The Wisconsin Credit Union League

One League, One Focus - Your Success!

January 11, 2022

To: Honorable Members of the Senate Committee on Financial Institutions and Revenue
From: Brett Thompson, President/CEO | Wisconsin Credit Union League
Re: Senate Bill 451, Modernization of the State Statutes Relating to Credit Unions (Ch. 186)

On behalf of Wisconsin's 120 credit unions, we ask for your support of SB 451, a modernization to Wisconsin's state statutes governing credit unions.

Decades of steady, healthy growth and success put credit unions in a financially strong position to provide needed assistance throughout the pandemic – whether through low- or no-interest loans, loans regardless of credit score, loans too small to be profitable, or loans to small businesses with no prior relationship with the credit union.

Putting the interests of members first is not a temporary focus – it's what credit unions are built and mission driven to do, as cooperative not-for-profits charged by statute to "encourage thrift among its members, create a source of credit at a fair and reasonable cost, and provide an opportunity for its members to improve their economic and social conditions" Wis. Stats. § 186.01(2).

By putting people before profit, Wisconsin credit unions provided $420,381,307 in direct financial benefit to the statues members during the twelve months ending in September 2021.

The continued growth and success of credit unions will enable them to step up again and again to meet the future needs of their members and the communities those members live and work in. With that goal in mind, it is prudent to every so often review the state charter and ensure it works well for the Credit Union Movement and makes a compelling case for credit unions to choose to be chartered by the state.

97% of the credit unions in our state choose to be regulated locally and chartered at the state, rather than federal level. A state charter ensures the credit union's primary regulators live, work, and understand Wisconsin. In contrast, federally chartered credit unions in our state are regulated by a region based in Tempe, Arizona that covers 23 states.

Wisconsin consumers benefit when credit unions are empowered to meet their evolving needs and invest further in their communities – SB 451 does just that.

SB 451 codifies the status quo, streamlines current practice, or permits the Office of Credit Unions to provide parity - making permissible for state-chartered credit unions what is already permissible for other credit unions. It does not create new powers for the industry.

This bill is meaningful and at the same time, *everything* included is current practice, permitted policy or related to granting permission of policy applicable to other credit unions.

The following details the components of the bill.

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Member Credit Union National Association

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SB 451 Overview

Under Chapter 186 of Wisconsin State Statutes, a credit union is to "encourage thrift among its members, create a source of credit at a fair and reasonable cost, and provide an opportunity for its members to improve their economic and social conditions." – Wis. Stats. § 186.01(2)

The modernizations proposed in SB 451 give credit unions future opportunity to evolve and continue to work toward their mission of work toward improving the economic and social conditions of their members.

Specifically, the bill:

- Clarifies and codifies **already permissible activities and current practice** for credit unions related to:
  - Other Real Estate Owned,
  - member accounts for individuals other than the primary borrower on a loan, and
  - supplemental capital.
- Simplifies **current processes** for
  - payment for examinations,
  - filling board vacancies,
  - ATM placements,
  - granting state credit unions powers already granted to federally chartered credit unions, and
  - adding 'incidental powers' granted to federally chartered credit unions.

Policy Detail

Other Real Estate Owned

(Sections 3 & 4, "Credit union property" in LRB summary)

In 2015, the Office of Credit Unions issued General Letter CU 1-15 clarifying that it is permissible for credit unions to have Other Real Estate Owned (OREOs) and outlined a number of requirements and considerations. (An OREO, for example, could be a property owned by the credit union because it was foreclosed upon that has not been sold at a foreclosure auction or through conventional channels.)

➔ SB 451
Sections 3 and 4 confirm, in statute, OREOS are permissible – codifying the guidance issued by the OCU in 2015. The guidance would still be applicable.

