility for NCUA's community development revolving loan program. According to NCUA, as of 2012 year-end there were **43 low-income designated Illinois credit unions** representing $426 million in combined assets.

- As credit unions grew in Illinois and other states, their advocates found ways to **expand membership eligibility** criteria to fuel growth. Most credit unions in Illinois were originally organized to serve one employee group or single rural community that shared a "common bond," but there remain few single-group bonds among today's credit unions. Federal and state credit union regulators officially approved these designated "fields of membership" (FOMs) for each credit union and have authorized expansions of these FOMs. Critics have observed that like banks open to all customers, such "open" FOMs allow anyone to join a credit union.

- The eleven largest federally insured credit unions in Illinois have **membership eligibility criteria that range widely**. The more traditional FOMs at State Farm Federal Credit Union, Motorola Employees Credit Union, and Deere Employees Credit Union have eligibility criteria that require a direct link to the founding sponsor or employee group.

- Several of the largest credit unions have eligibility criteria that only require that one live or work (or sometimes worship) in a **broadly defined multi-county geographic area**. Several of the largest Illinois-based credit unions also have "back door" membership eligibility through the prospective member's ability to join a charitable organization or consumer advocacy group.

- By definition, when one of two competitors avoids a **significant cost of doing business such as the income tax**, it has a competitive advantage. In a direct competition between a tax-exempt credit union and a tax-paying community bank for lending market share, the credit union would be advantaged.

- Based upon year-end 2012 net income, Illinois' largest eleven federally insured credit unions would have an **estimated combined 2012 income tax obligation of over $53.9 million.** For all 331 federally insured Illinois credit unions it would be $69.9 million. So, 3.32% of Illinois' credit unions enjoy 77% of the overall tax benefit.

- In addition to the 331 federally insured credit unions, 23 more credit unions insure their customers' deposits through private insurer American Share Insurance (ASI). The **23 ASI insured credit unions had $2,868,163,899 in assets** combined. Two ASI insured credit unions exceeded $500 million in assets.

- Despite the low-income designation held by many credit unions, the industry's commitment to **serving the underserved is unverified** while each bank's Community Reinvestment Act (CRA) activities are well documented. Credit union critics that include consumer activist and economic justice groups in addition to community bankers are demanding that credit unions prove their adherence to a public purpose.

- The **eleven largest federally insured multi-branch Illinois credit unions and the two largest ASI insured credit unions represent most of the asset growth**, membership (customer) growth, and net income generation in the state. They will absorb many of the smaller credit unions, continue to dominate the industry, and garner significant market share. These full-service, multi-branch large credit unions will grow even more bank-like.

- The evolutionary dilemma for Illinois' credit unions resides in the public policy implications and potential costs from abandoning the more traditional approach and the **now-outdated "little guy" image**.

- Community bankers and other credit union competitors are certain to assertively weigh in concerning the potential future evolution of Illinois' bank-like credit unions. The vast majority of credit union industry analysts predict that there will be **no going back to the past** for the largest credit unions.

Illinois Credit Union Data Year-End 2012

As of December 31, 2012 there were 331 federally insured credit unions with their headquarters based in Illinois holding combined assets of over $34 billion and reporting over 2.5 million members (customers) and 658 branches. They ranged in size from less than $1 million in assets to over $8 billion. The eleven federally insured Illinois credit unions above $500 million in assets represented 68.85% of the total combined assets and 50.66% of the total members (customers). Illinois's credit unions are part of an industry in the United States that included 6,819 total federally insured credit unions with combined assets in excess of $1 trillion at the end of 2012. Illinois's 331 federally insured credit unions represent 4.85% of all U.S. credit unions, 3.35% of all credit union assets, and 2.76% of all credit union members (customers). Nationally, the nation's largest 405 credit unions (5.94% of all federally insured credit unions) represented over 65% of the total assets.

Illinois Credit Union Industry: Overview

Asset Category	# CUs	% CUs	$ Assets	% Assets	# Members	% Members
>$500 Million	11	3.32%	$23,555,876,174	68.85%	1,310,301	50.66%
$100-$500 Million	28	8.46%	$6,423,825,893	18.78%	646,770	25.00%
$50-$100 Million	22	6.65%	$1,524,316,455	4.46%	183,886	7.11%
$10-$50 Million	94	28.40%	$2,123,664,445	6.21%	315,496	12.20%
$2-$10 Million	101	30.51%	$530,161,789	1.55%	108,500	4.19%
<$2 Million	75	22.66%	$56,559,729	0.15%	21,726	0.84%
Total	**331**	**100.00%**	**$34,214,404,485**	**100.00%**	**2,586,679**	**100.00%**

Source: National Credit Union Administration (NCUA) as of December 31, 2012 for all federally insured credit unions

United States Credit Union Industry: Overview

Asset Category	# CUs	% CUs	$ Assets	% Assets	# Members	% Members
>$500 Million	405	5.94%	$671,566,833,670	65.73%	53,003,248	56.48%
$100-$500 Million	1,032	15.13%	$230,065,344,098	22.52%	24,105,433	25.69%
$50-$100 Million	778	11.41%	$55,640,425,312	5.44%	6,788,216	7.23%
$10-$50 Million	2,256	33.08%	$55,155,262,959	5.40%	7,890,527	8.41%
$2-$10 Million	1,560	22.88%	$8,603,147,423	0.84%	1,778,652	1.90%
<$2 Million	788	11.56%	$696,334,191	0.07%	270,346	0.29%
Total	**6,819**	**100.00%**	**$1,021,727,347,653**	**100.00%**	**93,836,422**	**100.00%**

Source: National Credit Union Administration (NCUA) as of December 31, 2012 for all federally insured credit unions

The NCUA figures in the tables above for federally insured credit unions headquartered in Illinois are from March 20, 2013 consolidated financial performance report (FPR) downloads for December 31, 2012. The NCUA figures for federally insured U.S. credit unions are from March 8, 2013 consolidated financial performance report (FPR) downloads for December 31, 2012. The data is subject to subsequent NCUA revisions. Credit unions headquartered in Illinois and insured by American Share Insurance www.americanshare.com are not included in these federally insured credit union tables. Wholesale correspondent corporate credit unions www.ncua.gov/Resources/Corps/Pages/default.aspx, including Warrenville-based $2.8 billion in assets Alloya Corporate Federal Credit Union www.alloya.org, are not included in these tables. NCUSIF is the acronym for the National Credit Union Share (deposit) Insurance Fund. There were 43 credit unions in Illinois designated as “low-income” credit unions holding $426,128,786 in combined assets with 80,846 members. The low-income designation authorizes a credit union to seek supplemental capital and removes regulatory caps on the amount of assets involved in business lending.

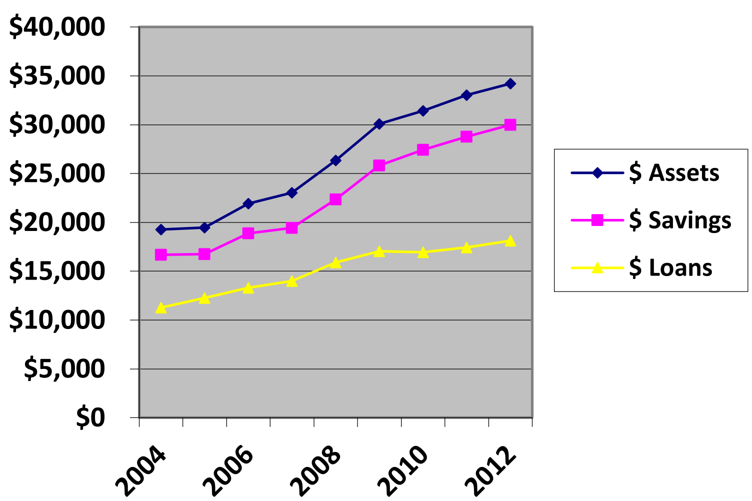
Illinois Credit Union Growth Trends 2004-2012

The Illinois credit union industry is now dominated by significantly fewer and dramatically larger institutions than in the past.

