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Credit unions

Bankers: Time to end tax breaks for credit unions, Farm Credit System

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When the Pierre City Commission approved a zoning change for Black Hills Federal Credit Union's planned location in Pierre in October 2012, the site of the project was an ungraded lot just south of the Walmart parking lot.

Now, a year later, steel and brick and mortar are taking shape as contractors go on building what will soon be the largest financial institution in the Pierre/Fort Pierre area. And as the Pierre-based South Dakota Bankers Association sees it, that is part of a nationwide problem when it comes to funding public services. The association distributed materials in October arguing that the special tax breaks granted decades ago to credit unions and the Farm Credit System have outlived their original purposes and should be eliminated by Congress.

Kevin Tetzlaff, a Brookings bank executive who chairs the SDBA Board of Directors, said in a statement issued at the time that credit unions pay no federal income tax, no state bank franchise tax such as South Dakota requires, and no state or local sales taxes. Banks, on the other hand, pay all of those taxes. Everson said banks in South Dakota paid nearly \$500 million in the past 10 years through South Dakota's 6 percent bank franchise tax alone.

Similarly, Tetzlaff said, the Farm Credit System pays "very little in federal income tax or state bank franchise tax." Such "outdated exemptions" mean lost revenue for local government services such as K-12 education in South Dakota, Tetzlaff said.



Vice President of Operations Jerry Schmidt looks over the site of Black Hills Federal Credit Union's planned location in Pierre as work begins in October 2012 in this Capital Journal file photo. (Lance Nixon/Capital Journal)

Counting the cost

The federal government is doing without \$3.4 billion a year because of the tax exemptions for credit unions and Farm Credit institutions, the SDBA says, while the exemptions short the South Dakota treasury by \$1.3 million annually. And South Dakota schools, cities, towns, townships and counties in South Dakota lose \$3.7 million a year because of the tax breaks.

Of the \$5 million annual cost of those tax exemptions to South Dakota and its local governments, SDBA says, credit unions account for \$1 million and Farm Credit accounts for \$4 million.

But bankers say many consumers have no idea the playing field is so unequal.

"Most people don't know that there are certain financial service providers – banks

Farm Credit Services of America announces earnings for first 9 months of 2013

OMAHA, Neb. — Farm Credit Services of America, a customer-owned financial cooperative with more than \$20 billion in assets, today announced financial results for the first nine months of calendar year 2013.

Net income for the first nine months of 2013 was \$353.6 million compared to \$343.0 million for the same period in 2012, reflecting an increase of 3.1 percent. The increase in net income was primarily due to an increase in net interest income from loan growth and a reduction in the provision for credit losses, partially offset by a reduction in noninterest income and an increase in noninterest expense.

Loan volume increased by \$692.5 million in the first nine months of 2013 to \$19.182 billion. Members' equity increased to \$3.576 billion from \$3.224 billion at the end of 2012.

"We continue to be very pleased with the financial performance and risk-bearing ability of our customer-owned cooperative," said Doug Stark, president and CEO at FCSAmerica. "Our financial strength allows us to focus on customer needs and mobilize resources to help producers through events like the devastating snow storms in western South Dakota." FCSAmerica recently announced it was helping customers restore working capital in operations that lost livestock in an early October blizzard.

– that pay taxes that others don't," said President Curtis Everson of the South Dakota Bankers Association. "We believe that we owe it to the current taxpayers – you, me and everybody else – to shine a bright light on these exemptions that have existed in tax code for 80 or 100 years that might not make sense anymore."

For example, Everson said, Black Hills Federal Credit Union has \$966 million in assets in December 2012. That makes it larger than any bank except Wells Fargo in the credit union's home market in Rapid City, and larger still in relation to the competition in the Pierre market.

"They're bigger than any community bank in Pierre and Fort Pierre," Everson said. "They're going to be the biggest financial institution in the market."

