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June 26, 2013

The Honorable Max Baucus Chairman Committee on Finance United States Senate Washington, DC 20510

The Honorable Orrin Hatch Ranking Member Committee on Finance United States Senate Washington, DC 20510 The Honorable Dave Camp Chairman Committee on Ways and Means United States House of Representatives Washington, DC 20515

The Honorable Sander Levin Ranking Member Committee on Ways and Means United States House of Representatives Washington, DC 20515

Dear Chairman Baucus, Ranking Member Hatch, Chairman Camp and Ranking Member Levin,

On behalf of the Credit Union National Association (CUNA), I am writing in response to a letter you received from the Independent Community Bankers of America (ICBA) dated June 20, 2013 regarding the tax status of America's credit unions. CUNA is the largest credit union advocacy organization in the United States, representing America's 7,000 state and federally chartered credit unions and their 96 million members.

As Congress considers comprehensive tax reform, it is important to review elements of that tax code to ensure that expenditures continue to fulfill the purpose for which they were created and remain relevant in today's environment. We appreciate the opportunity you have given credit unions to be a part of the tax reform discussions, and we trust you agree that credit unions not only fulfill the purpose for which they were created but also that they remain as relevant and important today as they did when they were first established more than 100 years ago.

Because of their not-for-profit, cooperative structure, credit unions provide financial benefits to consumers far in excess of the lost tax revenue; credit unions are a counter-cyclical aid to the economy during recessions; and credit unions impose a much lower risk to the tax payer during financial crises. Furthermore, in the aftermath of the banking crisis, consumers have been choosing credit unions as their best financial partner in record numbers. The continued growth in credit union membership is but one piece of evidence that credit unions are not only fulfilling their mission, but that they are one of the best investments that the government makes in its citizenry.

The arguments for and against the credit union tax status have not changed significantly since the status was first conveyed to credit unions in 1917. For-profit banks have always opposed the credit union tax status; this is unlikely to change. Unfortunately, the ICBA, having no new arguments to support their position, appears to have decided to concoct a set of "facts" to support their position.



The ICBA would have you believe that the credit union tax status is "costly and

controversial." It is neither. The Joint Committee on Taxation's most recent estimate of the credit union "tax expenditure" is \$0.5 billion in both 2012 and 2013, and an average annual cost of \$0.8 billion over the five years from 2013 through 2017. To put this in some perspective, credit union taxation would fund the government for approximately one hour and fifteen minutes per year. The benefits that credit unions provide to both members and others far exceed those totals, amounting to an estimated \$8 billion in just 2012. The tax exemption is leveraged because credit unions do not pay dividends to stockholders, generally do not compensate their directors, and do not compensate senior executives as highly as banks do when stock options and grants are taken into consideration. It is clear that the benefits credit unions provide to Americans exceed the cost to the government.

Further, we strongly dispute the notion that the tax status is by any means controversial. Congress has reaffirmed the credit union tax status on several occasions, most recently in 1998. A review of the credit union tax status in 2005 yielded no legislative proposals for change. Other than the banking trade associations' tired efforts, there is absolutely no evidence to suggest that the credit union tax status is controversial. What is controversial, however, is the bankers' suggestion that credit unions ought to be taxed, which would in effect raise taxes on 96 million Americans.

The ICBA letter deliberately misrepresents the purpose for which credit unions were established and granted the tax status. The ICBA claims that, "Credit unions were granted a special tax exemption because they were originally chartered to serve people of modest means and with a common bond among them who otherwise would not have access to credit." This is simply incorrect.

The credit union tax status has its origins in the credit unions' cooperative structure. Credit unions were first made tax exempt in 1917 through a ruling by the United States Attorney General. The ruling noted that, "On examination of the purpose and object of such association, it appears that they are substantively identical with domestic building and loan associations or cooperative banks 'organized and operated for mutual purpose and without profit' [quoting from the 1916 statute]. It is to be presumed that the Congress intended that the general terms used in Section 11 should be construed as not to lead to injustice, oppression, or an absurd consequence." This served as the basis for the exemption of state chartered credit unions from federal income tax until 1951, when mutual savings banks lost their tax exemption because they were deemed to have lost their mutuality but credit unions retained their tax exemption because, as is the case today, they hold firm to their mutuality and cooperative principles. Federally chartered credit unions were made exempt from federal income tax in 1937.

Furthermore, to suggest that credit unions were originally chartered to serve people of modest means reveals a level of unfamiliarity of the origin of the use of the term 'modest means' in the Federal Credit Union Act that frankly surprises us given the role the major banking trades played in getting the term included in the Act. When it was enacted in 1934, the Federal Credit Union Act included the statement:

"An Act to establish a Federal Credit Union System, to establish a further market for securities of the United States and to make more available to people of small means credit for provident purposes through a national system of cooperative credit, thereby helping to stabilize the credit structure of the United States."

As the ICBA surely knows, the term 'modest means' appeared in the Federal Credit Union Act for the first time through amendments made by the Credit Union Membership Access Act, which was enacted in 1998. Specifically, the language says:

Credit unions, unlike many other participants in the financial services market, are exempt from Federal and most State taxes because they are member-owned, democratically operated, not-for-profit organizations generally managed by volunteer boards of directors and because they have a specified mission of meeting the credit and savings needs of consumers, especially persons of modest means.¹

Any fair reading of this passage suggests that Congress did not intend to limit credit union service only to those of modest means; rather, Congress provided that credit unions have an important role to play in helping to meet the financial needs of those of modest means, along with other credit union members. This perspective is strongly supported by a significant legislative history demonstrating that when Congress established credit unions to serve "people of small means" they were referring to wage earners and farmers.

- In his statement accompanying the introduction of S. 1639, the bill that became the original Federal Credit Union Act, Senator Morris Sheppard explicitly declared, "This bill is offered as a substantial contribution to a better banking system for average city workers and farmers."
- The House report accompanying the bill observed, "At a time when industrial recovery depends on the buying power of the masses of the people, usurious money lending in total amounts which are now figured in billions of dollars annually, obviously destroys vast totals of buying power represented by the difference between what the average worker should pay for credit and what he does pay for credit... Credit unions are a socially desirable means of self-help among groups of wageworkers or farmers..."
- In 1959, during the House debate on amendments to the Federal Credit Union Act, Representative Wright Patman said, "When you help folks in the credit unions, you are helping those among the finest people in America. Most of these people are wage earners, not wealthy people."
- In 1970, Senator Charles Percy noted, "The large financiers, the 'big money,' and the corporations are not those who frequent credit unions. It is, instead, the man on salary with limited income and heavy family obligations, who places his savings and his trust in credit unions."
- That same year, Representative Fernand St Germain said, "My understanding of the credit union movement is that it was established by wage earners. The deposits are from wage earners primarily. And I think it is splendid that the credit unions have gone into these additional areas and helped people stricken by poverty, both the young and the old."

The bankers continue to try to put credit unions into a box that Congress has never intended to exist. The fact of the matter is that Congress intended for credit unions to serve the vast majority of Americans, and there is ample evidence to suggest that credit unions are doing just that.

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¹ 14 USC 12 § 1751.

The ICBA notes that, "credit unions are virtually indistinguishable from tax-paying community banks." We are not certain the shareholders of America's banks would agree with that statement. For the bankers' statement to be true, then the banks would not pay dividends to their shareholders, provide compensation to their board members, or give their executives stock options and other perks. Instead, they would return the earnings of the bank to their customers in the former of higher returns on deposits, lower rates on loans and lower fees, just as credit unions do. We have confidence that the differences that distinguish credit unions and for-profit banks are so significant that few boards of directors would change places with their credit union counterparts because so few have ever done so. Structure matters.