Illinois Credit Union Industry Growth Trends 2004-2012

Year	# Credit Unions	$ Assets in Millions	$ Savings in Millions	$ Loans in Millions	# Members
2004	450	$19,279	$16,679	$11,267	2,249,480
2005	440	$19,457	$16,762	$12,258	2,240,935
2006	421	$21,939	$18,889	$13,311	2,327,723
2007	406	$23,033	$19,450	$13,994	2,309,532
2008	393	$26,354	$22,350	$15,885	2,406,763
2009	377	$30,077	$25,811	$17,040	2,492,172
2010	363	$31,421	$27,442	$16,935	2,503,725
2011	346	$33,027	$28,772	$17,436	2,542,913
2012	331	$34,214	$29,988	$18,119	2,586,679

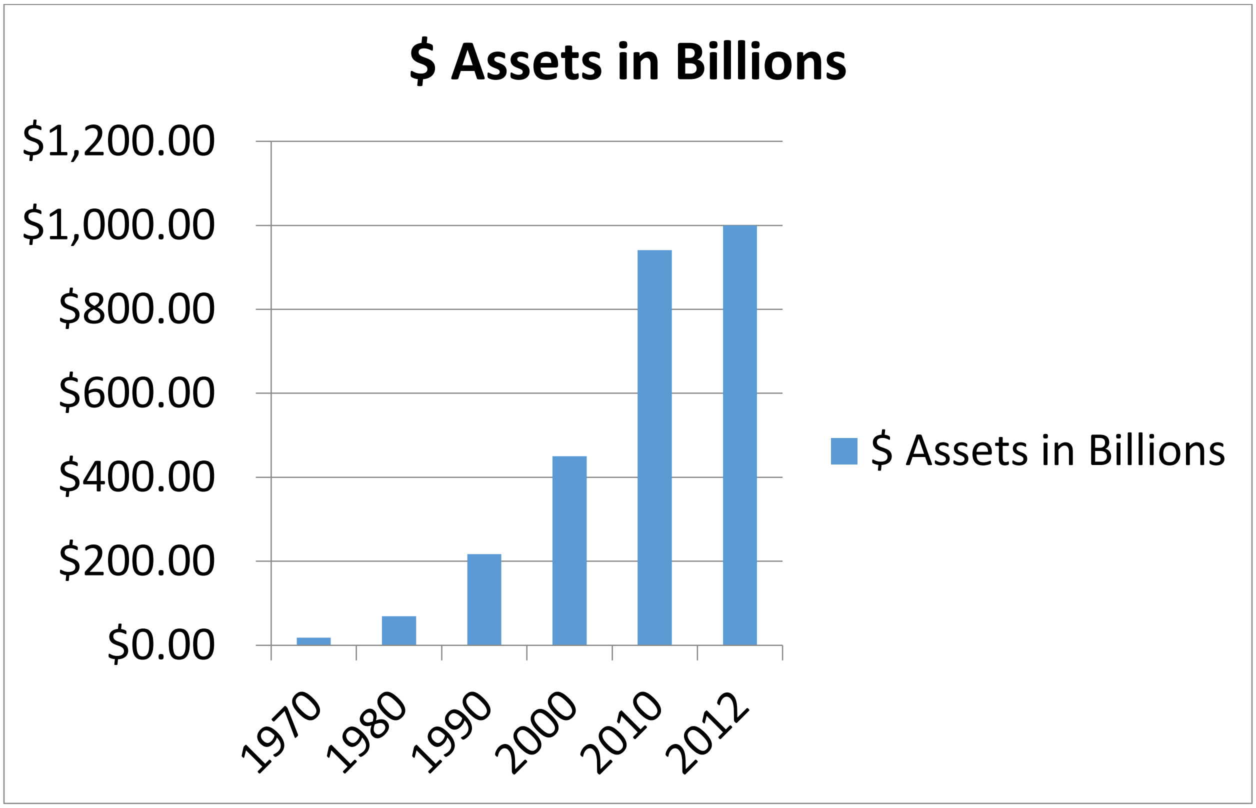
$ Assets, $ Savings (Deposits), $ Loans in Millions



Source: National Credit Union Administration (NCUA) as of December 31, 2004-2012 for Federally Insured Credit Unions

Like the United States as a whole, Illinois-based federally insured credit unions are on track to nearly double their combined assets within the decade 2004 to 2014. Historically two-thirds of that asset growth occurs in credit unions $500 million in assets and above. From year-end 2004 to year-end 2012 there was a net decrease of 119 in the number of federally insured Illinois credit unions from 450 to 331. The multi-decade trend is for fewer, but larger credit unions. Membership in Illinois-based federally insured credit unions grew from 2,249,480 in 2004 to 2,586,679 in 2012 – a net increase of 337,199 or approximately 15% over the period.

U.S. Credit Union Combined Asset Growth 1970-2012



According to historical data obtained from the National Credit Union Administration (NCUA) and the Credit Union National Association (CUNA), the U.S. credit union industry has been approximately doubling in size every decade since 1970. In 2012, the 6,819 federally insured credit unions exceeded $1 trillion in assets. If the trend continues, by 2022 the credit union industry would grow to $2 trillion in assets.

Illinois Credit Union Charter Types and Key Ratios

The 331 federally insured Illinois credit unions include 86 federally chartered (25.98%) that are supervised by the National Credit Union Administration (NCUA) and 245 state chartered (74.02%) that are supervised by the Illinois Department of Financial & Professional Regulations' (IDFPR) Division of Financial Institutions' Credit Union Section. The 245 federally insured Illinois state chartered credit unions represented over $28 billion in assets or over 82% of the state's total at year-end 2012. The deposits in Illinois credit unions are insured by the National Credit Union Share Insurance Fund (NCUSIF) or by a state authorized private deposit insurance fund. Credit unions based in Illinois insuring their members' deposits with the private insurance program, American Share Insurance www.americanshare.com, were not included in most of the tables or charts used for this report unless specifically so designated.

Bank and thrift depositors and credit union depositors receive essentially the same federal deposit insurance coverage. The greatest differences between the two federal deposit insurance programs occur in the size and scope of their operations; in their approach to funding; and in the potential costs to the insured institutions. There are many similarities between the two, as well as some important differences. From the depositor's point of view, the two federal deposit insurance plans are strikingly similar. Both funds are administered by independent federal government agencies and both are backed by the full faith and credit of the United States government. The coverage amount and the types of covered accounts are also almost 100% comparable. Additionally, the institutions that hold the insured accounts pay for their respective deposit insurance funds, not the taxpayers.