Member Accounts for Co-Signers, Joint Applicants, Co-Obligors, Co-Borrowers, Guarantors

(Section 2, "Nonmember loan participations" in LRB summary)

The current practice for credit unions, in making loans to members, does not require that an individual fulfilling one of listed roles open and maintain a separate, their own, membership account with the credit union. As an example, if a couple purchases a house with a loan from the credit union, one of them is required to become a member of the credit union. The recipient of the loan must always be a member of the credit union. Their spouse is a co-borrower on the loan but is NOT required to open a second individual membership account.

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Member Accounts for Co-Borrowers (cont.)

There is universal appreciation that clarity in statute would be helpful. In considering the best policy to codify, status quo prevails – to avoid the arbitrary influx of new, and often unwanted or dormant accounts that create unnecessary burden and significant cost.

➔ SB 451

The bill codifies the status quo, that while the loan recipient must be a member – the identified list are not required to open a separate membership account. It does not expand who is eligible to secure a loan from a credit union.

Supplemental Capital

(Section 6)

32 Wisconsin credit unions can already accept supplemental capital as Low-Income Designated credit unions. The bill would make this tool, to maintain safe capital levels during good and bad economic times, available to all state-chartered credit unions under guidance by the Office of Credit Unions.

Capital represents the portion of a credit union's assets available to cover any losses the credit union may incur. For credit unions, the only source for capital is retained earnings. Under the current system, a credit union that has been successful at attracting deposits may find itself in regulatory trouble if its lending does not increase at the same pace as deposits. New deposits increase the credit union's assets, which can deplete its net worth ratio and trigger statutory action from regulators.

Access to supplemental forms of capital enhances the safety and soundness of credit unions by allowing them to develop a cushion to absorb operating losses and asset write-downs during economic downturns. It also enhances credit unions' ability to serve their members.

Supplemental Capital does not impact the structure and governance of credit unions as not-for-profit cooperatives.

If this tool helps even one credit union preserve their service to members and communities, it will have fulfilled it's purpose. Supplementary Capital may not be a frequently used tool – but can be a valuable one nonetheless.

➔ SB 451

Only after approval by the NCUA and with the express permission of and under limitations outlined by the Office of Credit Unions, the bill would permit qualified state-chartered credit unions to accept supplemental capital. This provides opportunity for credit unions to diversify and improve safety and soundness.

This bill does not require credit unions to issue supplemental capital. In fact, today just one of the 32 eligible Wisconsin credit unions has issued supplemental capital.

Payment for Examinations

(Section 13, "Charges for credit union examinations" in LRB summary)

When the OCU examines a credit union, the credit union are required to pay for the cost of the examination on the day the examination is completed. This is outdated, unnecessarily restrictive, and inconsistent with other financial institutions.

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➔ SB 451
Allows a credit union to pay the charge within 30 days of when the examination is completed. This provides flexibility for both the OCU and credit unions.

Filling Board Vacancies
(Section 1, "Vacancy on Boards of Directors" in LRB Summary)
Credit union boards of directors are volunteers who run for office and are democratically elected directly by the membership. Currently, a credit union has 60 days to fill a vacancy on their board.

➔ SB 451
The timeline to fill any vacancy on a board of directors is lengthened to 90 days. The credit union still can replace a vacancy in a shorter amount of time. The extra time enhances a credit unions' ability to recruit well qualified candidates for these volunteer positions.

ATM placements
(Sections 5, 15, 16 & 17, "Off-side ATMs" in LRB summary)
Currently, financial institutions are required to notify their regulators when they place an ATM in a new location. The requirement to notify, in credit unions' case, the OCU, creates unnecessary work for both the credit unions and OCU. Private vendors are not required to report their ATM placement.

➔ SB 451
Removes the notification requirement for credit unions, banks, and savings and loans from the statutes and administrative rules. Statute and rules reference all of these financial institutions, so removing the requirement for all at once is streamlined and commonsense.
- Sections 5 and 25 remove the requirements from the statutes and the rules, respectively, for credit unions to provide notice.
- Sections 15 and 26 do the same for savings banks.
- Sections 16 and 27 do the same for savings and loan associations.
- Sections 17 and 24 do the same for state banks.