The ICBA complains that credit unions "have effectively no restrictions on membership and offer many of the same products and services as taxpaying banks." Every credit union in the United States is subject to some form of field of membership regulated by the National Credit Union Administration or a state regulatory authority. The laws vary by jurisdiction and have been subject to considerable judicial challenge. It is well established that, in contrast to the banking sector, consumers are not eligible to join every credit union; however, we are confident that there is a credit union for every American. This is consistent with the mission established by Congress.

With respect to the products and services credit unions offer, we note that the banking sector has evolved considerably since the Great Depression; today, banks offer many products and services that they were not able to offer back then. Likewise, credit unions have evolved over time to meet the financial services needs of their members, while staying true to the mission of promoting thrift and providing access to credit for provident purposes. The perpetual evolution of credit union business authorities is essential to credit unions remaining able to fulfill the demands of their members.

The ICBA expresses concern with size of some of the larger credit unions, noting that "many credit unions are multi-billion dollar institutions with aggressive promotional campaigns." There are two primary drivers to the increase in size of credit unions in recent years: consolidation and success.

Credit unions, like banking institutions, have experienced significant consolidation over the past several decades. In 1992 there were 13,378 credit unions and 13,973 banking institutions in the U.S. By 2012, those numbers had declined by about half - to 7,070 credit unions and 7,083 banking institutions. Most of the decline in both industries occurred as smaller entities merged operations into larger institutions in an effort to achieve greater scale economies, improve service offerings and expand geographic footprints. However, over the past decade, 21% of the decline in the number of banking institutions can be traced to bank failures. In contrast, among credit unions – which tend to be much more conservatively managed than banking institutions – only about 8% of the decline resulted from involuntary liquidation or assisted merger.

Despite significant consolidation, credit unions remain relatively small, locally-controlled institutions. The typical credit union reports \$21 million in total assets and is about eight times smaller than the typical banking institution (which reports \$168 million in total assets). The average credit union size (adding up total assets and dividing by the number of institutions) is \$150 million, while the average bank asset size is \$2.0 billion. Overall roughly 45% of credit unions are operated by five or fewer full-time equivalent employees.

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² "Typical" is here defined as the median asset size – obtained by sorting all institutions from largest asset size to smallest asset size and identifying the midpoint asset value.

Although credit union membership and total assets have been growing, banking institutions dominate the depository market. It has taken 104 years for credit unions to grow to a total of \$1.03 trillion in assets. In contrast, U.S. banking institution assets grew by over half this much - \$559 billion - in the past year alone and the banking industry now collectively controls \$14.5 trillion in total assets. At year-end 2012, the biggest four banking institutions (J.P. Morgan Chase, Bank of America, Citibank and Wells Fargo Bank) were individually larger than the entire credit union movement. Overall, credit union assets are equal to 6.7% of depository institution assets – a market share that increased imperceptibly over the past twenty years.

It is interesting to note that while credit union market share of total depository assets has risen modestly, credit union membership as a percent of the population has increased faster (from 27.0% in 1997 to 30.6% in 2012). This suggests that credit unions do not disproportionately serve the wealthy – in fact the numbers strongly suggest the opposite to be the case.

As our colleagues in the banking sector are well aware, successful financial institutions tend to grow. For bank directors, running a successful organization often means a big payout when a larger bank acquires the institution. In the credit union sector, there are no such payouts and a successful credit union is likely to continue to grow. In some areas, the result of this success is a credit union that is the largest local financial institution. When this happens, it is a testament to the credit union's commitment to its membership and its community. The success of credit unions of all sizes should be encouraged, and they should enjoy the right to market their benefits to potential members.

The ICBA misses the point. They want Congress to hold hearings to investigate the credit union tax status and offer to provide "witnesses with direct experience of the subsidy's distortionary impact on the market for financial services." In other words, the ICBA wants to come to Congress and talk about how credit unions keep banks from making more money off of American consumers. In the context of tax reform, however, the question is not whether the existence of credit unions adversely affects banks and their shareholders, but rather whether credit unions employ the tax status to fulfill the purpose for which it was created: "to make more available to people of small means credit for provident purposes through a national system of cooperative credit, thereby helping to stabilize the credit structure of the United States."

We believe the evidence overwhelmingly suggests that credit unions are fulfilling the purpose of the tax exemption. As we have noted, the Joint Committee on Taxation's most recent estimate of the credit union "tax expenditure" is \$0.5 billion in both 2012 and 2013, and an annual average of \$0.8 billion over the five years from 2013 through 2017. The benefits that credit unions provide to both members and others far exceed those totals, amounting to an estimated \$8 billion in just 2012. Rates and fees on loans are typically lower at credit unions than at banks; returns on deposits are generally higher; and service has consistently been rated better at credit unions than at banks. Furthermore, credit unions' cooperative structure leads them to be more risk averse in terms of the operation of the credit union and that, in turn, leads to a countercyclical lending effect that permitted credit unions to continue to lend during the banking crisis when other lenders evacuated markets or were otherwise unable to lend. The attached white paper goes into greater detail with respect to the benefits consumers receive as a result of credit unions being in the marketplace.

On behalf of America's credit unions and their 96 million members, we appreciate the open process under which tax reform is being considered. We understand that because Congress has conveyed onto credit unions a tax expenditure that we need to demonstrate we are fulfilling its purpose. The evidence supports our confidence that credit unions are in fact fulfilling their

mission. We urge you to dismiss the banker arguments and reaffirm Congress's commitment to the credit union tax status. Thank you for your consideration.

Best regards,

Bill Cheney

President & CEO

Attachment



The Credit Union Tax Exemption Research and Policy Analysis May 2013

Executive Summary

The U.S. Congress is now contemplating comprehensive reform to the nation's tax code. Policy makers recently claimed to be starting this effort with a "clean slate," then subsequently identifying provisions worthy of inclusion in a new, overhauled system. That's a distinct departure from past practice wherein reform efforts examined the existing code for potential improvement including provisions that might be added or removed.

This difference in approach is important to credit unions – not-for-profit financial institutions that have enjoyed favorable tax status from the earliest days of the U.S. tax code. In short, that status clearly now is in jeopardy.

Maintaining the current credit union tax status is critically important: removal of the tax status would threaten the survival of the nation's 7,000 credit unions; it would erode the financial wellbeing of 96 million credit union members; and it would result in the loss of significant indirect benefits that accrue to society as a whole.

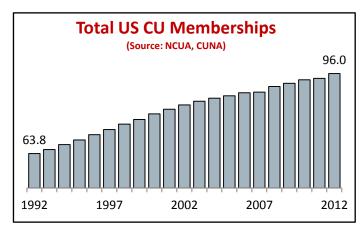
More specifically, the analysis included in this report reveals that the tax treatment conveyed on credit unions roughly 100 years ago continues to serve the purpose for which it was created and is one of the best investments that the government makes in its citizens. Credit unions provide substantial benefits to their members. And the dollar amount of the benefits greatly exceeds the loss in federal revenue that would result from taxing credit unions. This is possible because it is the cooperative structure itself that generates these benefits. Credit unions are not-for-profit institutions with no stockholders demanding a market rate of return on their investment – so earnings are passed along to member-owners not outside investors. Volunteer directors and executives that are fairly (not lavishly) compensated also are hallmarks of the cooperative structure that boosts these member benefits.

