LETTERS TO THE EDITOR

by Steve Brown

We ran a story not too long ago about Credit Unions and Mutual Savings Banks and the history of the differences in their tax status from the taxation of banks. We know this topic is a hot one, particularly given all the changes in the financial industry and since this publication primarily goes to

community bankers and their regulators. That said, we do have some readers who work in the credit union community. Some of those readers took the time to write us, as they felt we had unfairly characterized credit unions. They pointed out some differences bankers and others might overlook, so we thought we would relay some of their points, as we thanked all of those who responded on either side of this matter.

One major item all the writers asked us to acknowledge was that there are differences in the community banks this readership works for and the very large banks. They asked that we also recognize there are differences in credit unions. One reader pointed out quite validly, that many of the very large banks probably pay little in income taxes. Another reminded us that credit unions pay property taxes, payroll taxes and other taxes, so they are not totally tax exempt. Banks pay all those taxes too, as well as income/corporate taxes, which drove most of the discussion and comments we received.

One point in our prior article revolved around the lobbying effort of credit unions to increase the cap on the percentage of commercial lending from 12.25% to 27.50% of assets. Another reader pointed out that most credit unions primarily work in the world of consumer lending and so the commercial lending cap is likely more of a concern of the larger credit unions. That writer also pointed out that the commercial lending credit unions do keeps with the industry mandate of serving the underserved and the average commercial loan was around $219,000. They indicated this was likely less of an area of interest for most community banks.

Yet another writer is president of a small rural, low income designated credit union. He described his business and specifically his efforts to work with the lower income, unbanked population. His credit union was focused on helping members (customers) avoid payday lenders and auto title loan outfits. He offers unsecured loans as small as $100 and their average loan balance (with a concentration in used cars) is around $11,000. He also said he readily refers business (mostly commercial) to his local community bank and they refer business (mostly consumer) back. This point strikes us as one of the best we received, as everyone does the business they know best and helps the community.

Another point we received was the lack of capital available to credit unions. Some of those who responded pointed out they don't have access to investor or secondary market capital given their structure, so undivided (and currently untaxed) earnings were the only source of capital for many credit unions.

There were also comparisons provided by some who wrote the credit union tax exemption was similar to banks that utilize a Sub Chapter S status and pay no income/corporate tax at the corporate level. While we are not tax experts, there are some key differences here, however it does highlight that credit unions are owned by their members and those individuals pay taxes.

In the end, this discussion will not end here, but we sincerely appreciate the feedback both community bankers and credit union executives took the time to send in. While there are differences in structure and mission, we think runaway government spending will eventually solve this age-old issue for everyone. After all, the more banks and credit unions look alike operationally and the more the government spends, the more taxes needed form all sources and the more likely it is that this and many other exemptions probably disappear over time.

Whether you are a community banker or a credit union, we end our discussion today by pointing to the enormous value people in cities and towns across this country receive from community- based institutions. Thanks for writing and have a great weekend.

BANK NEWS

Biz Online

A report released early this year found the percentage of small businesses using online banking has climbed from 58% in 2010 to 61% in 2012. Projections indicate it will reach 68% by 2015.

Cloudy

A KPMG survey of 650 businesses and IT leaders worldwide finds about 50% are already working in the cloud, but 33% said the costs to do so were higher than expected.

Worries

A recent survey by Grant Thornton finds the top concerns for banks this year are continued NIM compression (35%), finding organic loan demand (25%) and regulatory compliance burden (23%).

Technology

A survey by ABA of community bankers finds the top four technology services banks expect to adopt this year in order are mobile banking (81%), social media (43%), customer relationship management (32% and cloud computing (14%).

Inter-Social

Gartner predicts so many people are looking for information through social networks that by the end of 2015 about 50% of identities will be based on that as a source (vs. through the internet directly). Bankers should think about this when considering how to authenticate customers.

M&A Flow

DCF Financial Services reports the medial price to tangible book value for banks nationwide over the past 3Ys has been 1.17x (2010), 1.43x (2011) and 1.42x (2012).

Compliance

A Reuters survey of compliance professionals finds 81% expect the volume of regulatory information to increase this year and nearly 50% think the amount will be "significant."