Parity for Powers Granted to Federally Chartered Credit Unions
(Sections 7, 8, 14, "Parity" 2. & 3. in LRB summary)
Wisconsin statutes already provide a process for parity between federally and state-chartered credit unions. In each situation the Office of Credit Unions must go through the rule making process to authorize something that is already permissible for federally chartered credit unions operating in the state.

This process was put into effect at a time when rulemaking was a relatively efficient process and worked well to quicky ensure the state-chartered credit unions could – with direction from the OCU – partake in an activity already vetted and allowed for their federally chartered counterparts.

While guidance is not subject to legislative review, there is precedence for simplifying a process for parity in instances where the powers or services are already available to federally chartered credit unions operating within the state (see Incidental Powers section, following).

➔ SB 451
The bill would preserve the power to grant parity currently provided in statute, simplify the process by which it can be applied – through guidance – and condense the references to a single statute. The bill does not allow the OCU to create new powers and requires proactive action from the OCU to apply parity with federally chartered credit unions when it determines appropriate for state-chartered credit unions as well.

Addition of 'Incidental Powers' Granted to Federally Chartered Credit Unions
(Sections 9-12, "Parity" 1. in LRB Summary)
DFI-CU 75.04 provides a list of activities and powers incidental to the business of a credit union that were either:

- Already authorized for federally chartered credit unions as of April 18, 2014 when the list was created, or
- Added by rule after a determination by the OCU that the power should be authorized for WI chartered credit unions.

Under current law, the OCU has 30 days after an incidental power becomes authorized for federally chartered credit unions to determine whether it should be authorized for state-chartered credit unions. To add such powers to the list, the OCU is permitted by statute to use an abbreviated rule making process, which was passed by voice vote and signed into law by Governor Walker (2013 Act 277) – suggesting there is precedence for an abbreviated process to apply parity for powers already vetted for federally chartered credit unions in the state.

The current statue is unclear on what happens at the end of the 30-day timeframe if the OCU takes no action (does not proactively authorize the power or determine they will not authorize the power). Further, the current statute is unclear whether the OCU could still use the rule making process to add the power after 30 days.

➔ SB 451
Clarifies that the power will be authorized for state-chartered credit unions unless the OCU issues a general order within the 30-day review period noting otherwise. There are a series of considerations the OCU must consider in making the determination including whether:

1. It is necessary, convenient, or useful for effectively carrying out the mission or business of a credit union.
2. It is the functional equivalent or logical outgrowth of activities or powers that are part of the mission or business of a credit union.
3. It involves risks similar in nature to those already assumed as part of the business of the credit union and it is not likely to be detrimental to the overall safety and soundness of the credit union.

The remaining sections of SB 451, sections 18, 19, 20, 21, 22, 23, amend cross references in Ch. 227, on administrative rulemaking.

The Wisconsin Credit Union League

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Wisconsin Support for Credit Unions & Their Federal Income Tax Exemption Remains Strong, Bipartisan

Wisconsinites reaffirmed their strong support for credit unions' federal income tax exemption. 80% of voters support the exemption with the understanding credit unions are not-for-profit cooperatives that return earnings to members in the form of better rates and fewer or lower fees. Half of voters in the state (50%) strongly support this exemption.

Support for the exemption is consistent across party lines (ranging from 77% support from Independents to 85% from those that identify as GOP), across regions of the state, by gender and age, by income level, and notably remained strong (73% support) among voters who do not have a credit union account.

Given the stark partisan divide nationally and in Wisconsin, it is very rare to see any issue receive this type of broad-based and bipartisan support.

In addition, 82% of voters disagreed with the statement, "There is no real difference between a bank and credit union."

