



May 28, 2015

The Honorable (Danny Davis, Robert Dold, Peter Roskam)
United States House of Representatives
Washington, D.C. 20515

Dear Congressman (Davis, Dold, Roakam):

The Community Bankers Association of Illinois (CBAI), which proudly represents approximately 380 Illinois community banks, appreciates the House Ways and Means Committee's thoughtful and deliberative approach to the reform of the nation's federal tax code. **In reforming the tax code CBAI strongly urges an end to discrimination against Illinois community banks from the unwarranted and harmful tax subsidies given to credit unions and the Farm Credit System.**

Credit Unions

Credit unions are now indistinguishable from community banks and have grown to control a significant share of the banking services market. Their original business model, approved by Congress in 1934, is outdated as credit unions have long since strayed from their founding purpose of serving individuals of modest means and with a common bond. Credit unions now provide the same financial services as community banks, and their federal tax-exempt status, in exchange for serving their original mission, is clearly no longer justified. Credit union tax subsidies should be eliminated, and credit unions should pay their fair share.

Total credit union assets now exceed \$1 trillion, and the number of billion dollar credit unions has grown from 8 in 1991 to 229. These billion dollar credit unions are larger than 89%

The Community Bankers Association of Illinois (CBAI) is dedicated to exclusively representing the interests of Illinois' community banks (and many Illinois thrifts) through effective advocacy, outstanding education and high quality products and services. CBAI's 380 members hold over \$72 billion in assets, operate in 860 locations statewide and lend to consumers, small businesses and the agricultural community. For more information please visit www.cbai.com

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of all banks in the country. These large credit unions do not adhere to any logical definition of common bond or operate within a well-defined local community, neighborhood or rural district. In fact, many credit unions now advertise that virtually anyone can join.

Credit unions were originally granted tax-exempt status because of their similarity to other types of mutually owned financial institutions, notably savings banks and savings and loans. Yet the tax exemption for SBs and S&Ls was repealed by Congress in 1951, because they were in “active competition” with taxable institutions [community banks]. The most recent Office of Management and Budget tax expenditure analysis estimated that the tax exemption for credit unions represents [desperately needed] federal tax revenues of \$9.46 billion over fiscal years 2014-2018.

Credit unions are even seeking to expand their commercial lending powers by increasing the percentage of assets cap on member business lending. If authorized, any growth in their lending activity will likely come at the expense of tax-paying community banks. In addition, credit unions are seeking to raise capital from outside investors, thereby discarding their longstanding reliance on retained earnings. This change would fundamentally alter the exclusive member-focused character of credit unions – a condition of their original tax exemption. Credit unions should not be granted these or any additional powers as long as they remain exempt from taxation.

Given the current budget deficits and the ever-growing federal debt, together with survey results proving that community banks do a better job of serving the very customers credit unions were originally intended to serve, now is the time for Congress to end the credit unions’ tax subsidy and level the playing field between credit unions and tax-paying community banks.

Farm Credit System

The Farm Credit System (FCS or System) was established when Congress enacted the Federal Farm Credit Loan Act of 1916, and its current authority is granted by the Farm Credit Act of 1971. The narrow founding purpose of the System was to serve *bona fide* farmers, ranchers, young-beginning farmers, small farmers, and their farmer-owned cooperatives. With the support and cooperation of its “cheerleader” regulator, the Farm Credit Administration (FCA), the FCS has become almost the equivalent of commercial bank, has strayed well beyond its original mission and scope, and is increasingly engaged in inappropriate and unprecedented lending activity - all while retaining the benefits of their Government Sponsored Enterprise (GSE) status.

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Today, the FCS is a \$282 billion financial institution, roughly equivalent to the country's 13th largest bank, with significant systemic and taxpayer bail-out risks. The FCS has grown rapidly, doubling their loan volume in the past decade; and, with over \$4.7 billion dollars in profits in 2014, the FCS paid only \$220 million in taxes - which is an effective tax rate of only 4.5%.

The FCS is also the only GSE that directly competes with community banks. Fannie Mae, Freddie Mac, and the Federal Home Loan Bank System all work cooperatively with community banks. It is the epitome of unfair competition when the public sector (a multi-billion dollar GSE) uses its funding advantage and tax exemption to compete directly with the private sector (Main Street community banks).

The System's funding and tax benefits harm Illinois' community banks. CBAI calls on the FCS to follow its narrow historical mission. If it chooses not to follow this narrow mission, the System should be abolished. In the unfortunate event the System is not abolished, CBAI believes they should pay taxes, particularly when exceeding a given asset threshold, lending to large borrowers, or engaging in non-farm lending activity, and they should be subject to rigorous oversight and regulation.

CBAI encourages the House Ways and Means Committee to hold committee hearings to review the tax subsidies granted to credit unions and the Farm Credit System. An end to these highly discriminatory federal tax subsidies will help level the playing field between credit unions, the FCS and tax-paying Illinois community banks.

Thank you for your continued consideration of this important matter.

Sincerely,

/s/

David G. Schroeder
Vice President Federal Governmental Relations

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