Credit Union Bank Acquisitions – A Disappointing Trend

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The apathy about the increasing trend for community banks to sell to credit unions is disappointing. While it's happening nationwide, in Washington State one community bank sold to a credit union in 2019 and there are two more pending.

Community banks are the primary lender to small and medium sized businesses in America. If a community bank disappears from a community will the credit union fill the gap? Will the credit union continue the community bank's CRA investments? Who is going to make up the loss of tax revenue? Certainly not the credit union who is exempt from both Washington State's B&O tax and Federal income tax.

Losing a community bank to a credit union does impact consumers with the loss of banking services, taxes, and community investment. However disappointing, many consumers don't understand the differences in financial institutions. In general, consumers want their money to be safe and easily accessible and many don't care who provides it.

Credit unions traditionally had no ability to raise capital from investors, so their growth was fueled by retained profits. Now it seems fast-growing ones have found a shortcut: acquiring the assets of a community bank by purchasing it directly, rather than the slow process of drawing away business with better rates enabled by their tax-free status. However disappointing, you can't blame the board of a community bank for accepting the best offer – their fiduciary responsibility is to their shareholders, not taxpayers at large.

It's disappointing that many of our elected officials appear apathetic about the loss of tax revenue resulting from the shift of activity from community banks to credit unions, while simultaneously offering legislation to increase the tax burden on banks of all sizes. Where is the concern that several million dollars of tax revenue is re-routed to the bottom line of a credit union? Credit union assets have topped $2 trillion nationwide and that number is growing rapidly. In particular, credit unions have focused on growing their business lending portfolios, an activity never considered when credit unions were originally granted their tax-exempt status. Those responsible for the public treasury could introduce legislation to prevent the sale or to require the purchasing credit union to compensate the state for the loss of revenue. But…silence.

It's disappointing that our elected officials appear apathetic that the CRA investments they are so eager to require of community banks could fizzle to nothing under a credit union. They could change regulations to require the same CRA investment from all credit unions, or at the very least require the acquiring credit union to adopt the CRA requirements from the bank they are purchasing. But…silence.

Thankfully, ICBA is not silent and is leading the charge to draw attention to and prevent the continued loss of community banks across the nation. In a recent post on X, ICBA noted that 20% of bank acquisitions are now by tax-subsidized credit unions. ICBA also filed a Community Reinvestment Act protest with the FDIC saying that credit unions acquiring community banks "expand the section of the financial services industry exempt from taxation and the CRA, harming taxpayers and affected low- and moderate-income communities." These issues are indeed best fixed at the federal level. A state-chartered credit union could change to a federal charter if it doesn't like more restrictive state regulations.

If it continues, this rapid acceleration of credit unions acquiring community banks and the ensuing loss of choices, tax revenue, and community investment will eventually disappoint even elected officials and consumers.

2/13/2024 Community Bankers of Washington