The following further illustrate voters' appreciation and support for credit unions:

- 76% agree that a tax on cooperative credit unions is really a tax on credit union members.
- 72% said "offer the best deal for consumers" describes credit unions (13% selected banks).
- 59% said "supports my community" describes credit unions (21% selected banks).
- 85% of voters agreed that, based on the law, credit unions should serve members regardless of income level. (Only 12% say that "credit unions are only meant to serve low income and middle-income individuals.")
- 87% agreed that the size of a credit union should not matter as long as it is serving the needs of its members. This view is shared (84%) by those that do not have a credit union account. (Just 13% believe "credit unions were never intended to grow as large as banks and their size should be limited.")
- Credit union members are likely to feel more strongly that their financial institution cares about and improves a person's financial wellbeing.
    - Financial institution improves financial wellness
        - Credit union members: 75% agree | 22% disagree (53% difference)
        - No credit union account: 60% agree | 38% disagree (22% difference)
    - Financial Institution cares about financial wellness
        - Credit union members: 73% agree | 26% disagree (47% difference)
        - No credit union account: 55% agree | 44% disagree (11% difference)

In summary, credit unions continue to be extremely popular in Wisconsin. Across every demographic there is support for credit unions' federal income tax exemption and ability to serve members regardless of income level and size.

The survey was conducted by Public Opinion Strategies August 16-19 among 600 registered voters. The margin of error is plus or minus 4%. For any questions about the survey, please contact Jim Hobart at hobart@pos.org or 703-639-8154.

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Member Credit Union National Association

Cooperative Network

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TO: Members of the Senate Committee on Financial Institutions and Revenue

FROM: Daniel Smith, President and CEO of Cooperative Network
Jennifer Wickman, Director of Government Affairs

DATE: December 8, 2021

SUBJECT: Senate Bill 451 – Authorized Activities and Operations of Credit Unions

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Cooperative Network offers these comments in support of credit unions and SB 451 / AB 478. Although these bills do not address or impact the taxation of credit unions, we offer the following information in response to the testimony that dominated the recent Assembly hearing on AB 478. We particularly want to explain the tax status of cooperatives.

Cooperative Network is an association of cooperatives from a dozen different business sectors in Wisconsin and Minnesota. The 742 cooperatives in Wisconsin range in size from smaller, local enterprises such as Cochrane Cooperative Telephone Company to larger multi-nationals such as Land O'Lakes. Cooperative businesses operate across virtually all industries, ranging for example from Washington Island Electric Cooperative to Summit Credit Union. They all have in common the fact that they are governed by the Seven Cooperative Principles, they are member owned, and they are regulated by Wisconsin Statute Chapters 185 and 186 (specific to credit unions).

Cooperatives are Not Exempt from Taxation
In general, cooperatives pay all the special taxes levied on businesses. These include real and personal property taxes, sales taxes, employment taxes (to fund social security, unemployment compensation, and workers' compensation benefits), gasoline and diesel fuel taxes, license fees, motor vehicle registration fees, and excise taxes on telephone, power, and other utility services.

Cooperatives are Member-owned and Pay Income Tax at the Member Level
The basic rationale regarding cooperative taxation is that the cooperative is an extension of the patron members who own the cooperative. Or to state it differently: money flows through the cooperative and on to patrons, leaving no margins to be retained as profit by the cooperative. Therefore, since cooperatives return dividends or savings to the members – income taxes are paid at the member level. In other words, margins are taxed only once. To do otherwise would result in double taxation of the income. An additional tax on cooperatives, would be an additional tax on their members.

Cooperatives also have Special Features that Justify Unique Approaches to Income Taxation
The first time cooperatives were officially viewed as non-profit and different than other business organizations was in the United States Revenue Act of 1891. The act provided an exemption for cooperatives because it recognized that "purely local cooperative associations…organized and conducted solely by the members thereof for the exclusive benefit of its members are not for profit". The definition of a Wisconsin credit union today, reaffirms their organization solely for the benefit of members (§186.01(2)).

Over the years, other rationale has been articulated to explain why cooperatives should be exempt from income taxes. These were recently summarized during the Farmer Co-ops Conference presented by the University of Wisconsin Center for Cooperatives (UWCC). All of these explanations begin with the logic that cooperatives should have unique taxation, not because they deserve special privileges, but rather because of their specific structure of operations. These rationale include:

- **The Price Adjustment Characteristic** – As early as 1941 economists argued that cooperatives did not have net income because they effectively operated at cost.

