INDIANA BANKERS™ ASSOCIATION

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Banks Sell to Credit Unions, at Taxpayer Expense

As of July 2, a credit union in Newburgh, Indiana, announced an agreement to purchase The Elberfeld State Bank, marking the fourth such transaction in Indiana in 2020.

Indiana is part of a concerning trend. In addition to The Elberfeld State Bank, other year 2020 bank sales are:

- Commerce Bank, Evansville, sold to Indiana Members Credit Union, transaction finalized on Jan. 21;
- West End Bank, Richmond, sold to 3Rivers Federal Credit Union, transaction finalized on June 1;
- Community State Bank of Southwestern Indiana, Poseyville, to sell to Crane Credit Union later this year.

To put this activity into perspective, so far this year there have been exactly seven bank sales announced in Indiana, and four of those are to credit unions. This means that Indiana banks are selling more often to credit unions than to other banks.

Nationwide, more than 40 credit union acquisitions of community banks have occurred within the last decade. The first in the nation took place in northwest Indiana in 2011. Apparently this is a growing movement, and Indiana is not immune.

In our world of mergers and acquisitions, does the sale of banks to credit unions even matter? The answer is yes, and the reason is taxation. Credit unions are exempt from paying federal taxes, while banks pay their fair share.

As background, credit unions were created in 1934 to make credit available to "people of modest means," generally united by a common bond of occupation or location. Due to this nonprofit mission, credit unions were exempted from federal taxes.

But credit unions have changed dramatically in the last 80+ years, straying far from their original mandate. These days credit union clientele often are affluent, and the field-of-membership requirements have been stretched beyond recognition. For example, Evansville Teachers Federal Credit Union actually boasts on its website: "Not a teacher? Not a problem!"

The credit union industry claims to be consumer-focused, yet credit unions are not subject to the Community Reinvestment Act requirements that banks are. Credit unions also have been vastly underrepresented among lenders in helping small businesses apply for Paycheck Protection Program loans, which help keep businesses afloat throughout the pandemic to prevent layoffs and save jobs.

According to Small Business Administration statistics through June 30, banks under $1 billion originated more than $85 billion of PPP loans, while credit unions under $1 billion originated barely over $3 billion of PPP loans. That's an astounding difference.

We need federal taxation reform of credit unions. Because credit unions have the benefit of federal tax exemption, they often can offer the highest bid when a community bank is in the process of selling, and bank directors feel obligated to accept the highest bid for their shareholders.

In the end, these sales hurt communities. When a taxpaying bank is sold to a non-taxpaying credit union, the community loses valuable tax dollars for essential services and projects. Then, to avoid lower tax revenues in the future, taxes are raised on the remaining taxpayers.

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It's time for the General Assembly to step forward with solutions to an issue that removes money from a much-needed tax base, which provides funding for education, public safety, roads, transportation and more. What taxpayers need is for taxpaying banks to remain in operation as banks, not to be bought out by tax-exempt credit unions.

Respectfully submitted,

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