April 26, 2022

The Honorable Zack Stephenson
Chair, House Commerce, Finance and Policy Committee
509 State Office Building
St. Paul, MN 55155

RE: H.F. 823: Financial institution and tax status designation merger examination working group created, and report required

Chair Stephenson and Members of the House Commerce Finance and Policy Committee:

On behalf of the Minnesota Bankers Association (MBA), thank you for the opportunity to comment on H.F. 823. House file 823 would establish a working group to review and provide recommendations regarding the merger of financial institutions and related tax status designations. We support educating the legislature and the public on the differences between banks and other financial institutions.

The Minnesota Bankers Association is a trade association established in 1889 which represents nearly 300 banks in Minnesota, from the largest to the very smallest. Minnesota has 264 state-chartered banks, which is about half the number it had 20 years ago. Only two of Minnesota's state-chartered banks would be considered large banks by the federal regulators, the rest are community banks. There are another 45 banks that have branched into Minnesota from other states.

The decline in the number of banks is generally attributed to compliance and information technology costs. Banking is one of the most heavily regulated industries in the nation. According to the American Bankers Association, the cost of regulatory compliance as a share of operating expenses is two-and-a-half times greater for small banks than for large banks, yet these banks still do an exceptional job complying. The Federal Deposit Insurance Corporation (FDIC) recently reported that 99 percent of all FDIC-supervised institutions were rated satisfactory or better for consumer compliance.

Competition from non-banks is also an issue. Various regulatory and tax advantages create an unlevel playing field. For example, credit unions are not subject to the Community Reinvestment Act. They are also not subject to the robust examinations that banks experience.

Credit unions have significant tax advantages which makes it difficult for community banks to compete. Credit unions are not subject to federal or state corporate income tax. In addition, federal credit unions are not subject to state sales tax or the Unrelated Business Income Tax (UBIT), avoiding taxation on profits unrelated to their core business functions. Their tax exemption is based on the premise that they meet the credit and savings needs of persons of modest means, yet the Government Accounting Office found that compared with banks, credit unions actually serve less households with low and moderate incomes.

We appreciate the opportunity to provide the committee with information on the differences between banks and credit unions due to their respective regulatory and tax treatments.

Sincerely,

Tess Rice
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