- **The Agent Characteristic** – In the mid 1950's, the argument was articulated that the cooperative acts as an agent for the members and as an agent, the cooperative passes the profits and taxation on to its member owners. In the case of retained patronage the cooperative distributes the profits as cash and the members collectively decide to re-invest into the equity of the cooperative.

- **The Partnership Comparison** – Prior to Sub-Chapter T (of the IRS code) the argument emerged that cooperatives are simply a partnership of members. Passing through profits as patronage and having it taxed at the owner level is therefore appropriate.

- **The Cooperative is a Vertically Integrated Firm –** Most recently, cooperatives have been described as vertically integrated. For example, organized similar to a refinery. When a refinery buys a pipeline company the refinery is not taxed at two levels, rather the pipeline profits simply become part of the profits of the vertically integrated company. So, by extending that logic, taxing an agricultural cooperatives' profits at the member level is equivalent to the farmer filling a consolidated tax return.

Only Investor-General Corporations Pay Income Tax at both the Business and Owner Levels
Finally, the USDA in its document, Understanding Cooperatives: Income Tax Treatment of Cooperatives explains that of the five common types of business structures in this country, only investor-general corporations pay income tax at both the business and owner levels. And only 12 percent of American businesses are investor-general corporations. Cooperatives are different because "subchapter T recognizes that the objective of business conducted on a cooperative basis is not to generate earnings for the cooperative, but to increase the income of the members. Thus, net margins on business with or for patrons are subject to income tax **only once**, at either the cooperative or the user level, but not both." And that, "This single tax treatment is not limited to farmer cooperatives. With certain exceptions, any business that chooses to 'operate on a cooperative basis' is eligible for tax treatment under Subchapter T."

In conclusion: We are concerned that the comments and testimony regarding AB 478 did not pertain to the substance of the bill but rather the tax status of cooperatives. Cooperatives provide essential services to consumers throughout our economy. The cooperative business model is time-tested, properly structured and must be protected.

Wisconsin Bankers ASSOCIATION

Testimony of the Wisconsin Bankers Association

Senate Committee on Financial Institutions and Revenue
Senate Bill 451

January 11, 2022

Chair Kooyenga, Vice Chair Jagler, and members of the Committee, thank you for the opportunity to testify at this hearing. My name is Ken Thompson and I am the President/CEO at Capitol Bank in Madison, and also the current Board Chair for the Wisconsin Bankers Association (WBA). With me today is WBA's President and CEO, Rose Oswald Poels. Founded in 1892, WBA is the state's largest financial industry trade association, representing more than 200 commercial banks and savings institutions, their branches, and over 21,000 employees. The Association represents banks of all sizes in Wisconsin, and nearly 98 percent of banks with a physical branch presence in the state are WBA members. Capitol Bank has been heavily involved in serving the Madison and surrounding communities since 1995 when we first opened our doors. We appreciate the opportunity to provide comments today on Senate Bill 451.

SB 451 seeks to make several changes to the credit union statutes, some of which are intended to modernize the laws which we understand as the banking industry often seeks modernization of our laws too. WBA does not object to those provisions. However, there are several provisions in SB 451 that WBA objects to which call into question the rationale for a credit union charter that is distinct from banking and threaten the future of community banks.

In Wisconsin, there are 13 credit unions that are over $1 billion in asset size that compete daily with banks like mine across the state. The services offered are no different than those offered by banks, and yet the credit unions enjoy a significant advantage in their income tax-exempt status. Capitol Bank regularly experiences competition from growth-oriented credit unions operating in our market. Like anything, we win some of those deals and at other times we lose. Competition is normally healthy and good for consumers when all parties involved operate on a level playing field. However, that is not the case with the credit union industry.