Taxing credit unions would threaten the provision of these benefits because many larger credit unions would likely convert charters and operate as banks, and many smaller credit unions would simply go out of business. Taxing credit unions thus would cost credit union members far more than the amount of additional dollars they would be paying in taxes.

U.S. Credit Union Overview

Credit unions are member-owned, democratically governed, not-for-profit cooperative financial institutions generally managed by volunteer boards of directors, with a specified mission of promoting thrift and providing access to credit for provident purposes to their members, especially those of modest means.¹

Credit unions were established at the Federal level during the Great Depression, but existed in many states as far back as 1908. Their inception was driven by a demand for access to basic financial services – loans and savings. The establishment of credit unions provided an alternative to the for-profit banking sector, controlled by members and accessible to all.



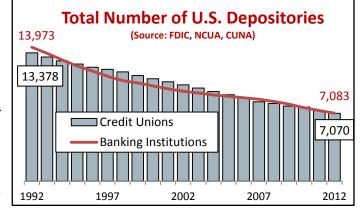
At year-end 2012 there were 7,070 credit unions in the United States – 61% federally-chartered and 39% state chartered. Credit unions control \$1.04 trillion in total assets and collectively have a total of 96 million memberships.

Credit unions, like banking institutions, have experienced significant consolidation over the past several decades. In 1992 there were 13,378 credit unions and 13,973 banking

institutions in the U.S. By 2012, those numbers had declined by about half - to 7,070 credit unions and 7,083 banking institutions.

Most of the decline in both industries occurred as smaller entities merged operations into larger institutions in an effort to achieve greater scale economies, improve service offerings and expand

geographic footprints. However, over the past decade, 21% of the decline in the number of banking institutions can be traced to bank failures. In contrast, among credit unions – which tend to be much more conservatively managed than banking institutions – only about 8% of the decline resulted from involuntary liquidation or assisted merger.



Despite significant consolidation, credit unions remain relatively small, locally-

controlled institutions. The typical credit union reports \$21 million in total assets and is about eight times smaller than the typical banking institution (which reports \$168 million in total

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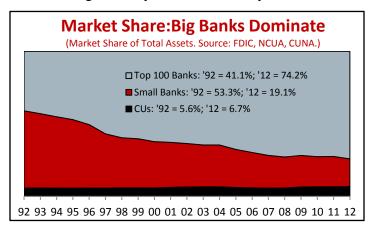
¹ 14 USC 12 § 1751. U.S. banking institutions, in contrast, are almost exclusively for-profit, stockholder-owned institutions managed by boards that are compensated.

assets).² The average credit union size (adding up total assets and dividing by the number of institutions) is \$150 million, while the average bank asset size is \$2.0 billion. Overall roughly 45% of credit unions are operated by five or fewer full-time equivalent employees.

Although credit union membership and total assets have been growing, banking institutions dominate the depository market. It has taken 104 years for credit unions to grow to a total of \$1.03 trillion in assets. In contrast, U.S. banking institution assets grew by over half this much - \$559 billion - in the past year alone and the banking industry now collectively controls \$14.5

trillion in total assets. At year-end 2012, the biggest four banking institutions (J.P. Morgan Chase, Bank of America, Citibank and Wells Fargo Bank) were individually larger than the entire credit union movement.

Overall, credit union assets are equal to 6.7% of depository institution assets – a market share that increased imperceptibly over the past twenty years.



It is interesting to note that while credit union market share of total depository assets has risen modestly, credit union memberships as a percent of the population has increased faster (from 27.0% in 1997 to 30.6% in 2012). This suggests that credit unions do not disproportionately serve the wealthy – in fact the numbers strongly suggest the opposite to be the case.

CU Tax Status Historical Overview

Congress conveyed an exemption from federal income tax to state and federally chartered credit unions because of their ownership structure and special mission. Credit unions are memberowned, democratically governed, not-for-profit cooperative financial institutions generally managed by volunteer boards of directors, with a specified mission of promoting thrift and providing access to credit for provident purposes to their members, especially those of modest means.³ Through the enactment of the <u>Federal Credit Union Act</u> and the credit union tax exemption, as well as enabling legislation in 47 states, Congress and the states have sanctioned and encouraged the development of a dual-charter credit union system comprised of financial institutions that are owned by member-depositors and accessible to all as an alternative to the investor-owned, for-profit banking system.

² "Typical" is here defined as the median asset size – obtained by sorting all institutions from largest asset size to smallest asset size and identifying the midpoint asset value.

³ 14 USC 12 § 1751.

Credit unions have been exempt from Federal taxation since the earliest days of the tax code.⁴ Credit unions' exemption from Federal income tax has been conveyed in order to support and sustain a system of cooperative financial services in the United States. The existence of this thriving set of alternative financial institutions benefits not only the members of credit unions, but also customers of for-profit banks and other institutions.

As the years have passed, the financial services sector has developed, and the entities providing financial services, including credit unions, have evolved. Some have suggested that with the evolution of expanded services offered by credit unions, they have become simply untaxed banks. That position ignores the very real differences that distinguish investor-owned and cooperative firms. The fact of the matter is that even though credit union services have evolved, their structure and mission have remained the same.

Precisely because of their cooperative structure, credit unions behave differently from investorowned financial institutions, and that difference in behavior produces substantial benefits both to nation's 96 million credit union members, but also to non-members and the economy as a whole.

Two features of the cooperative structure are crucial in generating substantial benefits to society: their total focus on member value and service, and their tendency to risk aversion. Because of credit unions' strong member focus, driven by their democratic governance structure, credit unions have every incentive to not only "pass on" but also to leverage the benefits of the tax exemption rather than diverting it in some form of expense preference. The cooperative structure also discourages excessive risk taking by credit unions. Because they take on less risk,

⁴ Credit unions were first made tax exempt in 1917 through a ruling by the United States Attorney General. The ruling noted that, "On examination of the purpose and object of such association(s?), it appears that they are substantively identical with domestic building and loan associations or cooperative banks 'organized and operated for mutual purpose and without profit' [quoting from the 1916 statute]. It is to be presumed that the Congress intended that the general terms used in Section 11 should be construed as not to lead to injustice, oppression, or an absurd consequence." This served as the basis for the exemption of state chartered credit unions from federal income tax until 1951, when mutual savings banks lost their tax exemption because they were deemed to have lost their mutuality but credit unions retained their tax exemption because, as is the case today, they hold firm to their mutuality and cooperative principles. Federally chartered credit unions were made exempt from federal income tax in 1937.

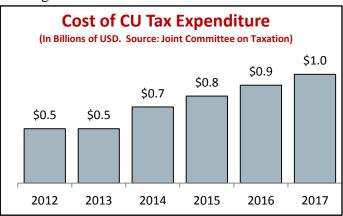
⁵ Expense preference refers to managerial behavior that places the preferences of managers (inflated salaries and benefits, perquisites, lavish offices, etc.) ahead of the otherwise recognized goals of the firm. In an investor owned firm, expense preference behavior would result in sacrificing profit (investor value) for managerial preferences. For tax-exempt credit unions, expense preference behavior would imply providing excessive managerial emoluments rather than using or leveraging the tax exemption for the benefit of members. There is NO evidence of expense preference resulting from the tax exemption: Comparing similarly sized banks and credit unions, both have expense-to-asset ratios in the range of 3 to 3.5%; the aggregate 10.4% credit union capital ratio is over four percentage points higher than the level regulators consider to be "adequate" but is no higher than the aggregate bank equity capital ratio; also, as noted elsewhere in this report, compensation comparisons between banks and credit unions show lower compensation for credit union senior executives at similar sized institutions – and substantially lower compensation when data on bank stock options, grants and similar non-cash compensation is considered.

they tend to be less affected by the business cycle, and therefore can serve as an important counter cyclical economic force in local markets, softening the blow of economic downturns in local economics. In addition, credit unions' member focus and the absence of a strong profit motive allow them to offer significant advantages to their members of modest means.

