



TESTIMONY
OF
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BEFORE THE
SENATE FINANCE COMMITTEE AND
ASSEMBLY WAYS AND MEANS COMMITTEE
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Chairman Kruger, Chairman Farrell and Members of the Committees, my name is Michael P. Smith and I am President and CEO of the New York Bankers Association. Our Association is comprised of the community, regional and money center commercial banks and thrift institutions doing business in New York State. Our almost 250,000 employees are located in virtually every city, town and village in the State, from Jamestown to Montauk.

I appear before you today to strongly support provisions of the Governor's Executive Budget which would authorize savings banks and savings and loan associations to accept and collateralize municipal deposits. However, our Association strongly opposes authorizing credit unions to engage in the same activity.

Why do we draw a distinction between thrift institutions and credit unions? The answer is simple. Savings banks and savings and loan associations are major contributors to the fiscal health of New York State through the income, sales, mortgage recording and other taxes that they pay. Credit unions do not pay these taxes. Last year alone, the State's banks and thrifts paid more than \$1 billion in income taxes

to New York State, \$1.4 billion in income taxes to New York City, hundreds of millions in additional income taxes to Yonkers and the Metropolitan Transportation District, and further millions in sales and other taxes. Credit unions not only did not pay these taxes, they are exempt from the special additional mortgage recording tax, sought and received an exemption from the new MTA payroll tax that is shared by every other employer, including schools, and have actually filed suit in State Supreme Court to be relieved of paying other taxes. Whereas our community commercial banks and trust companies can compete with savings banks and savings and loan associations that pay similar amounts in tax, their tax exemptions give credit unions an enormous unfair advantage.

And the contributions of the State's banks and thrifts go far beyond paying taxes. As the principal small business lenders in New York, banks and thrifts provide the funding for millions of jobs that allow the State to grow. In addition to processing local government accounts, they frequently provide financial advisory and money management services to small communities that would otherwise cost many thousands of dollars. They are the first in line to fund local projects,

from the underwriting and purchase of municipal bonds to providing reinvestment dollars for the rehabilitation of blighted neighborhoods. In virtually every local community across New York State, the local banker takes the lead in civic projects, in charitable contributions, and in released time programs to allow officers and employees to volunteer for needed local events.

A 2005 study conducted by Cornell University and funded by our Association demonstrated that municipal deposits serve as core deposits at many community banks, and that those deposits fund a myriad of community activities. Among the findings:

- Municipal deposits are a bank resource that broadens the base for community lending.

- New York's banks provide a broad array of banking services to their municipal customers. A strong majority of banks provide these services at no cost to municipal customers.

- New York's banks demonstrate a high degree of involvement in direct economic development.

- A strong majority of banks and their employees provide

leadership, and administrative and financial support for community events, programs and needs.

The study also demonstrates that providing credit unions with public deposits would disproportionately affect the State's community banks. Although municipal deposits make up, on average, 4% of a bank's deposit portfolio, for community banks that figure rises to 11%.

By contrast, the State's credit unions pay only property taxes. Additionally, because they are exempt from income taxes, they have no reason to purchase tax-exempt municipal bonds, which pay a lower rate of interest than do non-tax-exempt obligations. In addition, only the State's 16 remaining State-chartered credit unions – out of the total of 461 credit unions in New York – are subject to the State's Community Reinvestment Act (CRA), which mandates that banks and thrifts serve the credit needs of the neighborhoods in which they are located. None are subject to the federal CRA, with its extensive record-keeping, examination and enforcement requirements. The New York State Legislature cannot change the federal CRA nor has it any authority to tax federal credit unions.

A number of studies have shown that credit unions do not have a positive track record in community reinvestment. The United States Government Accountability Office, at the request of Congress, studied credit union service to low-income communities and found that “credit unions lagged behind banks in serving low- and moderate-income households.” GAO-07-29, November 2006.

Another recent study, by Prochnow Educational Foundation, the research arm of the Graduate School of Banking at the University of Wisconsin-Madison, found that a majority of the \$2 billion annual federal tax subsidy for credit unions is going to higher income individuals. According to the study, 61 percent of credit union benefits go to households with incomes over \$95,000; 29 percent go to households with incomes of \$35,000 to \$95,000; and only 10 percent go to households making less than \$35,000. The Woodstock Institute and the National Community Reinvestment Coalition have also issued reports showing that large credit unions are failing in their mission to serve people of modest means.

At a time when the State and City of New York are struggling with massive budget deficits, now would be the worst possible time to take

local government deposits out of tax-paying banks and place them in non-tax-paying credit unions. For every dollar removed from a bank and placed in a credit union, a dollar in earning assets must be extinguished. The earnings on bank assets are taxed by the State and City of New York, while no earnings on credit union assets could be taxed. As a result, the State and New York City would lose potentially millions of dollars in tax revenue by allowing credit unions to take local government deposits away from the banking industry. The tax exemption of the State's credit unions now costs the State many millions in revenue every year. That revenue loss could be significantly increased if the State allows credit unions to drain public deposits and the earning, tax-paying assets they support, from the State's banks.

One of the reasons stated in the Governor's memorandum in support for providing credit unions with authority to accept municipal deposits would be to provide higher returns to local governments on those deposits. But the tax revenue lost by pulling those deposits from a tax-paying bank or thrift and providing them to a non-tax-paying credit union would almost certainly exceed whatever additional interest the

credit union would provide on the deposit. Indeed, based on currently posted rates, there may be no increased rate of return available from local credit unions. In reviewing rates currently offered by some of the State's largest credit unions and those offered by some of the largest New York banks, we found that these credit unions were consistently paying 50 basis points (1/2 %) less than banks for savings accounts and money market accounts.

Still another reason cited by the Governor for providing credit unions with this authority was that they would reinvest a larger percentage of municipal deposits in local loans. This argument also does not withstand analysis. In fact, the percentage of loans made in New York State by both federal and State-chartered credit unions is virtually identical to the loan-to-deposit ratio of the State's federally insured commercial banks and thrifts. According to the National Credit Union Administration, New York-headquartered credit unions' loans totaling almost \$26 billion equal roughly 63% of their almost \$41 billion in assets. By contrast, according to the FDIC, FDIC-insured banks and thrifts held net loans and leases totaling almost \$279 billion, approximately 64% of their \$432 billion deposit base.

With lower loan-to-deposit ratios, there is little likelihood that credit unions would make more local loans than do the banks that currently hold these deposits.

Other assertions supporting credit unions' push to accept municipal deposits also do not hold water:

- Credit unions state that New York is one of the few states that do not permit credit unions to accept municipal deposits. Attached is a chart showing that only 18 states authorize credit unions to accept public deposits, with no new authorizations in the last five years.

- Credit union leaders have stated that they are required to lend out any deposits they receive. The Federal Credit Union Act and the credit union provisions of the State Banking Law have no such requirement.

- Assertions have also been made that the credit union industry has not been as affected by the current market turmoil as the commercial banking and thrift institution industry. Yet, they, too, have gotten special deposit guarantees from their regulator, have a much higher premium increase for deposit insurance (even though they get to "double count" their premiums) and have suffered monumental

losses through the failures of several very large corporate credit unions.

In summary, the New York Bankers Association strongly urges that the Legislature approve providing authority to accept public deposits to the State's tax-paying savings banks and savings and loan associations. We strongly oppose providing similar authority to credit unions. Taking deposits out of banks and thrifts would further deplete the State's revenue stream without in any way demonstrably improving service to the State's low- and moderate-income communities. In short, only institutions that pay taxes should be allowed to accept tax deposits.

Thank you for this opportunity to testify. I would be pleased to take any questions you might have.