As you consider your position on SB 451, I also ask you to consider the public policy rationale that was used to create the credit union charter in the first place, giving them the very meaningful tax exemption they continue to enjoy today. If credit unions were intended to operate no differently from banks, then there would not be a separate charter in the first place. Wisconsin law provides for several different type of financial institutions to exist, with pros and cons to each one. These include commercial banks, savings banks, savings and loan associations, credit unions, and universal banks. Further, we all have chartering options to be either state or federally chartered. Again, there are pros and cons to this decision too. It is important to remember that there were public policy reasons for these different charters to exist, and if a business decision is made that an institution can no longer fully operate within the confines of the charter it currently has, then the institution makes a strategic decision to make a change.

well-capitalized so there is no need to have access to supplemental capital. Supplemental, or secondary capital, typically takes the form of subordinated debt which can only be offered, issued and sold to certain accredited investors. If this type of transaction were permitted, it would change overnight the focus of the credit union from one serving its members, to one that now is also beholden to its third-party investors. Subordinated debt is a tool that is commonly used for financing growth. Credit unions choosing to issue subordinated debt will use it to grow through the acquisition of tax-paying banks, or branches of banks on terms far more favorable than what a tax-paying bank can match. We've already seen this occur 5 times in Wisconsin and these acquisitions will only grow in number if credit unions are able to finance growth through subordinated debt. The negative impact to Wisconsin's tax base is real.

Third, WBA objects to provisions in SB 451 that create a procedure by which the Office of Credit Unions may circumvent the current rulemaking process and would make federal rule changes automatically effective at the state level unless that office acts to provide otherwise. There are several concerns with this potential change. First, state agencies should not be permitted to circumvent the rulemaking process. The legislature has already acted on this point with 2011 Wisconsin Act 21; however, the language in SB 451 is in direct conflict with this law. Importantly, as stated previously, the charters are separate and distinct for public policy and other important reasons. Financial institutions also enjoy options to decide to be state or federally chartered. If a credit union believes it is in its strategic best interest to take advantage of all rules passed for federally chartered credit unions, then the state-chartered credit union could convert to become a federally chartered one. It is important to point out, however, that all but one or two credit unions headquartered in Wisconsin are state-chartered. That is because our state law is already more favorable to state-chartered credit unions than what the federal law provides. If the credit union industry really wants the state law to automatically mirror the federal law, then the state law should be adjusted to do so in all regards. That is currently not the case today, most notably in the area of business lending. Our state law provides state-chartered credit unions with much broader authority to do greater amounts of commercial lending than what their federally chartered credit union counterparts enjoy. The current process requiring the Office of Credit Unions to issue rules should be retained since it coincides with the intent of this legislature related to agency's powers, and perhaps more importantly for the safety and soundness of the credit unions and the Office's ability, as well as this legislative body's ability to ensure that Wisconsin citizens are protected.

Fourth, a subset of language in SB 451 would allow credit unions to hold real property "for any purpose." WBA believes this phrase is too broad and should be more narrowly defined.

Finally, as part of our official testimony for the record, we are also including a copy of a letter signed by 87 banks and WBA in opposition to SB 451.

In conclusion, while portions of SB 451 are well-intentioned and focused on true modernization, WBA respectfully requests that you oppose SB 451 in its current form for the varied reasons which threaten the survivability of community banks and allow for the continued erosion of important distinctions created by this legislative body between Wisconsin's various financial institution charter options. Thank you very much for your time and careful consideration of our concerns.

Wisconsin Bankers ASSOCIATION

January 11, 2022

WBA Letter to Members of Senate Committee on Financial Institutions and Revenue: Opposition to SB 451

RE: 2021 Senate Bill 451

Dear Chair Kooyenga, Vice Chair Jagler, and Members of the Committee:

On behalf of the members of the Wisconsin Bankers Association (WBA) and the undersigned banks, representing banks of all sizes in Wisconsin, we write to express opposition to several provisions contained within SB 451 which would broaden the powers of state-chartered credit unions here in Wisconsin. There are portions of SB 451 that make necessary updates to credit union statutes that we do not object to; however, we urge the members of this committee to reconsider several provisions of SB 451.