Tax Exemption Costs and Benefits

As a consequence of their member-focused, cooperative structure, credit unions confer on their members and the rest of society benefits that far exceed the amount of revenue lost to the Treasury due to the tax exemption. The Joint Committee on Taxation's most recent estimate of the credit union "tax expenditure" is \$0.5 billion in both 2012 and 2013, and an annual average of \$0.8 billion over the five years from 2013 through 2017.

The benefits that credit unions provide to both members and others far exceed those totals, amounting to an estimated \$8 billion in just 2012. The tax exemption is leveraged because credit unions do not pay dividends to stockholders, generally do not compensate their directors, and do not compensate senior executives as highly as banks do when stock options and grants are taken into consideration.

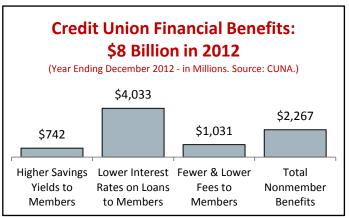


Credit unions provide benefits directly to their members in the form of lower fees, lower rates on loans, and higher yields on deposits than those available at other financial institutions.

2012 Rate and Fee Differences at CUs and Banks							
Loan Products	Average Rate at Credit Unions (%)	Average Rate at Banks (%)	CU Rate Difference vs. Banks (%)				
60-month new car (A paper)	3.44	5.00	-1.57				
48-month used car (A paper)	3.54	5.40	-1.86				
Unsecured loan (A paper)	10.19	11.52	-1.33				
5-year adjustable rate 1st mortgage, 0 pts	3.35	3.28	0.07				
15-year fixed rate 1st mortgage, 0 pts	3.35	3.18	0.18				
30-year fixed rate 1st mortgage, 0 pts	3.96	3.87	0.09				
Home equity / 2nd mtg, 80% LTV 0 pts	4.30	4.68	-0.38				
Credit card - classic	11.65	13.22	-1.57				
Credit card - gold	10.28	11.26	-0.98				
Savings Products							
Regular savings, \$1,000 balance	0.20	0.15	0.05				
Share draft checking, \$5,000 balance	0.15	0.11	0.04				
Money market accounts	0.24	0.16	0.09				
1 Year certificate \$10,000 balance	0.74	0.58	0.16				
Retirement (IRA) accounts	0.49	0.37	0.12				
Fee Income							
Share draft checking, NSF fee	\$27.20	\$29.51	-\$2.31				
Credit cards, late fee	\$24.56	\$34.18	-\$9.62				
Mortgages, closing costs	\$1,151.00	\$1,361.00	-\$210.00				
Sources: Datatrac and Informa Research Services.	Sources: Datatrac and Informa Research Services.						

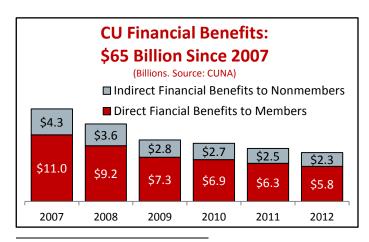
Applying rate differentials from third party sources to the volumes of various loan and deposit accounts at credit unions, and applying fee differentials to credit union non-interest income, allows calculation of the total amount that members benefit from using credit unions. In 2012, we calculate the total of member benefits to have been almost \$6 billion

In addition, several independent researchers have found that credit unions have a moderating influence on bank pricing: raising bank deposit interest rates and lowering bank loan rates. Based on this research, we estimate that bank customers saved about \$2 billion in 2012 from more favorable pricing due to the presence of credit unions in their local markets.



Compared to historical measures of these

consumer benefits, the total of \$8 billion in 2012 was relatively subdued because of the unusually low level of most interest rates during the year. When all interest rates are compressed near zero, there is less room for typical differences between credit union and other rates. Prior to the financial crisis, the combined member and non-member benefits totaled more than \$12 billion annually, and these levels are likely to be achieved again in the future once interest rates rise.



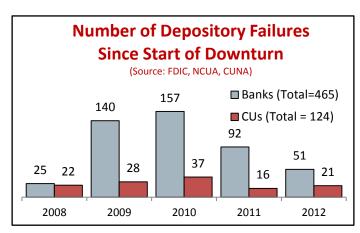
Appendix IA contains a detailed state-bystate listing of estimated total financial benefits credit unions delivered to their members in 2012. Appendix IB contains long-run total benefits and a breakdown of 2012 benefits by source.

In addition to these quantifiable benefits, credit unions also provide consumers of financial services significant intangible benefits. As member-owned and

⁶ Robert J Tokle, *The Influence of Credit Unions on Bank CD Rate Payments in the US*, New York Economic Review, Fall 2005. Timothy H. Hannan, *The Influence of Credit Unions on the Rates Offered for Retail Deposits by Banks and Thrift Institutions*, Federal Reserve Board of Governors, September 2002. Robert M. Feinberg, *The Competitive Role of Credit Unions in Small Local Financial Services Markets*, Review of Economics and Statistics, August 2001. Robert M. Feinberg, *The Effects of Credit Unions on Bank Rates in Local Consumer Lending Markets*, Filene Research Institute, 2001.

governed institutions, credit unions focus on providing exceptional member (customer) service. This too places competitive pressure on banks to follow suit. In the 21 years from 1985 to 2005, the *American Banker* newspaper published an annual survey of consumers of financial services, and each year credit unions scored much higher than banks in customer service. Sessions at bank conferences with titles such as "Emulating the Customer Service of Credit Unions" have been reported. This is just another way that the existence of a cooperative alternative to investorowned banks has value not only for credit union members but also for bank customers.

The incentives faced by credit union management (generally uncompensated volunteer boards, the absence of stock options for senior management and board members, the absence of pressure from stockholders to maximize profits) induce management to eschew higher-risk, higher-return strategies. As a result, credit union operations are less risky, and subject to less volatility over the business cycle. For example, from 1992 to 2012, the average annual net charge-off rate on



credit union loans was 0.61%, with a standard deviation of 0.22%. In contrast, the similarly computed average at banks over the same period was 0.99%, with a much greater standard deviation of 0.62%.

Because of this lower-risk profile, credit unions were able to continue lending during the recent

Small Business Loan Growth Since Start of Downturn (Source: FDIC, NCUA, CUNA) 18.0% 17.0% 10.0% 7.9% 6.5% 6.2% 5.1% -1.9% -1.6% -4.3% ■ Banks □ CUs -9.3% 2012 2007 2008 2009 2010 2011

financial crisis while other financial institutions failed or had to curtail operations due to damaged balance sheets caused by less risk averse practices leading up to the crisis.

From June 2007, the onset of the financial crisis, to December 2012, small business loans at credit unions grew by 65.8% while such loans at banks actually declined by 13.5%.

⁷ Edward J. Kane and Robert J. Hendershott, *The Federal Deposit Insurance Fund that Didn't Put a Bite on U.S. Taxpayers*, <u>Journal of Banking and Finance</u>, 20 (September, 1996), pp. 1305-1327. Kane and Hendershott describe how the cooperative structure of credit unions presents credit union decision makers with incentives that are strikingly different from those faced by a for-profit financial institution, making it less feasible for credit union managers to benefit from high-risk strategies.