Illinois Credit Union Industry: Charter Type

CU Charter Type	# CUs	% CUs	$ Assets	% Assets	# Members	% Members
State CU	245	74.02%	$28,074,086,456	82.05%	2,217,740	85.74%
Federal CU	86	25.98%	$6,140,318,029	17.95%	368,939	14.26%
Total	331	100.00%	$34,214,404,485	100.00%	2,586,679	100.00%

Source: National Credit Union Administration (NCUA) as of December 31, 2012 for all federally insured credit unions

Illinois Credit Union Industry: Key Ratios

Asset Category	# CUs	Net Worth/ Total Assets	Total Loans/ Total Shares (Deposits)	Delinquent Loans/ Total Loans	Net Charge-Offs/ Average Loans	Return on Average Assets (ROAA)	ROAA Before NCUSIF Stabilization Inc/Exp
>$500 Million	11	10.04	59.31	1.10	0.60	0.67	0.74
$100-$500 Million	28	10.53	67.71	1.33	0.62	0.55	0.63
$50-$100 Million	22	9.80	61.02	1.87	0.88	0.35	0.43
$10-$50 Million	94	11.77	51.05	1.23	0.59	0.28	0.36
$2-$10 Million	101	14.30	55.82	2.17	0.63	0.11	0.19
<$2 Million	75	16.74	59.37	3.27	0.52	-0.47	-0.40
Total	**331**	**10.31**	**60.42**	**1.21**	**0.62**	**0.59**	**0.67**

Source: National Credit Union Administration (NCUA) as of December 31, 2012 for all federally insured credit unions

When viewed as an overall industry, Illinois credit unions are for the most part financially healthy according to several key safety and soundness ratios. Large and mid-sized credit unions tend to be healthier than smaller credit unions. Illinois credit unions total loans to total shares (deposits) ratios are at historic lows. The Illinois credit unions key ratios are slightly less healthy than similar ratios for federally insured credit unions in the U.S. as a whole. Additionally, the 75 smallest credit unions under $2 million in assets had negative earnings as measured by the return on average assets (ROAA) bringing into question those institutions sustainability. Collectively the nation's 778 smallest federally insured credit unions were also experiencing negative earnings and negative growth as measured at 2012 year-end.

Illinois Credit Union Services and Products

The customer services and products offered by Illinois credit unions are very similar to those that are offered by community banks. The larger the credit union the more likely it is to offer many bank-like products. The NCUA tracks certain offerings by individual institution and by the state as a whole. Most credit unions advertise their complete list of services and product offerings on their individual websites.

Illinois Credit Union Industry
Selected Service & Product Offerings

Customer Service and/or Product Offering	# of 331 IL CUs Offering	# of 11 Largest IL CUs Offering
Business Loans	38	8
Credit Builder	40	6
Debt Cancellation/Suspension	10	6
Direct Financing Leases	0	0
Indirect Business Loans	5	1
Indirect Consumer Loans	51	7
Indirect Mortgage Loans	5	1
Interest Only or Payment Option 1st Mortgage Loans	15	6
Micro Business Loans	15	4
Micro Consumer Loans	33	4
Overdraft Lines of Credit	69	6
Overdraft Protection	103	10
Participation Loans	29	8
Pay Day Loans	40	2
Real Estate Loans	142	11
Refund Anticipation Loans	3	0
Risk Based Loans	141	10
Share (Deposit) Secured Credit Cards	90	5
Short-Term, Small Amount Loans (STS)	17	0
ATM/Debit Card Program	186	10
Business Share (Deposit) Accounts	74	9
Check Cashing	124	6
First Time Homebuyer Program	18	4
Health Savings Accounts	19	9
Individual Development Accounts	2	0
In-School Branches	3	0
Insurance/Investment Sales	52	10
International Remittances	30	5
Low Cost Wire Transfers	156	6

Source: National Credit Union Administration (NCUA) as of December 31, 2012 for federally insured credit unions

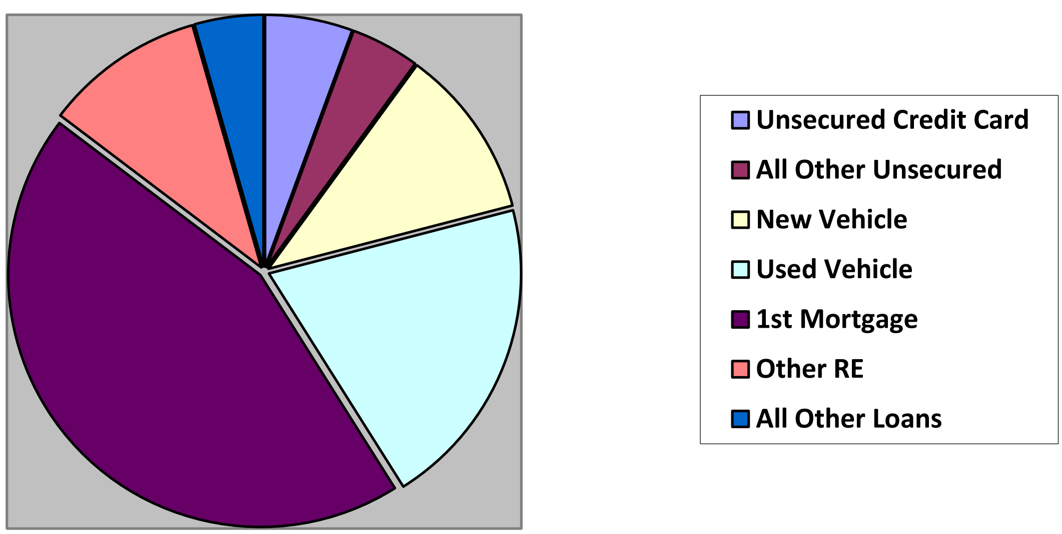
Illinois Credit Union Loan Portfolio Distribution

The December 31, 2012 snapshot of federally insured Illinois' credit unions consolidated loan portfolio confirmed that credit unions are significant real estate-backed lenders (54.31%) with used and new auto lending (30.90%) as the second largest category. Certain business loans are included in the 4.39% "Other Loans" category.

Illinois Credit Union Industry Loan Portfolio Distribution

Loan Type	$ Amount	% of Loan Portfolio
Unsecured Credit Card Loans	$1,012,049,314	5.59%
All Other Unsecured Loans/Lines of Credit	$794,923,733	4.39%
Short-Term, Small Amount Loans (STS)	$808,550	>0.00%
Non-Federally Guaranteed Student Loans	$75,684,791	0.42%
New Vehicle Loans	$1,974,086,400	10.89%
Used Vehicle Loans	$3,625,662,583	20.01%
1st Mortgage Real Estate Loans/Lines of Credit	$7,986,143,372	44.08%
Other Real Estate Loans/Lines of Credit	$1,852,928,579	10.23%
Leases Receivable	$669,792	>0.00%
Total All Other Loans/Lines of Credit	$795,738,980	4.39%
Total Loans	**$18,118,696,094**	**100.00%**

Illinois Credit Union Industry
331 CUs Consolidated Loan Portfolio Distribution



Source: National Credit Union Administration (NCUA) as of December 31, 2012 for federally insured credit unions