Long ago, Wisconsin's Legislative body created a series of statutes which provide requirements and conditions for varying charters of financial institutions, including state commercial banks, savings banks, savings and loan associations, universal banks, and credit unions. While similar in that each serve to provide their communities with safe financial products and services for all, there are very distinct and important differences.

There are numerous credit unions here in Wisconsin that continue to push the boundaries of what the credit union charter allows. Using their tax advantage, a handful of credit unions have grown in both size and sophistication and have become nearly indistinguishable from banks.

We strongly oppose that:

SB 451 will allow any size state-chartered credit union to issue subordinated debt. To avoid secondary capital being mis-used in manners different than for that which it was originally intended, the ability to issue secondary capital should not be broadened.

SB 451 will allow a non-member to be party to a credit transaction. In exchange for receiving the benefits of being largely tax exempt, credit unions are limited in who may be offered loan products and services from credit unions. Credit unions have long exploited this limitation. As a result of receiving preferred tax treatment, current state law should be enforced, and nonmembers should not be parties to a credit transaction.

SB 451 would also create a procedure by which the Office of Credit Unions may circumvent the current rulemaking process and would make federal law automatically effective at the state level unless that office acts to provide otherwise. Agencies should not be permitted to skirt the rulemaking process. For safety and soundness concerns and to otherwise protect state's interests, federal law should not automatically become state law.

SB 451 would allow for credit unions to hold real property for any purpose. Credit unions should not be permitted to hold property for this broad a purpose.

(continued)

Wisconsin Bankers ASSOCIATION

We believe each of these provisions erode the important distinctions between financial institution charters. While portions of SB 451 are well-intentioned, this legislation would give credit unions more tools to operate far beyond their stated mission.

We appreciate your consideration.

Sincerely,

Abby Bank, Abbotsford
American Bank, Beaver Dam
American National Bank, Fox Cities
Bank of Brodhead
Bank of Deerfield
Bank of Kaukauna
Bank of Luxemburg
Bank of Mauston
Bank of Milton
Bank of Sun Prairie
Bank of Wisconsin Dells
Bankers' Bank, Madison
Banner Banks Birnamwood
Black River Country Bank, Black River Falls
Bonduel State Bank
Bristol Morgan Bank, Oakfield
Capitol Bank, Madison
Charter Bank, Eau Claire
Citizens Bank, Mukwonago
Citizens Community Federal NA, Eau Claire
Citizens First Bank, Viroqua
Citizens State Bank, Hudson
Citizens State Bank, Loyal
Commerce State Bank, West Bend
Community Bank of Cameron
Community First Bank, Rosholt
Community State Bank, Union Grove
Cornerstone Community Bank, Grafton
Dairy State Bank, Rice Lake
East Wisconsin Savings Bank, Kaukauna
Farmers and Merchants Bank of Kendall
Farmers and Merchants State Bank of Waterloo
Farmers and Merchants Union Bank, Columbus
Farmers Savings Bank, Mineral Point
First Business Bank, Madison
First Citizens State Bank, Whitewater
First National Bank of River Falls
First National Community Bank, New Richmond
First State Bank, New London
Fortifi Bank, Berlin
Frandsen Bank and Trust, Eau Claire
Great Midwest Bank, Brookfield
Hustisford State Bank
IncredibleBank, Wausau
Independence State Bank
Intercity State Bank, Schofield
International Bank of Amherst
Investors Community Bank, Manitowoc
Ixonia Bank
Key Savings Bank, Wisconsin Rapids
Ladysmith Federal
Mayville Savings Bank
MidWestOne Bank, Osceola
Monona Bank
Mound City Bank, Platteville
National Bank of Commerce, Superior
Nicolet Bank, Green Bay
North Shore Bank, Brookfield
Northwestern Bank, Chippewa Falls
Oak Bank, Fitchburg
Oostburg State Bank
Partners Bank, Stratford
Peoples State Bank, Wausau
Port Washington State Bank
Premier Community Bank, Marion
River Bank, La Crosse
River Falls State Bank
Royal Bank, Elroy
Security Bank, New Auburn
Security State Bank, Iron River
Settlers bank, Windsor
Shell Lake State Bank
Spring Bank, Brookfield
Starion Bank, Madison
State Bank Financial, La Crosse
State Bank of Cross Plains
State Bank of Reeseville
The Bank of New Glarus
The Equitable Bank, SSB, Wauwatosa
The Park Bank, Madison
The Peoples Community Bank, Mazomanie
The Pineries Bank, Stevens Point
The Stephenson National Bank and Trust, Marinette
TSB Bank, Lomira
Waumandee State Bank
Wisconsin Bankers Association, Madison
Wolf River Community Bank, Hortonville