Similarly, a study recently published by the Small Business Administration found, "that credit unions are increasingly important sources of small business loans as a longer-run development and in response to fluctuations in small business loans at banks."

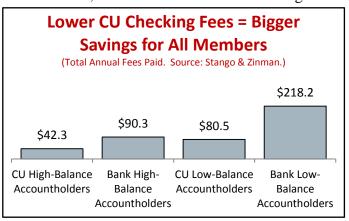
This same commitment was evident in the mortgage lending arena. As the secondary market for residential mortgages collapsed in 2007, the amount of first mortgages originated by credit unions actually rose by 11% in 2007 and 18% in 2008.

The tax exemption, by fostering the continued existence of credit unions as a cooperative alternative in the market, supports this countercyclical lending role for credit unions. Appendix II contains state-by-state mortgage and business loan growth experience during the crisis and its aftermath.

Credit unions offer full and fair service to all of their members, and credit union membership tends to be concentrated in the working class of Americans. Over half of credit union members who rely primarily on their credit union for financial services have incomes between \$25,000 and \$75,000. Credit unions also do not shy away from serving their members where they are most needed. Nationwide, fully 42% of credit union branches are located in CDFI investment areas, compared to only 32% of bank branches in such areas.

Compared to other providers, credit unions offer services to lower-income members at prices that are very attractive, and with less of a price markup compared to services offered to higher income members compared to other providers. In fact, credit unions sometimes charge their

lower-income members less for a service than banks charge even their higher-income customers. For example, a recent study found that the fees banks collect on an annual basis on low balance checking accounts (\$218) are two and a half times what they collect on high-balance accounts (\$90). In contrast, fees credit unions collect on low-balance accounts (\$80) are less than a third of those collected by banks on low-balance accounts, are even less than what banks collect on high balance accounts, and are



collect on high-balance accounts, and are less than twice what they collect on their own high-

⁸ James A. Wilcox, *The Increasing Importance of Credit Unions in Small Business Lending*, Office of Advocacy, Small Business Administration, September 2011. p v.

⁹ Victor Stango and Jonathan Zinman, *What People Pay: Deposit Account Fees at Banks and Credit Unions*, Filene Research Institute, November 2009. The authors, from the University of California, Davis and Dartmouth College analyzed the results of actual account usage at banks and credit unions. The annual fee totals are the result of the volume of various types of transactions, and the pricing of those transactions.

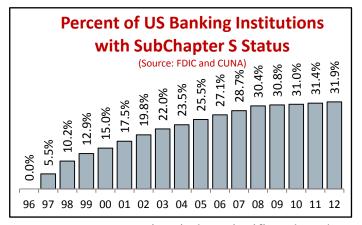
balance accounts (\$42). In other words, consumers generally get better deals from credit unions than from banks, and this is particularly true for lower income members.

In addition to providing access to financial services, credit unions also endeavor to provide financial literacy education to their members, and to encourage individual and family level thrift and saving. Sixty nine percent of credit union members belong to a credit union that offers some form of financial education. Fifty seven percent of credit union members belong to a credit union that offers financial literacy workshops. Twenty percent of credit union members belong to a credit union that operates one or more in-school branches. Credit unions engage in this activity not just through altruism, but also because it is in the best interest of the credit union to have members who are educated on how to best use the cooperative.

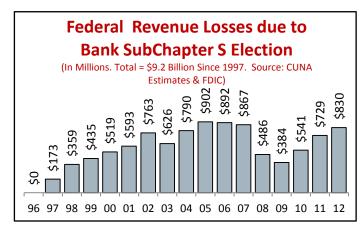
Tax Treatment and Public Policy Goals

Tax policy has consistently recognized that the health of small, locally controlled businesses is vital to the country's economic health. The credit union tax exemption furthers this goal in a manner similar to the tax treatment of Subchapter S corporations, investor-owned firms with no more than 100 shareholders.

There are now over 2,200 Subchapter S banking institutions in the US which jointly account for \$510 billion in assets.



While bank Subchapter S election is not the same as a tax exemption, it does significantly reduce Treasury revenue by between a quarter and a third compared to what those banks would pay as normal Subchapter C corporations.



The lost revenue due to bank Subchapter S election is estimated to be \$0.8 billion in 2012 and \$9.2 billion since 1997.

A detailed state-by-state listing of bank Subchapter S election including estimated foregone revenue appears in Appendix III.

The importance of having not-for-profit credit unions as vibrant and viable alternatives in the financial services

marketplace is as significant today as it has ever been, and the credit union tax exemption is crucial to encourage and support the continued existence of this alternative, cooperative

component of the financial system. In the aftermath of the financial crisis, more Americans are choosing credit unions as their best financial partner. In fact, in 2012, over 2 million Americans joined credit unions. Some may have joined because their bank failed, moved or was acquired by another institution; and others may have joined because they grew frustrated with the policies and fees of the for-profit sector. As credit union members, they benefit from conducting their financial services with an institution that they own; this means when the credit union succeeds, credit union members succeed.

Through these and other activities, credit unions employ the tax status to fulfill the purpose for which it was created. As a result, the credit union tax status has proved not only to be good public policy but also to represent an incredible return on the investment that the government has made. Credit unions provide accessible and affordable basic financial services to people of all means and encourage the equitable distribution of capital across all individuals, families, communities, and small businesses. Credit unions infuse financial market competition with multiple and differentiated competitive business models. They help keep financial services accessible – and affordable – for all consumers, whether they are members of a credit union or not.

Taxation and Mutual Savings Banks

Some in the for-profit financial services sector would like to see Congress repeal the credit union tax exemption. Often mentioned in these discussions is the notion that credit unions are larger today than historically and that they offer the same products and services offered by banking institutions. Thus, they claim that credit unions ought to be treated like mutual savings banks -a class of depositories that lost its tax-exempt status in 1951.

However, mutual savings banks lost their tax exemption in 1951 not because they had become "too big" or too similar to other financial services providers, but because they had lost their mutuality in the sense that the institutions' depositors did not exercise democratic control of the enterprise.

Mutual savings banks engaged in widespread proxy voting schemes. Federal credit unions are prohibited from using proxy votes under the Federal Credit Union Act (12 USC 1760), while mutual savings banks continue to use proxy voting. Thus, in a mutual savings bank, the board, which directs all policies and operations of the institution, can be elected through control of the proxies. The Office of Thrift Supervision clearly stated the practical application of this practice in its Regulatory Handbook (Section 110, Capital and Stock Ownership): "In practice, members delegate voting rights and the operation of federal mutual saving associations through the granting of proxies typically given to the board of directors—or a committee appointed by a majority of the board."

Mutual savings banks were not democratically controlled (voting was based on the size of each member's deposit). Mutual savings banks can—and often do—apportion voting privileges based on one vote for each \$100 in an account, up to 1,000 votes. As recently as 1998, the OTS

changed its regulations to permit mutual savings banks to amend their bylaws to allow from one to 1,000 votes per member. In direct contrast to this practice, each credit union member has always had one vote, regardless of the amount they have in the credit union.

So, while some mutual savings banks claim that they are "community and employee owned," it's unlikely that their depositors enjoy the equal ownership and voting rights afforded to all credit union members. In fact, what the thrift regulator and the courts have said about ownership rights of federally chartered mutual thrift depositors clearly support this. An illustrative case is Ordower v. Office of Thrift Supervision, where mutual bank depositors challenged the OTS's approval of a conversion from a mutual savings bank to stock form. The court stated "Nominally the customers own the mutual, but it is ownership in name only." The now-defunct thrift regulatory handbook also stated: "The ability to exercise control over a mutual savings association by its members is not coextensive with the rights of stockholders of ordinary corporations." (Section 110, Capital and Stock Ownership).