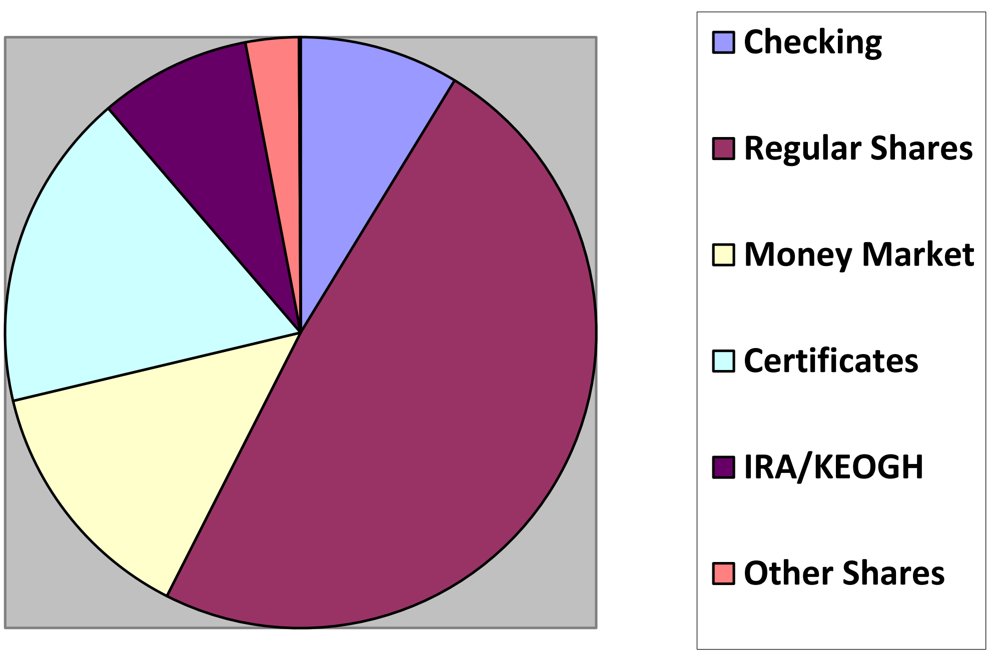
Illinois Credit Union Savings Accounts Distribution

The distribution of customer savings accounts is also similar to what one might expect at a community bank – checking, basic savings, certificates, Money Markets, and IRA/KEOGH, among others. In credit union nomenclature “shares” are the funds deposited by members in their various savings accounts and any earnings paid on them are treated as “interest” for individual income tax purposes. The table illustrates the consolidated numbers for all 331 Illinois credit unions as of December 31, 2013.

Illinois Credit Union Industry
Savings Distribution

Savings Type	$ Amount	% of Savings Portfolio
Share Drafts (Checking)	$2,616,240,214	8.72%
Regular Shares (Deposits)	$14,620,650,346	48.75%
Money Market Shares (Deposits)	$4,140,876,439	13.81%
Share (Deposit) Certificates	$5,225,788,806	17.43%
IRA/KEOGH Accounts	$2,486,289,672	8.29%
All Other Shares (Deposits)	$872,235,146	2.91%
Non-Member Deposits	$26,075,574	0.09%
Total Shares and Deposits	**$29,988,156,197**	**100.00%**

Illinois Credit Union Industry
331 CUs Consolidated Savings Distribution



Source: National Credit Union Administration (NCUA) as of December 31, 2012 for Federally Insured Credit Unions

Credit Union Membership and Capital Ownership

Credit unions must treat shares (deposits) that can be redeemed by members without restriction as liabilities on the balance sheet. Members can withdraw such shares and that necessary capital can disappear when the credit union needs it most. Credit unions that can unconditionally refuse share redemption, however, can treat those shares as capital, equivalent to common equity tier 1 capital (the capital category that also includes retained earnings) because they can remain with the credit union in times of financial duress. Although in the United States some types of membership shares require significant notice to be withdrawn, most do not for all practical purposes. Members' share deposits have been treated as liabilities already for all operational purposes.

Although some credit union members might be aware that they are "member-owners" of the credit union's equity, most of them are totally unaware. The only time an owner-member of a credit union can withdraw their proportional equity is when the credit union liquidates, so it is of little marketable value to them most of the time. However, in public and policymaking situations credit union advocates have amplified the ownership issue despite the fact that few customers even know they are "owners." Credit unions are structured without capital stock and have no access to capital markets. Capital (net worth) is built through regular contributions from retained earnings to reserves and other capital accounts.

In August 2011 the Filene Research Institute (FRI) released a no-nonsense study by former FRI executive director Bob Hoel entitled, "*Power and Governance: Who Really Owns Credit Unions*?" Among many other findings and observations Hoel wrote, "It is also popular for credit union CEOs, board members, trade associations, and regulators to proudly proclaim that credit union members own their credit union. Again, rhetoric fails to tell the complete story. Determining who controls capital is a key step in identifying the organization's authentic owner. Credit union CEOs and boards, like their corporate counterparts, play key roles in capital decision making. In addition, government regulators exert extraordinary influence on capital levels and capital deployment. Members have almost no control over capital in most credit unions today. Regulators tend to act as though they own a credit union's capital…The extraordinary power of credit union regulators raises the distinct possibility that they are the true owners of the credit union. As noted previously, if the regulator or any other party controls the credit union's capital, it is, for all practical purposes, the credit union's owner."

Hoel also wrote, "Given the power of boards, CEOs, and regulators over capital, it is not possible to view members as the credit union's owners in the classic sense. Member ownership rights are modest; some might even argue that they are trivial. Members cannot sell or otherwise transfer their theoretical share of ownership to others. They cannot withdraw their share of the credit union's capital when they move or when they terminate their membership. Their heirs do not have an equity claim upon their death. The only times that credit union members receive capital distributions are when the credit union is liquidated or when regulators conclude that the credit union is grossly overcapitalized and permit the credit union to make a special capital distribution. In most non-credit-union cooperatives, member owners have far greater power to transfer and redeem their ownership shares…Four actors – CEOs, boards, regulators, and members – all have some power to control and deploy capital. One conclusion from this multipower arrangement is that the four are joint owners. An alternative view is that the true ownership is so vague and convoluted that no one owns the credit union. The credit union, in essence, owns itself, and it is a self perpetuating entity."

As owners, credit union members can participate in electing its board of directors, but few actually do. Credit union annual membership meetings are often held at inconvenient times, located at unsuitable venues, and are attended by barely enough members to constitute a legal quorum – often as few as fifteen members regardless of the institution's size. Often only board members and staff attend these functions and it is a rare occurrence when more than one percent of a credit union's eligible members actually participate in an onsite meeting. Industry critics point out that most credit union director elections involve an uncontested slate of mostly incumbent board candidates developed by a nominating committee composed of board insiders. Because credit unions have no stock and are not publicly traded, they are also exempt from all but two requirements imposed by the federal Sarbanes-Oxley Act's corporate governance standards. The two provisions deal with document destruction and whistleblower protections.

Large Illinois Credit Unions:

Assets, Loans, Members, Branches, Key Ratios, and Business Loans

At year-end 2012 Vernon Hills-based $1.8 billion in assets Baxter Credit Union had 37 branch offices – the most of any of Illinois' credit unions. Peoria-based $4.8 billion in assets Citizens Equity First Credit Union (CEFCU) had the second-most branches with 25. The state's largest (6th largest in the U.S.) Chicago-based $8.3 billion in assets Alliant Credit Union had only 14 branches, with several of those branches located in other states (AZ, CA, CO, NJ, TX, and VA).

