



House Bill 1489 – Governmental Entities – Authorization to Bank with Credit Unions
House Economic Matters Committee
March 6, 2020

OPPOSED

The Maryland Bankers Association and our community bank members are strongly opposed to **House Bill 1489 - Governmental Entities - Authorization to Bank with Credit Unions**. The bill would change Maryland law for the first time ever to allow federal and state-chartered credit unions to hold state and local government deposits in Maryland.

MBA represents FDIC-insured banks serving communities through 1,420 branches across the State. Our members provide banking services for state, county and municipal governments which include operating accounts, online banking, wire transfers, stop payments, positive pay for fraud prevention, remote deposit services, account reconciliation, and more.

Historically, credit unions have never been able to take government deposits in Maryland.

Credit unions were created by Congress in the early 1900s to serve a “limited common bond” of people who work together. In exchange for this limited membership base, Congress exempted credit unions from paying income tax. However, over the past 20 years, credit unions have aggressively expanded their mission to operate more like banks. In fact, today, many credit unions look just like banks and are larger than the majority of Maryland’s community banks. **Aberdeen Proving Ground Federal Credit Union has total assets in excess of \$1.5 billion, larger than 39 of the 42 community banks headquartered in Maryland.** According to the APGFCU, *“if you live, work, worship, volunteer or go to school in Harford and Cecil counties you can be a member” – in other words, everybody.*

MBA is adamantly opposed to this legislation for the following reasons:

Unlike banks, credit unions do not pay any local, State or federal income taxes.

The 42 community banks headquartered in the State of Maryland reported combined net income of \$508.327 million in 2019. The total federal, State and local income taxes reported by these banks was **\$166.779 million** as follows:

- Federal Income Tax Portion (21%) – \$107.832 million
- State Income Tax Portion (8.25%) – \$42.362 million
- Local Income Tax Portion (remainder) – \$16.585 million

This is just a portion of the total income taxes paid by all 87 banks of all sizes doing business in Maryland.

It is impossible for community banks to compete with tax-exempt, multi-billion dollar credit unions regarding loans and deposits because credit unions do NOT pay income taxes. *Imagine what it would be like if you were running a dry cleaner, a hardware store, a cigar shop, a restaurant, or any*

other business and trying to compete head to head with your tax-exempt competitor across the street - paying 25 – 35% of net income in federal, state and local taxes - when such a cost does not apply to your competitor.

Unlike banks, credit unions do not have any requirement to reinvest in low and moderate income areas in our State. Banks must comply with the Community Reinvestment Act (CRA) and are examined for how they support communities through loans, investments and service. Deposits held in FDIC-insured banks are required to be used to meet their CRA responsibilities. **There is no CRA requirement for credit unions.** Credit unions have no legal responsibility to use public deposits in the communities from which they came for reinvestment purposes. There is no regulatory oversight of their community lending, investment or service under an examination by any state or federal regulator.

Unlike banks, credit unions do not have the same regulatory reporting requirements or financial performance ratings as banks; many facts about these entities are not available for disclosure to the public.

Unlike banks, credit unions are not permitted to participate in the reciprocal deposit program sanctioned in Maryland law to keep FDIC-insured deposits in the local community. Through the Promontory Certificate of Deposit Account Registry Service and Insured Cash Sweep, local governments work with community banks to have FDIC-insurance up to \$185 million in deposits, while keeping these deposits in the local community bank for lending.

Government deposit relationships are complex, with the state requiring collateral to be pledged to protect the deposit in the event of a bank failure. These relationships can be complex, with requirements that deposits be collateralized and tracked on a daily basis. **FDIC-insured banks have the expertise to manage and track the collateral requirements.**

The bottom line is that the credit unions' attempt to allow them to hold government deposits is the latest example of credit unions wanting to expand powers and act like banks when it suits them without addressing the inequities in tax and regulatory treatment.

Any credit union that wants the ability to expand and grow beyond what the credit union charter allows has the option to convert to a mutual savings bank, maintaining the cooperative, member-owned structure and joining all other tax-paying banks that support the State and localities.

The following community bank members join us in strongly urging the Committee to give House Bill 1489 an unfavorable report:

| | | |
|------------------------------|--|---|
| 1880 Bank | First National Bank | Orrstown Bank |
| Ameriserv Financial Bank | First Shore Federal Savings and Loan Association | PeopleBank, a Corderus Valley Company |
| Arundel Federal Savings Bank | First United Bank and Trust | Presidential Bank |
| Atlantic Union Bank | Fulton Bank | Provident State Bank |
| Bank of Ocean City | FVCbank | Revere Bank |
| BayVanguard Bank | Harford Bank | Rosedale Federal Savings and Loan Association |
| Carroll Community Bank | Hebron Savings Bank | Sandy Spring Bank |
| CFG Community Bank | Homewood Federal Savings Bank | Severn Bank |
| Chesapeake Bank of Maryland | Howard Bank | Shore United Bank |

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|----------------------------|--|---------------------------------|
| CNB Bank | Jarrettsville Federal Savings and Loan Association | Taylor Bank |
| Congressional Bank | The Chesapeake Bank & Trust Co | The Bank of Delmarva |
| EagleBank | Maryland Partners Bank | The Bank of Glen Burnie |
| Eastern Savings Bank | Middletown Valley Bank | The Farmers Bank of Willards |
| Essex Bank | New Windsor State Bank, a Division of ACNB | The Harbor Bank of Maryland |
| Farmers and Merchants Bank | North Arundel Savings Bank | The Peoples Bank |
| FCB, a Division of ACNB | Old Line Bank, now Wesbanco | The Queenstown Bank of Maryland |
| | | Woodsboro Bank |

| County (City) Name | Number of Credit Union Branches | Number of Bank Branches |
|--------------------|---------------------------------|-------------------------|
| Harford | 21 | 54 |
| Allegany | 23 | 16 |
| Anne Arundel | 31 | 141 |
| Baltimore | 41 | 208 |
| Baltimore (City) | 23 | 110 |
| Calvert | 2 | 20 |
| Caroline | 2 | 10 |
| Carroll | 3 | 48 |
| Cecil | 7 | 17 |
| Charles | 5 | 26 |
| Dorchester | 1 | 12 |
| Frederick | 9 | 71 |
| Garrett | 6 | 12 |
| Howard | 11 | 70 |
| Kent | 0 | 13 |
| Montgomery | 48 | 273 |
| Prince George's | 48 | 137 |
| Queen Anne's | 0 | 19 |
| Saint Mary's | 6 | 18 |
| Somerset | 0 | 6 |
| Talbot | 0 | 18 |
| Washington | 13 | 46 |
| Wicomico | 6 | 38 |
| Worcester | 1 | 37 |
| | | |
| Total: | 307 | 1420 |