Unfair Advantage: How Credit Union Acquisitions Threaten Community Banks and Local Economies

By Gordon Fellows, Mississippi Bankers Association President and CEO

Unless you're deeply familiar with the nuances of financial services policy debates, you're probably unaware of the significant policy dispute that exists between banks and credit unions. Fairness is at the heart of the dispute. Banks believe - rightly so - that because credit unions are exempt from most federal and state taxes, and because regulatory erosion of credit union field of membership standards have essentially made credit union the same as banks, that many larger credit unions are essentially tax-payer subsidized banks. For example, in Mississippi, the largest credit union headquartered in our state holds $4 billion in assets, which means it's larger than 88% of Mississippi headquartered banks. And that credit union paid less in state and federal taxes than each individual bank in Mississippi. Clearly fairness is missing from this equation. And the debate around tax fairness has been ongoing in Washington, DC for decades.

Unfortunately though, in recent years this problem of tax fairness has taken on a new dynamic that is literally putting community banks out of business. Big credit unions are taking advantage of their tax exemptions to acquire community banks. We've seen credit union acquisitions of community banks accelerating at an alarming rate—reaching an all-time record in just the first half of 2024, with credit unions announcing their intent to acquire $7.21 billion in bank assets—a 40% uptick from 2022.

These acquisitions will unquestionably affect the local communities that lose these banks. Local, state, and federal tax income will be wiped off the tax rolls, and credit unions are also held to less stringent consumer financial protection oversight than banks—yet another reason these acquisitions are so concerning. Credit Unions are also exempt from the Community Reinvestment Act, a federal law that requires lenders like banks to invest in the local communities in which they hold bank branches. So with credit union acquisition of banks, communities lose not only tax revenue but also a commitment to serve their communities.

In 2022, at the urging of the MBA the state of Mississippi took action to create a fairer acquisition environment, and this year Tennessee passed a similar law. Other states are considering this as well, and I encourage others to look at what became law in Mississippi or Tennessee. States, cities, and counties stand to lose a lot if they lose their local banks.

But states can't fix this alone. Congress authorized the creation of credit unions for a specific and clearly defined purpose. But taxpayer subsidized acquisitions are way outside of that clearly defined purpose and Congress must step up and exercise its oversight authority to ensure the law is being followed.

I know that as we're working here in Mississippi and sharing what we've learned with other state banking associations, our partners in Washington—the American Bankers Association and the Independent Community Bankers Association—have been incredibly active on this issue of bank acquisitions, and in credit union advocacy more broadly. One of my most important lessons from our efforts in 2022 is that for this issue to be effectively addressed banks must be unified, and I'm heartened to know that both ABA and ICBA are working hard to address this problem.

The continued prosperity of the nation's community banks means the continued prosperity of the communities they serve, and this is something all bankers have a stake in. And I know that bankers will be most effective in advocacy on these issues—and the many other existential challenges we face—when we work together.