Large Illinois Credit Unions: Overview

CU Name (Location)	$ Assets	$ Loans	# Members	# Branches
Alliant CU Chicago www.alliantcreditunion.org	**$8,270,837,261**	**$3,317,753,450**	**274,618**	**14**
Citizens Equity First CU Peoria www.cefcu.com	**$4,794,269,503**	**$3,363,747,029**	**293,092**	**25**
State Farm Federal CU Bloomington www.statefarmfcu.com	**$3,820,793,803**	**$795,444,113**	**129,421**	**23**
Baxter CU Vernon Hills www.bcu.org	**$1,778,825,531**	**$1,459,916,650**	**165,824**	**37**
Scott CU Edwardsville www.scu.org	**$887,748,102**	**$726,624,377**	**105,112**	**15**
Motorola Employees CU Schaumburg www.mecu.org	**$872,444,192**	**$464,583,827**	**38,932**	**9**
I.H. Mississippi Valley CU Moline www.ihmvcu.org	**$868,314,734**	**$645,503,215**	**111,490**	**17**
Deere Employees CU Moline www.dccu.com	**$589,329,125**	**$446,170,562**	**27,892**	**16**
Consumers Cooperative CU Waukegan www.myconsumers.org	**$581,545,942**	**$359,097,847**	**56,957**	**6**
Corporate America Family CU Elgin www.cafcu.org	**$568,142,810**	**$283,921,686**	**65,928**	**18**
Great Lakes CU North Chicago www.glcu.org	**$523,625,171**	**$336,679,560**	**41,035**	**10**
Total	**$23,555,876,174**	**$12,199,442,316**	**1,310,301**	**190**

Source: National Credit Union Administration (NCUA) as of December 31, 2012 for Federally Insured Credit Unions

The Large Illinois Credit Unions table includes federally insured Illinois-headquartered retail credit unions with assets above $500 million and does not include branches of credit unions with a marketplace presence in Illinois, but that are based in other states. Several of the Illinois-based credit unions that are included in this table have branches in other states. At year-end 2012 Alliant Credit Union ranked as the 6th largest credit union in the United States. Citizens Equity First Credit Union ranked 18th nationally. State Farm Federal Credit Union was 28th largest nationally. Warrenville-based $2.8 billion in assets Alloya Corporate Federal Credit Union www.alloya.org, a wholesale credit union serving other credit unions with correspondent services, is not included in the table. Alloya CFCU conducts business with nearly 1,400 retail credit unions in ten states.

Large Illinois Credit Unions: Key Ratios

CU Name	Net Worth/ Total Assets	Total Loans/ Total Shares (Deposits)	Delinquent Loans/ Total Loans	Net Charge-Offs/ Average Loans	Return on Average Assets (ROAA)	ROAA before NCUSIF Stabilization Inc/Exp
Alliant CU	**9.78**	**47.31**	**1.22**	**0.51**	**0.45**	**0.52**
Citizens Equity First CU	**10.57**	**79.70**	**1.26**	**0.41**	**0.81**	**0.89**
State Farm Federal CU	**11.33**	**23.60**	**0.59**	**0.46**	**0.70**	**0.78**
Baxter CU	**8.45**	**90.80**	**0.70**	**1.15**	**1.25**	**1.34**
Scott CU	**9.70**	**92.15**	**0.72**	**0.58**	**1.17**	**1.25**
Motorola Employees CU	**8.66**	**59.04**	**1.42**	**0.66**	**0.72**	**0.80**
I.H. Mississippi Valley CU	**8.92**	**82.19**	**1.29**	**0.38**	**0.44**	**0.52**
Deere Employees CU	**7.69**	**82.50**	**0.12**	**0.29**	**0.83**	**0.90**
Consumers Coop. CU	**7.91**	**67.53**	**1.15**	**1.27**	**0.70**	**0.79**
Corp. America Family CU	**14.04**	**59.16**	**1.34**	**1.00**	**0.56**	**0.64**
Great Lakes CU	**10.69**	**75.49**	**2.30**	**1.06**	**0.07**	**0.15**
Consolidated 11 IL CUs	**10.04**	**59.31**	**1.10**	**0.60**	**0.67**	**0.74**
Consolidated 405 US CUs	**10.17**	**70.58**	**1.12**	**0.78**	**1.02**	**1.10**

Source: National Credit Union Administration (NCUA) as of December 31, 2012 for federally insured credit unions

The NCUA key ratios are from December 31, 2012 financial performance reports. NCUSIF is the acronym for the National Credit Union Share (deposit) Insurance Fund. The table entry for consolidated key ratios of the 11 large federally insured Illinois credit unions are calculated as if they were one even larger credit union. The consolidated key ratios for the 405 credit unions includes all U.S.-based federally insured credit unions greater than $500 million in assets treated as one very large institution. As a group, the 11 largest Illinois credit unions were financially healthy although they performed slightly below their 405 U.S. peer group of the largest credit unions. The most notable deviations were the low total loans to total shares (deposits) ratios at Alliant Credit Union and State Farm Federal Credit Union that suggest alternative strategic approaches to the marketplace. Additionally, Great Lakes Credit Union reported a higher than peer delinquency rate and almost no net return on average assets (ROAA) – a measurement of earnings.

According to NCUA, as of 2012 year-end there were 43 low-income designated Illinois credit unions representing $426 million in combined assets. The low-income designation by NCUA or the Illinois IDFPR DFI provides additional bank-like authorities to Illinois credit unions including: (1) the potential expansion of business lending, (2) authority for supplemental capital, (3) non-member deposit-taking authority, and (4) eligibility for NCUA's community development revolving loan program. The combined totals for the 11 largest Illinois credit unions and the 405 largest U.S. credit unions over $500 million in assets are calculated as if each group was a single large credit union. None of the largest 11 Illinois retail credit unions holds a NCUA low-income designation that provides an exemption from the 12.25% of assets business lending cap. Out of the total 331 federally insured Illinois-based credit unions 43 have received the NCUA's low-income credit union designation. These 43 reported collectively only $2,734,536 in business loans representing a 0.64% business loans to total assets ratio for the group. All 331 Illinois-based credit unions combined reported $885,737,814 in total business loans representing a 2.59% business loans to total assets ratio. Nearly 80% of all business lending by Illinois credit unions was done by the 11 largest credit unions included in this table. Collectively less business lending is engaged in by Illinois credit unions on a relative basis than the national average.

Large Illinois Credit Unions: Business Loans

CU Name	$ Assets	$ Total Loans	$ Total Business Loans Less Unfunded Commitments (LUC)	% Total Business Loans LUC/Total Assets
Alliant CU	**$8,270,837,261**	**$3,317,753,450**	**$138,036,181**	**1.67%**
Citizens Equity First CU	**$4,794,269,503**	**$3,363,747,029**	**$338,019,874**	**7.05%**
State Farm Federal CU	**$3,820,793,803**	**$795,444,113**	**0**	**0.00%**
Baxter CU	**$1,778,825,531**	**$1,459,916,650**	**$30,149,566**	**1.69%**
Scott CU	**$887,748,102**	**$726,624,377**	**$28,643,643**	**3.23%**
Motorola Employees CU	**$872,444,192**	**$464,583,827**	**$39,871,168**	**4.57%**
I.H. Mississippi Valley CU	**$868,314,734**	**$645,503,215**	**$69,055,477**	**7.95%**
Deere Employees CU	**$589,329,125**	**$446,170,562**	**$196,034**	**0.03%**
Consumers Coop. CU	**$581,545,942**	**$359,097,847**	**$33,453,537**	**5.75%**
Corp. America Family CU	**$568,142,810**	**$283,921,686**	**0**	**0.00%**
Great Lakes CU	**$523,625,171**	**$336,679,560**	**$29,008,834**	**5.54%**
Largest 11 IL CUs Total	**$23,555,876,174**	**$12,199,442,316**	**$706,434,314**	**3.00%**
Largest 405 US CUs Total	**$671,566,833,670**	**$403,064,877,946**	**$28,846,341,231**	**4.30%**

Source: National Credit Union Administration (NCUA) as of December 31, 2012 for Federally Insured Credit Unions

Large Illinois Credit Unions Membership Eligibility

As credit unions grew in Illinois and other states, their advocates found ways to expand membership eligibility criteria to fuel growth. Most credit unions in Illinois were originally organized to serve one employee group or single rural community that shared a "common bond," but there remain few single-group bonds among today's credit unions. Federal and state credit union regulators officially approved these designated "fields of membership" (FOMs) for each credit union and have authorized expansions of these FOMs. Neither the regulators nor the credit unions are required to make public their legally-defined FOMs, but most credit unions now share this information on their websites in their 'join us" or "membership eligibility" links. The membership eligibility characterizations outlined in the Membership Eligibility table are based upon information found on each credit union's website.