While it is true that Congress found that mutual savings banks had evolved into commercial bank competitors there is no evidence that today's credit unions are a competitive threat to banks or thrifts. The current level of credit union competition in the marketplace pales in comparison to the presence that mutual savings banks had when the Senate Report was written in 1951. Indeed, at the time mutual savings banks lost their tax exemption they controlled over one-half of all consumer deposits (small time and savings deposits) in the U.S. according to the Federal Reserve Flow of Funds. In contrast, in 2012, credit unions held only about 11% of total consumer deposits in the U.S.

As noted earlier, the real competition in the banking industry has been taking place between small and large banks. Since 1992, small community banks have lost nearly two-thirds of their depository market share to the largest 100 U.S. banking institutions, while credit unions have essentially maintained the same depository market share of roughly 6%.

Conclusion

Taxing credit unions would result in negative consequences for savers and borrowers, the most severe of which would be the erosion of a credit union option for millions of Americans. If taxed, a very significant number of larger credit unions are expected to convert to banks and an equally significant number of smaller credit unions would simply liquidate. The remaining credit unions would have to pass the burden of taxation through to their members because they are wholly owned cooperatives, increasing the cost of accessing mainstream financial services.

Taxing credit unions would undermine the purpose for which credit unions were created, and amount to a gift of tens of millions of customers to the for-profit banking industry at a time when the public is exceptionally dissatisfied with that industry and actively pursuing alternatives. Furthermore, taxing credit unions would do very little in terms of addressing the federal budget deficit. Taxing credit unions would only account for 0.06% of this year's deficit; it would take 1,600 other such sources of a similar size to eliminate the deficit. It would fund the federal

government for barely more than one hour. But, it would represent a tax increase on the 96 million members of credit unions.

One of the motivations behind comprehensive tax reform is to reduce distortions of resource allocation caused by preferences and exemptions, thereby allowing a reduction in corporate tax rates by expanding the tax base. The resource reallocation occasioned by the credit union tax exemption has been modest – for the past two decades credit unions have accounted for only 6% of the assets in US depository institutions. Nevertheless, as described above, more than 96 million working-class Americans benefit in an amount much greater than the cost of the tax exemption. Applying corporate tax rates to credit unions would raise less than 0.5% of corporate tax revenue, allowing almost no reduction in corporate tax rates – however, once again, it would represent a tax increase on 96 million Americans.

Appendix IA

2012 Estimated Total Financial Benefit Arising From Current CU Tax Status

Including Tax Revenues from Higher Savings Yields and Member and Non-Member Financial beneifts Sources: FDIC, NCUA, CUNA.

	(I)	(II)	(III)	(V)	(VI)	(VII)
			Estimated			Estimated
			Increase in Tax	Estimated		Total
			Revenue Arising	Total	Estimated	Member and
	Total	Total	From Higher CU	Member	Non-Member	Non-Member
	Number of	Assets	Savings Yields	Benefits	Benefits	Benefits
State	Institutions	(Billions)	(Millions)	(Millions)	(Millions)	(Millions)
Alabama	123	\$17.7	\$2.3	\$122.6	\$47.8	\$170.4
Alaska	12	\$7.4	\$1.4	\$74.6	\$29.1	\$103.7
Arizona	45	\$12.8	\$1.3	\$67.0	\$26.1	\$93.1
Arkansas	62	\$2.5	\$0.4	\$21.6 \$746.3	\$8.4	\$30.1
California	399	\$135.7	\$14.3 \$1.9	\$746.3 \$97.1	\$291.0	\$1,037.3
Colorado Connecticut	96 123	\$17.1 \$9.1		\$64.6	\$37.9 \$25.2	\$135.0 \$89.8
Delaware		\$2.0	\$1.2 \$0.2	\$12.6	\$25.2 \$4.9	\$17.6
District Of Columbia	25 47	\$2.0 \$7.3	\$0.2 \$0.6	\$12.6 \$29.2	\$4.9 \$11.4	\$40.5
Florida	159	\$45.4	\$4.9	\$254.4	\$99.2	\$353.7
Georgia	139	\$18.5	\$2.4	\$127.9	\$49.9	\$177.8
Hawaii	77	\$9.5	\$1.0	\$50.0	\$19.5	\$69.5
Idaho	51	\$5.0	\$0.9	\$44.8	\$17.5	\$62.3
Illinois	351	\$37.1	\$3.5	\$181.3	\$70.7	\$252.0
Indiana	181	\$20.8	\$1.5	\$76.2	\$29.7	\$105.9
lowa	118	\$11.1	\$1.3	\$65.6	\$25.6	\$91.2
Kansas	98	\$5.2	\$1.0	\$53.4	\$20.8	\$74.2
Kentucky	81	\$6.8	\$0.8	\$43.5	\$17.0	\$60.5
Louisiana	209	\$9.2	\$1.1	\$58.9	\$23.0	\$81.9
Maine	61	\$5.9	\$0.7	\$35.7	\$13.9	\$49.7
Maryland	100	\$19.9	\$2.7	\$141.5	\$55.2	\$196.6
Massachusetts	195	\$30.9	\$3.4	\$178.6	\$69.7	\$248.3
Michigan	299	\$44.1	\$4.1	\$213.3	\$83.2	\$296.6
Minnesota	135	\$18.4	\$1.6	\$81.6	\$31.8	\$113.4
Mississippi	85	\$4.5	\$0.6	\$30.2	\$11.8	\$42.0
Missouri	130	\$11.7	\$1.7	\$88.4	\$34.5	\$122.8
Montana	56	\$4.2	\$0.4	\$19.4	\$7.6	\$27.0
Nebraska	69	\$3.6	\$0.4	\$22.4	\$8.7	\$31.1
Nevada	18	\$3.6	\$0.5	\$24.1	\$9.4	\$33.5
New Hampshire	20	\$5.5	\$1.3	\$68.7	\$26.8	\$95.5
New Jersey	198	\$12.4	\$0.8	\$43.0	\$16.8	\$59.8
New Mexico	48	\$7.9	\$1.2	\$64.3	\$25.1	\$89.4
New York	405	\$62.4	\$5.8	\$302.9	\$118.1	\$421.0
North Carolina	89	\$37.8	\$3.3	\$171.7	\$67.0	\$238.7
North Dakota	41	\$2.9	\$0.1	\$4.1	\$1.6	\$5.7
Ohio	357	\$23.8	\$2.2	\$115.8	\$45.1	\$160.9
Oklahoma	69	\$11.6	\$1.9	\$99.3	\$38.7	\$138.0
Oregon	70	\$15.4	\$2.1	\$110.1	\$42.9	\$153.1
Pennsylvania	498	\$37.3	\$4.4	\$228.7	\$89.2	\$317.9
Rhode Island	21	\$4.6	\$0.2	\$11.4	\$4.5	\$15.9
South Carolina	71	\$10.6	\$1.3	\$68.3	\$26.6	\$94.9
South Dakota	43	\$2.6	\$0.3	\$15.0	\$5.8	\$20.8
Tennessee	166	\$17.6	\$1.9	\$99.0	\$38.6	\$137.6
Texas	515	\$76.8	\$12.9	\$670.9	\$261.7	\$932.6
Utah	80	\$15.6	\$2.6	\$137.2	\$53.5	\$190.7
Vermont	25	\$3.2	\$0.5	\$28.4	\$11.1	\$39.5
Virginia	178	\$93.0	\$13.2	\$689.3	\$268.8	\$958.1
Washington	106	\$34.3	\$3.2	\$167.9	\$65.5	\$233.4
West Virginia	96 186	\$3.1	\$0.2	\$13.0 \$03.7	\$5.1	\$18.0
Wyoming	186	\$24.2	\$1.8	\$92.7	\$36.2	\$128.9
Wyoming	29	\$2.2 \$1.031.7	\$0.4 \$111.2	\$18.4	\$7.2	\$25.6
Totals	6,855	\$1,031.7	\$111.2	\$5,806.0	\$2,264.3	\$8,070.3

