ICBA Guide to Meeting with Credit Unions during NAFCU's Virtual Congressional Caucus

As tax-exempt credit union representatives meet with members of Congress during the National Association of Federally-Insured Credit Unions' Virtual Congressional Caucus, below are some questions you may wish to raise during your visit.

Issue: Spike in Credit Union Acquisitions of Banks

In recent years, there has been a spike in tax-exempt credit union acquisitions of taxpaying banks, effectively "weaponizing" the credit union tax exemption and remaking the financial services landscape. While these acquisitions were uncommon just a few years ago, there were nine deals in 2018, surging to 21 in 2019, and continuing this year, fueled by a generous tax subsidy and enabled by a permissive regulator.[1] Bank acquisitions of credit unions, on the other hand, are almost unheard of due to regulatory hurdles imposed by the National Credit Union Administration.

Question for Credit Union Attendees:

- In your view, is the recent spike in credit union purchases of banks likely to continue or even strengthen in the coming years?
- Are these truly free-market transactions? A credit union is tax-exempt; a bank is taxed. Doesn't that give you an advantage?
- Do you think these transactions are true to your mission or the purpose of your tax exemption?
- Do you plan to use your tax exemption to target and acquire a taxpaying community bank?

Issue: The Credit Union Mission to Serve "People of Modest Means"

Credit unions were created and granted a substantial tax exemption to serve "people of modest means" by providing credit for "provident purposes." However, fewer than 10 percent of credit unions are located in an economically distressed area, and only 13 percent are in low- and moderate-income (LMI) areas.

Question for Credit Union Attendees:

- Is your credit union located in a low- or moderate-income area? Can you tell me what percentage of your customer base is LMI?
- Does NCUA assess how many LMI customers are served by credit unions, as GAO has recommended? Should it?

[1] See WSJ article, "Credit Unions go on Bank Buying Spree," Sept 2019

Issue: PenFed's Partnership with Goldman Sachs

Pentagon Federal Credit Union is partnering with Goldman Sachs to finance luxury mixed-use developments in Washington, D.C., with an $847 million loan to develop Phase II of the Wharf.

Question for Credit Union Attendees:

- Is it appropriate for a tax-exempt credit union to participate with investment firms like Goldman Sachs to finance multi-million-dollar properties?
- How is PenFed's participation in this project serving people of modest means?
- How does this project serve PenFed's Field of Membership?

Issue: Proposed Use of Subordinated Debt to Fuel Hyper Growth

The National Credit Union Administration recently proposed allowing the largest and most complex tax-exempt credit unions to issue subordinated debt as an alternative form of capital. Credit unions have always been funded by member deposits and retained earnings. Subordinated debt is outside capital from investors that will change their cooperative nature, which is fundamental to their tax exemption. What's more, credit union growth in both deposits and assets is already more rapid than bank growth.

Question for Credit Union Attendees:

- Why is subordinated debt needed now to supercharge yet more growth?
- If the NCUA approves this rule, will you issue subordinated debt? If so, for what purpose?
- Would it be appropriate for a credit union to use subordinated debt to purchase a bank?
- Would issuing subordinated debt to wealthy individuals or institutions threaten the cooperative or mutually owned model of credit unions?
- Should outside investor firms be able to use the credit union tax exemption to earn outsized returns?

Issue: Credit Union Service Organizations and Third-Party Oversight

The NCUA's Office of Inspector General said the NCUA needs authority over credit union service organizations and third-party vendors to identify and reduce the significant risks they could pose to credit unions. The Financial Stability Oversight Council, Government Accountability Office, and NCUA Board Chairman Rodney Hood have also recommended this authority be granted to NCUA.

Question for Credit Union Attendees:

- Why shouldn't NCUA have the same authority to oversee third parties as other agencies?
- Do these vendor relationships pose potential risks to credit unions?
- Is the potential for vendor systemic risk significant given the interconnectedness of the credit union industry and credit unions' common use of vendors?