The eleven largest credit unions in Illinois have membership eligibility criteria that range widely. The more traditional FOMs at State Farm Federal Credit Union, Motorola Employees Credit Union, and Deere Employees Credit Union have eligibility criteria that require a direct link to the founding sponsor or employee group. Several of the largest credit unions have eligibility criteria that only require that one live or work (or sometimes worship) in a broadly defined multi-county geographic area. Nearly all credit unions allow relatives of existing members to join and a few allow relatives to join simply if someone else in the household would be eligible for membership even if that eligible person did not join. Nearly all credit unions allow consumers to retain their membership once it is obtained even if they relocate or otherwise would no longer be eligible to join. Several of the credit unions serve consumer members in several states.

Several of the largest Illinois-based credit unions also have "back door" membership eligibility through the prospective member's ability to join a charitable organization or consumer advocacy group. If one donates to *Foster Care to Success* one becomes eligible to join Alliant Credit Union. Anyone can join the Consumers Cooperative Association and become eligible to also join the Consumers Cooperative Credit Union. By joining *The Hope Group* scholarship-granting association anyone can join Corporate America Family Credit Union. It would also appear that every time Corporate America Family Credit Union opens a new branch office, anyone within a 25-mile radius becomes automatically eligible to join. Critics have observed that like banks open to all customers, such "open" FOMs allow anyone to join a credit union.

Large Illinois Credit Unions: Membership Eligibility

CU Name			Membership Eligibility **(as described on the credit union's website)**
Alliant Credit Union **$8.3 billion assets** **274 thousand members**			-Any employee of over 200 qualifying organizations; many are airlines, aviation, travel services, and technology firms in several states -Any person who lives or works in a qualifying Chicagoland Community (19 cities and Chicago O'Hare Airport) -Any member of *Foster Care to Success* or anyone who donates $10 to join that charitable organization -Any person related by blood or law to an existing member; domestic partners of unmarried members
Citizens Equity First Credit Union **$4.8 billion assets** **293 thousand members**			-Anyone who lives or works in Fulton, Knox, Livingston, Logan, McLean, Macon, Marshall, Mason, Peoria, Putnam, Sangamon, Stark, Tazewell, or Woodford counties in Illinois -Anyone who lives, works or worships in Alameda, Contra Costa, or Santa Clara counties in California -Employees or retirees of Caterpillar Inc., Caterpillar subsidiaries, or Caterpillar dealerships -Employees or retirees of the credit union's partner companies -Immediate family member of someone who is eligible to join the credit union -A member of a household that includes someone eligible to join the credit union -Spouse of a member who has passed away -Employees or retirees of the credit union
State Farm Federal Credit Union **$3.8 billion assets** **129 thousand members**			-Membership is open to all U.S. State Farm employees, agents, retirees, and members of their immediate families (eligible family narrowly defined)
Baxter Credit Union **$1.8 billion assets** **165 thousand members**			-Employed by one of the many listed companies offering the credit union as an employee benefit; contact the credit union to find out -Lives or works in one of six counties: Lake County, McHenry County, DuPage County, Kane County and Cook County north of Route 58 in Illinois; Kenosha County in Wisconsin, or the Village of Schaumburg, IL -Family members related by blood or marriage or foster or adopted children; includes parents, children, brother, sister, husband, wife, cousins, grandchildren, grandparents, aunts, uncles, nieces, and nephews

Scott Credit Union **$887 million assets** **105 thousand members**			-Anyone living or working in Monroe, Madison, St. Clair, Randolph, Perry, Franklin, Jefferson, Washington, Clinton, Marion, Bond, Macoupin, Montgomery, Fayette, Effingham, Williamson, or Jackson counties in Illinois or St. Louis County, Missouri -An existing member's immediate family, including a relative by blood or marriage or foster or adopted children -Active or retired military of Scott AFB, including reserve components and civilian employees or retired civilian employees; other Scott AFB authorized personnel -Employees and members of Sam's Club of O'Fallon, IL -Employees of three other specified businesses
Motorola Employees Credit Union **$872 million assets** **38 thousand members**			-Employees, contractors, and retirees of Motorola Mobility, Motorola Solutions, Continental, Nokia Siemens Networks, Google, and their subsidiaries and joint venture companies -Employees, contractors, and retirees of other firms having business relationships with the previously listed companies -Anyone related to current members by blood or marriage, including foster, adopted, and step family members; same-sex and domestic partners are also eligible
I.H. Mississippi Valley Credit Union **$868 million assets** **111 thousand members**			-Any person and their family (broadly defined) who lives or works in the following Illinois counties: Bureau, Carroll, Hancock, Henderson, Henry, Knox, Lee, McDonough, Mercer, Rock Island, Warren or Whiteside County -Also any person and their family who lives or works in the following Iowa counties: Cedar, Clinton, Des Moines, Jackson, Johnson, Jones, Lee, Louisa, Muscatine or Scott County
Deere Employees Credit Union **$589 million assets** **27 thousand members**			-Only John Deere employees and their families are eligible to join the credit union
Consumer Cooperative Credit Union **$581 million assets** **56 thousand members**			-Anyone who is a member of or wants to pay a $5 fee to join the Consumers Cooperative Association is eligible to join the credit union
Corporate America Family Credit Union **$568 million assets** **65 thousand members**			-Employed by a sponsor group (not listed on the website); directed to call the credit union's member service center -Family member (broadly defined) of a current member -Live or work within a 25-mile radius of a credit union branch -Anyone can join *The Hope Group*, an association that offers educational grants, to become eligible to join the credit union
Great Lakes Credit Union **$523 million assets** **41 thousand members**			-Active military and relatives -Country Club Hills, IL surrounding area -Federal government employee and relative -Anyone and relatives that live or work in Kenosha County, WI; Lake or McHenry Counties in IL -Tinley Forest School Districts 113, 142, 145, 146, and 160 -NIBA

Credit Union Income Tax Exemption and Estimated Taxes

Based upon 2012 year-end calculations of reported net income Illinois' largest eleven federally insured credit unions would have an estimated combined 2012 income tax obligation of nearly $54 million. For all 331 federally insured Illinois credit unions that obligation would be nearly $70 million. Based upon these estimates the eleven largest Illinois credit unions (3.32%) receive 77% of the value from the federal and state income tax exemption in Illinois.

Large Illinois Credit Unions: 2012 Net Income & Estimated Tax

CU Name	$ Assets	$ Net Income (Loss)	35% Rate Estimated 2012 Income Tax $
Alliant CU	**$8,270,837,261**	**$36,850,910**	**$12,897,819**
Citizens Equity First CU	**$4,794,269,503**	**$38,158,106**	**$13,355,337**
State Farm Federal CU	**$3,820,793,803**	**$26,280,040**	**$9,198,014**
Baxter CU	**$1,778,825,531**	**$21,067,617**	**$7,373,666**
Scott CU	**$887,748,102**	**$9,815,428**	**$3,435,400**
Motorola Employees CU	**$872,444,192**	**$6,014,253**	**$2,104,989**
I.H. Mississippi Valley CU	**$868,314,734**	**$3,750,493**	**$1,312,673**
Deere Employees CU	**$589,329,125**	**$4,584,652**	**$1,604,628**
Consumers Coop. CU	**$581,545,942**	**$4,030,777**	**$1,410,772**
Corp. America Family CU	**$568,142,810**	**$3,124,671**	**$1,093,635**
Great Lakes CU	**$523,625,171**	**$376,205**	**$131,672**
Largest 11 IL CUs Total	**$23,555,876,174**	**$154,053,152**	**$53,918,603**
All 331 IL CUs Total	**$34,214,404,485**	**$199,771,565**	**$69,920,048**

Source: National Credit Union Administration (NCUA) as of December 31, 2012 for Federally Insured Credit Unions

By definition, when one of two competitors avoids a significant cost of doing business such as the income tax, it has a competitive advantage. In a direct competition between a tax-exempt credit union and a tax-paying community bank for lending market share, the credit union would be advantaged. Whether that advantage turns into reduced costs or other benefits for consumers remains problematic. It greatly depends upon the circumstance at each particular financial institution. Federally chartered credit unions have been exempt from all federal, state, and local taxes since 1937. Credit unions usually pay real estate taxes, payroll taxes, and some other property taxes. Federal credit unions are treated as an instrumentality of the United States. Individual state legislatures can choose to impose a state income tax on state chartered credit unions, but not on federal chartered credit unions.