Appendix IB

Estimated Total Financial Benefit Arising From Current CU Tax Status

Six-Year Totals and Distribution of 2012 Benefits

Distribution of 2012	Membership	Benefits
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	_	Biothibation of 2012 Mornibotorilip Bottonic			
			Benefits	Benefits	Benefits Arising
	Total Benefits		Arisisng From	Arsing From	From
	Over Six Years	Total 2012	Higher Savings	Lower Loan	Fewer/Lower
State	<u>Ending 2012</u>	<u>Benefits</u>	<u>Yields</u>	Interest Rates	<u>Fees</u>
Alabama	\$1,132,139,426	\$122,608,228	\$29,824,111	\$70,102,996	\$22,681,120
Alaska	\$465,880,054	\$74,629,371	\$14,694,293	\$48,999,151	\$10,935,928
Arizona	\$770,630,986	\$66,955,174	-\$1,559,783	\$42,712,300	\$25,802,657
Arkansas	\$116,557,943	\$21,634,933	\$751,820	\$18,641,401	\$2,241,712
California	\$6,698,053,032	\$746,269,249	\$66,658,603	\$567,497,213	\$112,113,433
Colorado	\$693,442,335	\$97,087,116	\$5,879,822	\$77,829,301	\$13,377,993
Connecticut	\$355,653,544	\$64,596,565	\$7,611,114	\$49,366,503	\$7,618,948
Delaware	\$130,938,653	\$12,629,951	\$3,726,065	\$7,103,673	\$1,800,213
District Of Columbia	\$423,518,368	\$29,159,515	\$8,569,408	\$16,095,597	\$4,494,510
Florida	\$2,920,317,532	\$254,439,047	\$20,357,388	\$171,951,785	\$62,129,874
Georgia	\$832,245,530	\$127,899,488	\$7,089,240	\$98,382,272	\$22,427,976
Hawaii	\$509,909,875	\$50,034,060	\$22,999,016	\$21,581,824	\$5,453,220
Idaho	\$314,860,408	\$44,845,128	\$6,326,037	\$31,753,542	\$6,765,549
Illinois	\$1,269,742,573	\$181,263,816	\$26,359,831	\$128,708,866	\$26,195,119
Indiana	\$816,714,796	\$76,191,813	\$21,774,083	\$32,042,077	\$22,375,652
lowa	\$378,794,495	\$65,630,771	\$15,726,193	\$39,078,047	\$10,826,530
Kansas	\$290,560,900	\$53,402,903	\$1,911,548	\$45,808,811	\$5,682,545
Kentucky	\$384,559,412	\$43,492,475	\$6,727,316	\$28,605,689	\$8,159,470
Louisiana	\$551,792,022	\$58,889,760	\$11,726,828	\$32,641,242	\$14,521,691
Maine	\$254,826,730	\$35,725,505	\$5,807,057	\$23,803,846	\$6,114,601
Maryland	\$1,098,662,785	\$141,474,358	\$16,510,732	\$103,252,750	\$21,710,877
Massachusetts	\$1,132,187,446	\$178,614,564	\$29,050,997	\$130,362,832	\$19,200,734
Michigan	\$2,137,791,854	\$213,346,276	\$17,922,826	\$146,348,959	\$49,074,491
Minnesota	\$773,790,706	\$81,605,255	\$7,517,395	\$58,468,225	\$15,619,635
Mississippi	\$322,217,276	\$30,196,353	\$6,872,851	\$15,929,002	\$7,394,501
Missouri	\$602,791,733	\$88,374,218	\$7,303,281	\$62,726,557	\$18,344,380
Montana	\$151,907,539	\$19,434,465	\$1,451,202	\$14,594,026	\$3,389,237
Nebraska	\$140,529,147	\$22,377,222	\$2,492,096	\$14,266,033	\$5,619,092
Nevada	\$286,314,037	\$24,077,298	\$1,566,346	\$14,807,978	\$7,702,973
New Hampshire	\$373,339,223	\$68,712,287	\$2,857,818	\$58,517,712	\$7,336,756
New Jersey	\$382,293,770	\$43,029,152	-\$976,959	\$35,538,264	\$8,467,847
New Mexico	\$408,026,963	\$64,307,979	\$9,898,938	\$45,175,322	\$9,233,718
New York	\$2,423,818,942	\$302,872,114	\$62,955,042	\$192,372,061	\$47,545,011
North Carolina	\$1,739,009,180	\$171,723,315	\$77,578,339	\$70,641,987	\$23,502,990
North Dakota	\$70,405,170	\$4,069,697	\$587,995	\$978,396	\$2,503,306
Ohio	\$1,059,462,115	\$115,754,420	\$16,747,467	\$69,749,328	\$29,257,626
Oklahoma	\$603,971,794	\$99,271,435	\$17,663,660	\$66,546,343	\$15,061,432
Oregon	\$936,895,422	\$110,114,627	\$12,681,085	\$84,283,996	\$13,149,545
Pennsylvania	\$1,692,790,108	\$228,678,052	\$30,948,627	\$165,256,502	\$32,472,922
Rhode Island	\$86,860,037	\$11,448,474	\$6,473,121	\$1,753,192	\$3,222,160
South Carolina	\$616,067,316	\$68,284,300	\$10,213,504	\$36,125,804	\$21,944,992
South Dakota	\$118,241,199	\$14,994,840	\$215,409	\$11,456,885	\$3,322,547
Tennessee	\$972,491,873	\$98,992,906	\$12,894,266	\$62,913,521	\$23,185,120
Texas	\$4,515,078,684	\$670,905,274	\$83,428,450	\$489,241,211	\$98,235,613
Utah	\$1,022,285,554	\$137,162,662		\$104,394,205	\$24,029,888
Vermont	\$184,601,002	\$28,392,355		\$14,195,300	\$3,390,945
Virginia	\$4,876,335,838	\$689,274,791	\$71,317,698	\$542,949,438	\$75,007,655
Washington	\$1,572,523,400	\$167,930,448		\$107,829,016	\$44,705,079
West Virginia	\$119,539,291	\$12,957,985		\$8,555,606	\$2,821,625
Wisconsin	\$1,094,313,669	\$92,742,532	. , ,	\$47,569,631	\$24,326,650
Wyoming	\$124,833,414	\$18,384,598		\$14,394,555	\$2,275,903
Totals	\$46,500,000,000	5,806,000,000		4,033,000,000	1,031,000,000
	,,	-,,,500	,,.00	, , ,	, , ,

Appendix II

Credit Unions Serve as Counter-Cyclical Influence - Continuing to Lend as Other Lenders Pull Back

Sources: FDIC, NCUA, CUNA.

