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The Problem With Credit Unions Acquiring Banks

A recent opinion piece, "Credit where it's due: Banks can keep community ties through acquisition," authored by John McKenzie of the Indiana Credit Union League, focuses on the growing trend of tax-exempt credit unions acquiring taxpaying banks. The author claims that these sales do not hurt the areas affected. The Indiana Bankers Association (IBA) takes exception to this stance.

Not only is there negative financial impact every time a taxpaying institution is put out of business, but communities lose out on their strongest supporters. The community service performed by banks far outweighs credit union outreach, and a prime example is the Paycheck Protection Program (PPP) loan program, created by the Small Business Administration to help small businesses survive the COVID-19 pandemic.

Ironically, Mr. McKenzie references the PPP loan program in his op-ed, but overlooks the fact that credit unions were just the tip of the iceberg in helping to process PPP loans. According to the SBA's most recent data on this subject, dated Aug. 8, nationwide banks under $1 billion originated nearly $85 billion of all PPP loans, while credit unions of the same size originated barely over $3 billion.

That's an astounding difference. Certainly the task was not easy, and there have been multiple accounts of bankers staying up literally through the night to process PPP loans before the funds ran out. In the end, Indiana banks helped process more than $9.5 billion of PPP loans to help support Hoosier small businesses and preserve jobs.

Banks also serve the credit needs of their communities, particularly low- to moderate-income neighborhoods, through compliance with the Community Reinvestment Act. All banks are required to comply with the CRA, but there is no equivalent for the credit union industry. Credit unions are exempt from CRA compliance, just as they are exempt from paying federal taxes.

Banks further serve their communities in other capacities, from funding of events and projects, to pitching in to build accessibility ramps, pick up trash, coach students, serve food at shelters and more. The IBA has compiled a report on 25 Commitment to Community banks, providing a snapshot of some of the service performed by the Indiana banking community last year.

In 2020, Indiana banks were quick to respond to the crisis of the COVID-19 shutdown. The Banks Helping Hoosiers cover story of the May/June *Hoosier Banker,* IBA's bimonthly magazine, touches on some of the service performed, including mask distribution, food delivery, webcam donations and other means of supporting vulnerable individuals, organizations and businesses.

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The full story is that credit unions were created decades ago to serve people of small means, united by a common bond, yet it is banks that are stepping forward to serve communities through PPP loans, CRA compliance and other assistance. Meantime, credit unions have grown to a $1.75 trillion industry, per National Credit Union Administration Industry at a Glance statistics, and have been known to pay exorbitant salaries, build luxury headquarters and pay for expensive naming rights to sports stadiums.

Additionally, there are serious tax implications to losing taxpaying banks. The IBA has compiled data on three of the recently announced credit union acquisitions of banks in Indiana and, by a conservative estimate, the acquired banks paid a total of $4.9 million of federal taxes during the five-year reporting period leading up to acquisition. This is a revenue stream gone forever once the sales are completed.

So far this year, seven banks in Indiana have been sold. Four of those acquisitions went to credit unions, whose tax exemption makes it easier to offer the highest bid. Clearly, something is wrong when more than half of Indiana's taxpaying banks are lost to the credit union industry. It's wrong from a tax perspective, and it's wrong for the sake of the communities that banks serve.

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