Central Bank

August 6, 2015

AUG18'15 PM12:20 BOARD

National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

Dear Sir/Madam:

I would like to thank the National Credit Union Administration (NCUA) for the opportunity to comment on the NCUA's proposed rule to allow credit unions to further expand into commercial banking.

Many years ago Congress gave credit unions a special federal tax exempt status in exchange for their commitment to serve the basic financial needs of a group of individuals who enjoyed a "common bond" and to serve the needs of low and moderate consumers. Over the years, these tax privileged entities have greatly expanded their range of membership and powers with the help and consent of their primary regulator who appears to view their role as an enabler and supporter of credit union expansion rather than a regulator who ensures they follow their legitimate tax exempt mission to serve the public interest.

In 1998, Congress made it clear that credit unions should focus on consumer lending, not commercial lending. Congress implemented strict limits on credit union business lending to ensure that they would fulfill their mission (for which they are given special tax privilege) of meeting the credit and savings needs of consumers of modest means. This proposed rule is clearly a contradiction of congressional intent. Now, it appears the NCUA would like to move credit unions completely into the commercial banking space and still keep their tax privileges.

This expansion of powers would come at the expense of commercial banks that do pay their fair share of taxes into the federal treasury. Our bank pays about 35% of our net income to the federal government. This translates into about a third of the interest we collect on each loan made. Currently, the credit union industry generates tax sheltered revenues of around $1 trillion annually yet still wants to expand their tax preference further into business and commercial lending.

As a community bank, we are well connected with the small and medium sized businesses in our market. Like most community banks, we are willing to take reasonable credit risk to fund any new or expanding business in our area. In fact, our bank has the equity and management expertise to evaluate credit risk in loans to small business start-ups or expansion while the credit unions in our market do not. It is almost predictable that additional business lending authority will cause many credit unions to experience loan quality problems the first time we have an economic downturn.

Our bank currently competes with credit unions for residential real estate loans, indirect auto loans, which is essentially commercial lending, and commercial loans. So, in effect, retail consumers do not see any benefit from the preferential tax exempt status given to credit unions for at least the last two categories mentioned above.

For example, indirect lending rates to the consumer are set by the auto dealer. The auto dealer sells the notes to indirect lenders based on who bids the lowest discount rate which increases the profit to the auto dealer. In this case, credit unions buy these notes at a lower tax exempt rate that results in no benefit to the consumer. If our bank bought the automobile note, we would pay a 35% federal tax on the amount of net interest (net of what we pay the dealer) we collect from the consumer. This does not help with selling cars or with lowering the cost of auto ownership to retail consumers.

The same example is true on business loans. We have lost business loans and even large commercial loans to tax exempt credit unions because they offer a tax exempt rate. One might ask if this a benefit to a business owner who might get a lower rate. I would answer by suggesting that if it is good public policy to subsidize business loans with tax exempt interest rates then why not let all federally insured lenders participate, not just a privileged sector of the financial services industry.

In addition, this public policy issue would appear to be one for congress to determine with new legislative authority rather than for a regulator to promulgate in contravention of congressional intent. And, if the credit unions get the authority to expand their business lending the result will be to take money directly out of the federal treasury every time they make such a loan.

I will finish by asking a few questions. Why are credit unions still entitled to a tax preference since they want to have the same authorities as commercial banks? Are they still serving the needs of low and moderate income consumers (recent studies show the average income of credit union customers is higher than commercial bank customers)? Do they continue to serve a small group of customers who share a "common bond" or have many of them, (especially the very large ones who want this expanded business lending authority), expanded membership without any resemblance to a common bond? What public benefit or financial service do they offer to earn their tax preference that is not also offered by a fully taxed financial institution?

Thanks again for allowing me to comment on this important proposed rule that would greatly expand tax exempt business lending for only a preferred sector of financial institutions.

Sincerely,

Kenneth W. Littlefield

Kenneth W. Littlefield
President & CEO

KWL:jh