	% Change in Credit Union 1st Mortgage Originations During Height of Crisis			Business Loan Growth: June 2007 to		
	Originat	ions During Hei	ght of Crisis		ecember 2012	
				Banking	Credit	
State	2007	2008	2009	Institutions	Unions	Difference
Alabama	22.7%	36.6%	2.1%	-18.5%	113.3%	131.7%
Alaska	19.0%	32.1%	63.7%	1.2%	73.7%	72.5%
Arizona	23.5%	-23.4%	3.4%	-46.3%	107.3%	153.6%
Arkansas	8.6%	28.7%	-7.3%	0.6%	100.0%	99.4%
California	16.4%	1.8%	12.0%	-6.0%	2.5%	8.5%
Colorado	32.1%	41.5%	51.5%	-35.7%	23.6%	59.3%
Connecticut	8.7%	14.5%	102.3%	50.0%	486.0%	436.0%
Delaware	37.4%	14.9%	-2.5%	181.9%	3010.0%	2828.1%
District Of Columbia	-9.7%	5.9%	132.7%	23.9%	488.5%	464.6%
Florida	8.0%	-20.0%	-1.1%	-22.0%	40.6%	62.6%
Georgia	13.2%	23.2%	48.6%	-17.9%	238.1%	256.0%
Hawaii	37.3%	39.5%	38.9%	-3.7%	64.9%	68.6%
daho	19.3%	24.2%	94.6%	-35.1%	168.5%	203.5%
linois						
ndiana	29.0%	33.0%	55.7%	-19.4%	89.1%	108.5%
	20.1%	14.0%	37.8%	-10.1%	81.4%	91.5%
owa	16.1%	14.8%	63.8%	11.4%	146.3%	134.9%
Kansas	33.8%	66.0%	46.3%	-19.4%	77.7%	97.2%
Kentucky	21.4%	14.7%	10.9%	6.0%	199.5%	193.5%
ouisiana_	18.0%	14.8%	18.7%	5.1%	589.2%	584.1%
Maine	29.7%	16.4%	17.6%	-69.4%	153.9%	223.3%
Maryland	18.5%	42.3%	56.3%	-44.3%	469.1%	513.4%
Massachusetts	1.5%	58.6%	42.0%	6.4%	89.5%	83.1%
/lichigan	-12.3%	31.3%	51.5%	-79.2%	90.6%	169.8%
/linnesota	2.0%	8.9%	70.6%	-18.6%	53.5%	72.1%
Mississippi	20.6%	17.1%	82.8%	7.0%	122.2%	115.2%
∕lissouri	9.4%	31.9%	79.9%	-13.9%	465.2%	479.0%
Montana	7.5%	213.3%	9.9%	10.4%	10.2%	-0.2%
Nebraska	-11.3%	14.3%	73.3%	24.9%	1.0%	-23.9%
Nevada	10.0%	-18.1%	-29.4%	-96.6%	-20.7%	75.8%
New Hampshire	4.9%	93.8%	28.6%	-37.2%	118.1%	155.3%
New Jersey	7.5%	37.1%	64.9%	9.3%	221.7%	212.4%
New Mexico	14.7%	19.3%	11.4%	-33.2%	215.9%	249.1%
New York	18.8%	38.1%	105.3%	16.3%	139.2%	122.9%
North Carolina						
North Dakota	10.2%	60.3%	-4.8%	-21.3%	69.2%	90.5%
	6.8%	24.1%	60.1%	36.5%	115.8%	79.3%
Ohio	10.3%	29.6%	52.0%	3.3%	185.1%	181.9%
Oklahoma	14.5%	17.5%	47.5%	17.3%	34.2%	16.9%
Oregon	19.7%	36.0%	59.9%	-26.5%	59.3%	85.8%
Pennsylvania	15.8%	28.0%	73.2%	-42.3%	241.8%	284.0%
Rhode Island	1.6%	75.8%	22.8%	921.1%	40.6%	-880.5%
South Carolina	19.2%	17.4%	33.3%	-45.3%	332.3%	377.6%
South Dakota	4.9%	20.1%	119.1%	242.3%	85.9%	-156.4%
ennessee	8.2%	26.9%	18.2%	-19.8%	227.5%	247.3%
exas	14.5%	15.1%	26.7%	39.1%	38.3%	-0.8%
Jtah	22.4%	-5.2%	13.2%	21.0%	0.8%	-20.2%
/ermont	14.1%	22.6%	122.2%	-45.4%	378.3%	423.7%
/irginia	10.0%	15.5%	25.9%	206.2%	324.3%	118.2%
Washington	25.2%	21.7%	59.7%	-40.9%	75.8%	116.7%
West Virginia	1.6%	21.3%	-8.8%	23.1%	56.2%	33.1%
Visconsin	3.3%	40.6%	63.6%	-43.7%	55.2%	98.8%
Nyoming	-3.6%	29.4%	39.7%	-25.6%	67.5%	93.1%
Totals	12.9%	19.6%	37.9%	-0.04%	65.61%	65.65%

Appendix III

2012 Estimated Foregone Treasury Revenue Arising From Favorable Tax Status: Subchapter S Banks

Sources.	•	DIC,	CONA.

	(I)	(II)	(III)
			Estimated
	Total	Total	Foregone
	Number of	Assets	Tax Revenue
State	Institutions	(Billions)	(Millions)
Alabama	42	\$7.8	\$6.7
Alaska	1	\$0.5	\$0.5
Arizona	2	\$0.9	\$1.5
Arkansas	36	\$9.4	\$14.8
California	18	\$11.2	\$27.0
Colorado	34	\$12.1	\$13.1
Connecticut	1	\$0.1	\$0.0
Delaware	1	\$0.2	\$0.6
District Of Columbia	0	\$0.0	\$0.0
Florida	39	\$9.1	\$5.3
Georgia	64	\$10.5	\$5.8
Hawaii	0	\$0.0	\$0.0
ldaho	1	\$0.2	\$0.1
Illinois	205	\$49.0	\$59.0
Indiana	19	\$5.1	\$11.5
lowa	198	\$35.7	\$53.1
Kansas	152	\$26.7	\$32.0
Kentucky	64	\$12.0	\$17.0
Louisiana	64	\$12.6	\$21.2
Maine	0	\$0.0	\$0.0
Maryland	6	\$1.5	-\$0.3
Massachusetts	4	\$0.3	\$6.6
Michigan	16	\$2.3	\$3.0
Minnesota	263	\$38.3	\$50.5
Mississippi	26	\$6.2	\$8.3
Missouri	118	\$38.7	\$43.0
Montana	26	\$6.0 \$19.4	\$8.4
Nebraska	85 4		\$33.4 \$47.6
Nevada New Hampshire	0	\$6.5 \$0.0	\$0.0
New Jersey	6	\$4.7	\$4.0
New Mexico	26	\$7.9	\$4.0 \$11.2
New York	5	\$3.3	\$5.2
North Carolina	1	\$0.3	\$2.2
North Dakota	61	\$11.2	\$19.8
Ohio	27	\$7.4	\$19.7
Oklahoma	158	\$45.6	\$82.1
Oregon	3	\$0.7	\$0.8
Pennsylvania	2	\$2.5	\$3.4
Rhode Island	1	\$0.2	\$0.0
South Carolina	6	\$1.5	\$1.6
South Dakota	40	\$6.6	\$11.1
Tennessee	40	\$13.8	\$19.1
Texas	268	\$81.1	\$143.5
Utah	8	\$1.6	\$4.8
Vermont	0	\$0.0	\$0.0
Virginia	0	\$0.0	\$0.0
Washington	10	\$2.2	\$1.5
West Virginia	6	\$1.1	\$1.3
Wisconsin	80	\$16.9	\$22.5
Wyoming	21	\$4.5	\$5.4
Totals	2,258	\$535.4	\$829.2