

STATEMENT
OF
MICHAEL P. SMITH
PRESIDENT AND CHIEF EXECUTIVE OFFICER
THE NEW YORK BANKERS ASSOCIATION
BEFORE THE
COMMITTEE ON COMMUNITY DEVELOPMENT
NEW YORK CITY COUNCIL
FEBRUARY 22, 2010

The New York Bankers Association appreciates the opportunity to submit this statement on Council Resolution Number 17, calling on the New York State Legislature to adopt and the Governor to sign legislation which would allow credit unions, savings banks, and savings and loan associations to accept and secure deposits from municipal corporations. 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 heavily concentrated in the City of New York, with more than 1,700 bank branches in the City serving residents in virtually every neighborhood.

Our Association strongly supports provisions of Resolution No. 17 which support authorizing 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 and City 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. The Mayor's most recent budget proposal would increase these taxes by requiring lenders to pay \$50 million more per year in special additional mortgage recording taxes.

Credit unions not only did not pay these taxes, they are exempt from the additional mortgage recording tax, and 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 New York City's community commercial banks and trust companies can compete on an even playing field with savings banks and savings and loan associations that pay similar amounts in tax, their tax exemptions give credit unions an enormous unfair pricing advantage.

And the contributions of the City'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 City & State to grow. In addition to processing local government accounts, they frequently provide grants, financial advisory and money management services, and volunteer support to community groups that would otherwise be financially unattainable. 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 neighborhood across New York City, 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 harm 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%. For some banks, municipal deposits make up more than a quarter of their entire deposit base.

By contrast, the City'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 - further evidence that credit unions are far less likely than banking institutions to support their local governments. In addition, only the State's 20 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.

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." Another recent study 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 and only 10 percent go to households making less than \$35,000.

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.

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 is not surprising, given the fact that 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. And, this argument does not withstand analysis, for other reasons as well – most notably that 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 comparison, 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.

In summary, the New York Bankers Association strongly urges that the City Council approve a resolution urging the Legislature and Governor to provide 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.