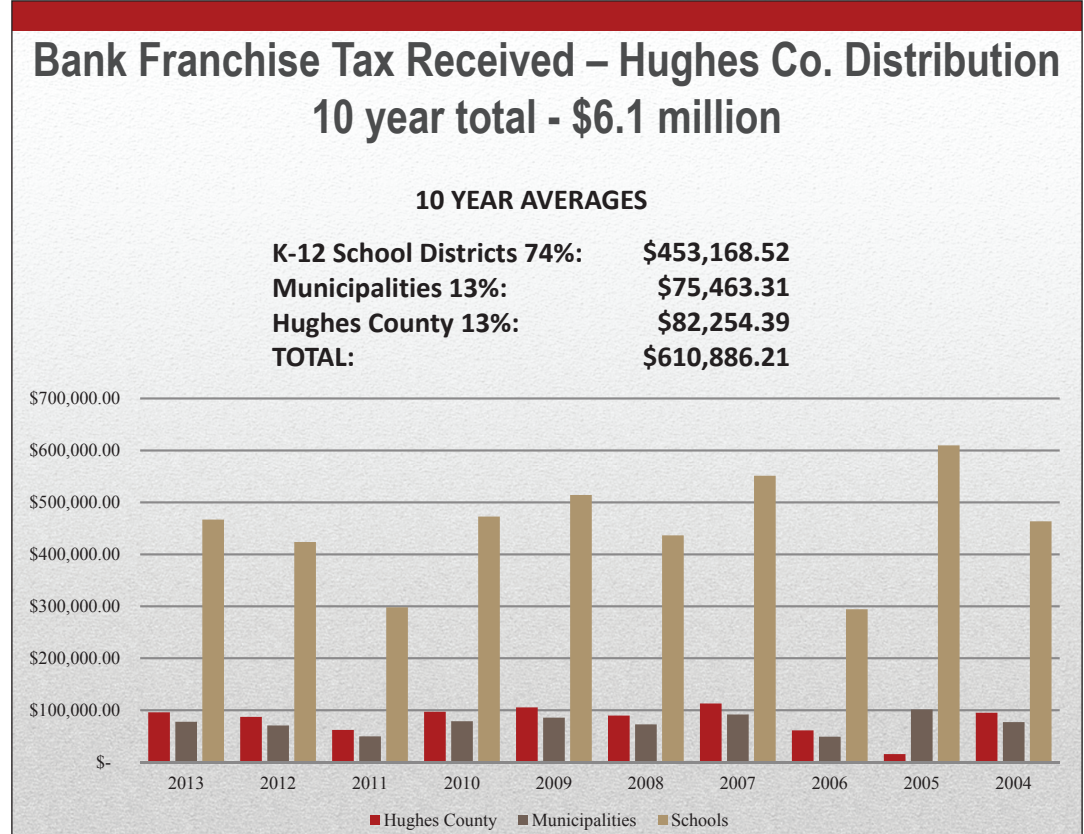
Decades-old exemptions

The Farm Credit System was created by Congress in 1916 to provide needed credit to young, small and beginning farmers and ranchers. But the SDBA contends that 80 to 90 percent of Farm Credit loans go to older, well-established farmers who do not fit with the original intent of the Farm Credit System's mission.

Tax exemptions for credit unions date back to 1937, when member-owned financial cooperatives served small, well-defined niche groups of lower-income people. But now, Everson suggested, credit unions essentially operate as tax-exempt banks, and the credit union industry is dominated by community-chartered credit unions that focus on serving everyone in a community. And according to the American Bankers Association, a higher percentage of customers of low-to-moderate income do business with banks rather than credit unions – 40 percent compared to 31 percent – while a higher percentage of customers of upper income do business with credit unions compared to banks – 49 percent compared to 41 percent.

Credit unions reply

But Carol Brown, vice president of marketing and busi-



ness development for Black Hills Federal Credit Union, said those statistics don't reflect Black Hills Federal Credit Union.

"We are a low income designated credit union according to our national regulator, the National Credit Union Association," Brown said. "According to our federal regulator, 70.39 percent of our membership is low income."

Black Hills Federal Credit Union also asked Jeff Olson, vice president of advocacy for the Bismarck-based Credit Union Association of the Dakotas, to respond. Olson contacted the Capital Journal to say that banks have been making the same complaint for decades now.

"It's nothing new. It's been going on since we were first given the exemption back in 1937," Olson said.

Olson said credit unions shouldn't be lumped together with the taxpayer-subsidized Farm Credit system. But neither should credit unions be thought of as non-profits, but as "not-for-profit" organizations.

That is different from for-profit banks, he said.

"A not-for-profit is an organization like a co-op. That's

what we are," Olson said. "We are a financial cooperative. We are member-owned. They have a say in how we are run."

Olson said a big difference between banks and credit unions is the nature of the relationship with customers. In a credit union, the relationship is between the member-owned institution and the member. In a bank, Olson said, the relationship is between the bank, the customer and the shareholder.

Olson said despite bankers' worries when an institution such as Black Hills Federal Credit Union arrives in a market such as Pierre, banks already have much of the financial territory staked out.

"They're concerned that we are growing," Olson said. "But we have less than 7 percent of the market share in the state in assets. We have less than 7 percent of the market share in the state in deposits."

Farm Credit replies

Doug Stark, president and CEO of the Omaha-based Farm Credit Services of America – an entity that serves customers in Iowa,

South Dakota, Nebraska and Wyoming – said a major focus of the organization in October was responding to producer needs in the western South Dakota and parts of surrounding states where winter storm Atlas killed thousands of livestock.

Producers support the Farm Credit System business model because it works for them, he said.

"We're not here to profit from farmers, we're simply here to serve them," Stark said.

Stark said Farm Credit Services of America makes "a very special effort" to serve young producers, but doesn't limit its services to any narrowly defined group within agriculture.

"We do serve all of agriculture, there's no doubt about it," Stark said. "We are driven to serve all of agriculture, not just one segment."

Stark added that despite the arguments against tax exemptions, he thinks many people in South Dakota and elsewhere are not convinced that government needs more money.

"We don't necessarily have a tax problem. We have a spending problem," he said.