The credit union industry's embedded focus on preserving the income tax exemption blinds it to potential evolutionary alternatives. In a broader sense, some industry analysts view the credit union tax exemption as a burden on the credit union business model in the United States. Credit unions in other developed countries like Australia and Canada pay income taxes and have received support from their legislators and regulators to evolve their governance structures, capital-access mechanisms, and products and services portfolios. In the long run the tax exemption keeps the credit union business model from evolving and may eventually restrain it. However, many credit union officials would not agree with this assessment. The tax exemption appears so embedded in the self-definition of a U.S.-based credit union that the industry's trade associations would not cut a deal that involved giving it away for fear of the internal uproar it would cause. Preserving and protecting the credit union tax exemption is at the top of the list of priorities for just about every credit union industry trade association – and has been at the top of that list for decades.

Illinois chartered credit unions are currently exempt from income taxes under the Internal Revenue Code 26 USC §501(c)(14) and federal chartered credit unions are exempt under 26 USC §501(c)(1). Additionally the Federal Credit Union Act 12 USC §1768 further exempts federal credit unions from federal, state, and local income taxes. A 35% estimated tax on net income is routinely used by industry analysts to illustrate a credit union's likely income tax costs. Any actual tax paid by credit unions would be based upon the actual federal and state taxes that might statutorily apply as well as any legal tax avoidance strategies that each credit union might implement.

Credit union advocates contend that the federal tax exemption is based upon the not-for-profit, cooperative structure of credit unions, not by the size of the credit union, those it serves, or the products and services that are offered. They also cite that credit unions' boards of directors are generally unpaid volunteers elected by the membership, and credit unions are restricted in who they may serve. They also claim that credit unions continue to serve consumers of modest means and the underserved. Banking groups and some policymakers have raised significant questions concerning the appropriateness of continuing this subsidy since credit unions have become the equivalent of a tax exempt bank.

According to a 2012 statement attributed to the President of the American Bankers Association (ABA), "Credit unions' tax exemption currently costs the U.S. Treasury $2 billion annually. By contrast, their competitors – the 6,000-plus community banks that are the lifeblood of towns across the country – contribute $4 billion annually in taxes that support our nation and those communities. Congress should not even consider legislation that would expand the country's deficit, dole out more benefits to tax-avoiding credit unions and harm community bankers who shoulder their fair share."

Illinois-Based Credit Unions Deposit Insured by American Share Insurance

The Illinois Compiled Statutes (205 ILCS 305/58) authorizes state chartered credit unions to insure members (customers) shares (deposits) with the NCUA-administered NCUSIF or with "such other insurers as may be jointly approved by the Secretary of Financial and Professional Regulation and the Director of Insurance." Ohio-based cooperatively-organized American Share Insurance (ASI) has been authorized to provide Illinois chartered credit unions with deposit insurance. ASI's primary deposit insurance is available to state chartered credit unions located in nine states (AL, CA, ID, IL, IN, MD, NV, OH, and TX).

In addition to the 331 federally insured credit unions previously addressed in this report, 23 more Illinois-based credit unions have been authorized to insure their customers' deposits through private insurer ASI. The total combined number of credit unions in Illinois on December 31, 2012 was 354. At the consumer level the ASI and NCUSIF deposit insurance are comparable. However, at ASI credit unions consumer members' accounts are not insured or guaranteed by any government or government-sponsored agency.

As of December 31, 2012 the 23 ASI insured Illinois credit unions ranged in size from just $69,875 to over $728 million in assets. Combined the 23 ASI insured credit unions had $2,868,163,899 in assets at year-end 2012. That over $2.8 billion in assets when added to the over $34 billion in assets held by federally insured Illinois credit unions made the 2012 combined total approximately $37 billion. The two largest ASI insured Illinois-based credit unions, Credit Union 1 and Abbott Laboratories Employees Credit Union, exceeded $500 million in assets each and join the eleven federally insured credit unions on the list of large Illinois credit unions.

According to its website Credit Union 1 had 22 branches located in Illinois, Indiana, and Nevada. On its website it reported having over 87,000 members. The website directed interested consumers to contact the credit union to learn if they were eligible to join. It provided no explanation of its field of membership except to state that becoming a member of Credit Union 1 is easy. The Abbott Laboratories Employees Credit Union reported on its website that it had seven service centers (branches) in the Lake County, IL area. Although the number of members was not listed, eligibility to join was described as current employees or retirees from Abbott, AbbVie, or Hospira. Family members of these eligible members could also join.

23 Illinois State Chartered Credit Unions Insured by ASI: Overview

CU Name	CU Headquarters Location	$ Assets
Credit Union 1	Rantoul	$728,878,238
Abbott Laboratories Employees Credit Union	Gurnee	$636,388,226
Abri Credit Union	Romeoville	$303,660,727
Dupage Credit Union	Naperville	$277,270,076
Earthmover Credit Union	Oswego	$224,550,559
Kane County Teachers Credit Union	Elgin	$174,744,267
MembersAlliance Credit Union	Rockford	$150,753,364
Staley Credit Union	Decatur	$115,526,413
Commonwealth Credit Union	Bourbonnais	$67,621,981
Utility Employees Credit Union	Decatur	$38,497,755
Peoples Energy Credit Union	Chicago	$35,986,747
Blackhawk Area Credit Union	Savanna	$32,358,116
Bensenville Community Credit Union	Bensenville	$18,596,016
Chicago Post Office Employees Credit Union	Chicago	$16,505,771
Danville Bell Credit Union	Danville	$11,891,220
Valley Bell Credit Union	Elgin	$11,859,377
CSX Chicago Terminal Credit Union	Calumet City	$6,626,931
Little Company of Mary Employees Credit Union	Evergreen Park	$5,005,431
Effingham Highway Credit Union	Effingham	$4,976,142
D'puc Credit Union	Chicago	$3,947,812
Champaign Postal Credit Union	Champaign	$2,222,955
Services Credit Union	Naperville	$225,900
Good Shepard Credit Union	Chicago	$68,875
	23 CUs	**$2,868,163,899**

Large Illinois Credit Unions Insured by ASI

CU Name (Location)	$ Assets	$ Loans	$ Total Shares & Deposits	# Branches
Credit Union 1 **Rantoul www.creditunion1.org**	$728,878,238	$380,028,085	$667,566,486	22
Abbott Laboratories Employees Credit Union **Gurnee www.alecu.org**	$636,388,226	$282,163,684,	$572,178,582	7

2012 Net Income & Estimated Tax

CU Name	$ Assets	$ Net Income (Loss)	35% Rate Estimated 2012 Income Tax $
Credit Union 1	$728,878,238	$654,775	$229,175
Abbott Laboratories Emp. Credit Union	$636,388,226	$4,587,241	$1,605,534

Source: Illinois Department of Financial and Professional Regulation and American Share Insurance as of December 31, 2012

Credit Union 1 would have an estimated 2012 tax cost of $229,175 based upon its relatively low net income for the year. Abbott Laboratories Employees Credit Union had a higher-earning year and would have an estimated tax exposure of over $1.6 million. In theory the other 21 ASI insured state chartered credit unions would also have an estimated 2012 tax obligation, but that potential tax was not calculated for this report.