Testimony in Opposition to SB 451
Senate Committee on Financial Institutions and Revenue
January 11th, 2022

Chairman Kooyenga and members of the Senate Committee on Financial Institutions and Revenue:

Thank you for allowing me to testify today in opposition to Senate Bill 451, relating to authorized activities and operations of credit unions.

My name is Mark Larson and I am President & CEO at Hustisford State Bank. I reside in Rubicon.

I have been in banking for over 33 years. I started my carrier in banking on the east coast only days after leaving the US Navy.

Hustisford State Bank is a quintessential community bank – we have about $75 million in assets and employ ten people at our one location. My bank has been serving customers in Hustisford since 1902. We are heavily involved in the community through real estate lending.

Financial institutions, whether they are banks or credit unions, are highly scrutinized entities with layers of regulation that have been added over the years. There are portions of this legislation that make necessary updates to credit union statutes that the banking industry does not have an issue with. Our industry regularly seeks modernization law changes, too.

However, I am opposed to several provisions contained within SB 451. There are numerous credit unions here in Wisconsin that continue to push the boundaries of what the credit union charter allows. Using their tax advantage, a handful of credit unions have grown in both size and sophistication and become nearly indistinguishable from banks. Yes, credit unions pay millions of dollars in property, sales and employment taxes each year. But credit unions enjoy state and federal exemptions on corporate income taxes.

For two types of financial institutions offering nearly all the same products and services, this provides credit unions with a huge competitive advantage. Banks expect and embrace competition – it benefits consumers – but only when the playing field is level. Make no mistake, the expansion of credit union powers in this bill will only tip the skewed scales more toward credit unions at the expense of small community banks like mine. If you are going to benefit from the value of a loan from a credit union, you should be a member of the credit union. Eroding this through SB 451 is fundamentally against the foundation of credit unions to serve their members. Issuing or accepting supplemental forms of capital is another erosion, going against the concept that credit unions be owned by their members.

The reason behind credit unions tax exemption has everything to do with themes like "people of modest means," "loans for provident purposes," "teaching thrift" and "financial education." By offering loans to those who might not otherwise have access to credit, Congress feels credit unions provide a public service that is as necessary as any other social program it might subsidize — something Americans need, not unlike the Centers for Disease Control or U.S. Department of Housing & Urban Development.

It's smart for credit unions to talk about their structure — that they are not-for-profit, member-owned, democratic financial cooperatives — both for marketing and political reasons. But the structure of credit unions is not why they have tax exemptions.

In the end, the reason for credit unions tax-exempt status boils down to one thing: the government allows it. Credit unions then have to earn it every day by contributing to the economic well-being of the citizenry and the country as a whole. Taking the exemption for granted is the greatest threat to losing it.

As a community banker, I feel there are four objectionable sections of this bill, as identified by WBA, that would exacerbate this problem to the detriment of my bank, and ultimately consumers in the long run.

While portions of SB 451 are well-intentioned, this legislation would give certain credit unions more tools to operate far beyond their stated mission.

Thank you again for the opportunity to testify in opposition to this legislation today.