The loan portfolio distribution and the savings type distribution for the two largest ASI credit unions were similar to those for federally insured credit unions. For example, real estate-backed lending played a major role in both credit unions with new and used vehicle loans coming in a strong second place. In its 2012 year-end statement of financial condition Credit Union 1 reported $432,800 in business loans and Abbott Laboratories Employees Credit Union reported $0 in business lending. Both credit unions offered a wide range of financial services and products. A four-page statement of financial condition for each ASI insured Illinois-based credit union can be obtained on the ASI website by using a search application www.americanshare.com/Public/default.aspx?pid=118.

Credit Unions' Public Purpose, and the Community Reinvestment Act

From a regulatory point of view a credit union and a community bank have become almost indistinguishable in recent years. A number of factors are all converging into an environment where all federally insured financial institutions will ultimately follow the same regulatory rules and operational expectations. These factors include:

- the *Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010* mandates,
- the Consumer Financial Protection Bureau's (CFPB) aggressive rulemaking, supervision, and enforcement actions designed to control the consumer financial services marketplace,
- the federal regulatory agencies' coordinated risk-mitigation actions,
- the exponentially competitive financial services marketplace,
- the protracted underperformance of the economy and subsequent margin compression, and
- the increased complexity of the credit union industry

However, differences still remain. When Congress enacted the Community Reinvestment Act (CRA) in 1977, credit unions were excluded although all other federally insured depositories were required to comply with the law's provisions. Credit union lobbyists successfully advocated that they were not part of the problem that the CRA was designed to address. In something of a Catch 22 since credit unions are not required to comply with CRA, there exist no verifiable data that demonstrate that credit unions comply in spirit with CRA. Despite the low-income designation held by many credit unions, the industry's commitment to serving the underserved is unverified while each bank's CRA activities are well documented. Credit union critics that include consumer activist and economic justice groups in addition to community bankers are demanding that credit unions prove their adherence to a public purpose.

Critics like the ABA continue to link credit union's public purpose with the tax exemption and restrictions on bank-like behaviors. On May 16, 2012 the ABA advised a Congressional Committee scrutinizing tax exemptions that, "Many of today's credit unions are a far cry from the small, traditional credit unions that served distinct groups of 'people of small means' which Congress sought to assist when it provided tax subsidies to credit unions in the 1930s. There are now 183 credit unions that have more than $1 billion in assets each; these credit unions hold 48.6 percent of all credit union assets but represent only 2.5 percent of the total number of credit unions. These 183 large credit unions are larger than 91 percent of all banks, and nearly indistinguishable from taxpaying community banks. Indeed, these credit unions compete for the same loans as their community bank counterparts, but credit unions pay no taxes. Credit unions were not intended to be simply tax exempt banks. As Congress examines the affordability of tax expenditures in the face of rising debt levels, it should target the credit union tax expenditure. The need for the credit union tax exemption has all but disappeared." In addition to arguing for the elimination of the credit union tax exemption the ABA recommended that credit unions should be required to demonstrate service to people of modest means and that federal credit unions should be required to fill out annual Internal Revenue Service Form 990s that disclose compensation of senior officials.

Pressing the case for "modest means" the ABA statement said, "Moreover, credit unions' own surveys [CUNA Member Survey 2002] suggest that their image of serving moderate and lower income people is no longer valid. The typical credit union member has higher than average income, more years of education and is more likely to own a home than non-credit union members. Thus, the credit union tax expenditure is subsidizing financial services to individuals who do not need it and who otherwise have access to basic banking services. Basic transparency would surely shine light on this discrepancy. More concrete demonstration of serving people of modest means is needed. This was what the GAO [U.S. Government Accountability Office] recommended in two studies, one in 2003 and the other in 2006, suggesting that NCUA develop more tangible indicators to determine whether credit unions have provided greater access to services in underserved areas or fulfilled their tax-exempt mission. The recommendations have not yet been fully implemented…With the privilege of federal income tax exemption and a mandated mission of serving persons of modest means or those with moderate and lower incomes, credit unions must be more transparent with those definitions and their application. The current amorphous definition leaves credit union members, taxpayers and tax policy decision-makers without clear and fundamental information to understand how credit unions meet their congressionally-defined mission."

Evolution of Illinois Credit Unions to Continue

As the Illinois credit union industry historic growth trends data clearly foretells, credit unions in the state will inevitably grow larger and fewer in number. Continued earnings and margin pressures on the smallest credit unions under $10 million in assets will force them to merge or liquidate. Credit unions in the size range of $10 to $100 million face a problematic future that challenges the traditional credit union business model that relies on retained earnings for net worth growth. Many of them will choose voluntarily to merge as well. $100 million in assets and greater appears to represent the minimum level of longer-term sustainability and some analysts would set that minimum size at a significantly higher level. The eleven largest federally insured and two largest ASI insured multi-branch Illinois credit unions represent most of the asset growth and net income generation in the state. They will absorb many of the smaller credit unions, continue to dominate the industry, and garner significant market share. These full-service, multi-branch large credit unions will grow even more bank-like in the eyes of the general public and policymakers.

There is nothing inherently wrong with a financial institution that is indistinguishable from a community bank. Most community banks are well respected by their customers and by the communities that they serve. Nearly any business would aspire to that position. The evolutionary dilemma for Illinois' credit unions resides in the public policy implications and potential costs from abandoning the more traditional approach and the now-outdated "little guy" image. An additional uncertainty is whether the increasingly open-membership multi-county credit union presence ultimately succeeds in the Illinois marketplace by providing scope and scale. How quickly the crushing regulatory burden and myopic economy drive smaller credit unions and other providers out of the financial services business will also catalyze significant change.

Community bankers and other credit union competitors are certain to assertively weigh in concerning the potential future evolution of Illinois' bank-like credit unions. Bankers contend that over the years Illinois' credit unions have aggressively pursued advantages in both the marketplace and legislative bodies to improve their competitive position with banks. Today, other than business organization and corporate compliance, it is often hard to differentiate between the activity of credit unions and the activity of banks. Bankers assert that credit unions are designed to remain in the consumer space serving individuals of modest means and are not designed to be large scale commercial lenders under their current tax status. They also say that credit unions are not acting like tax exempt organizations, but instead are acting like banks. The pressures to radically alter public policy are certain to escalate.

External factors are also blurring the distinctions between the larger credit unions and community banks. The *Dodd-Frank Act* and especially the CFPB establish a financial product/service-focused rulemaking and regulatory supervision approach. That consumer-experience emphasis largely replaces the historic silo-like organizational structure supervision that credit unions have experienced during most of their evolution. The CFPB focuses on the consumer-friendliness of the products and the fairness of the broader marketplace, not what type of business charter or governance structure the financial service provider might claim. That represents a significant and potentially disrupting change to the traditional credit union business model based upon a unique charter. The vast majority of credit union industry analysts predict that there will be no going back to the past, especially for the largest credit unions. All of these trends lead inevitably toward a credit union operating environment in which the large multi-branch, full-service Illinois credit unions are indistinguishable from commercial banks.