

Issue Update

Today's credit unions operate far beyond their original mission – serving broad commercial interests while benefiting from outdated tax exemptions. More than 90 years ago, Congress enacted the Federal Credit Union Act, giving credit unions a mission to provide basic consumer financial services to those of modest means connected through some common bond within a well-defined community, such as employees of a company or parishioners of a church. This mission limited credit unions' potential membership and together with their not-for-profit status and cooperative structure, justified an exemption from federal corporate taxes and certain reporting requirements.

The credit union industry has evolved drastically over the past few decades, with America's entire population now eligible for membership. The expansion of the common bond and field of membership – largely a result of the Credit Union Membership Access Act of 1998 and subsequent actions taken by the National Credit Union Administration (NCUA) – have pushed credit unions away from their mission and eliminated the justification for their preferential tax and regulatory treatment. In recent years, dozens of credit unions have acquired or announced plans to acquire community banks, a trend that underscores the need to reassess whether their activities remain consistent with their original mission and tax-exempt status.

Why It Matters

Justifying Tax Subsidy. The \$2.38 trillion credit union industry receives a \$32.2 billion tax subsidy to provide basic consumer financial services to under-resourced groups and communities. However, unlike most tax-exempt non-profits, tax-exempt federal credit unions have no community benefit reporting requirements and do not file IRS Form 990. With few reporting and disclosure requirements, credit unions have little accountability as it relates to their use of taxpayer resources.

Serving LMI Communities. Community Reinvestment Act (CRA) requirements have historically not applied to credit unions as their field of membership limitations ensured they were focused on the specific groups they were chartered to serve. Although NCUA-approved field of membership expansions now allow nationwide membership, the CRA exemption remains. This incongruity affects community investment outcomes, and a number of states have enacted state-level CRA requirements for state-chartered credit unions in the absence of congressional action.

Recommended Action Items

- **Conduct Congressional Oversight of Credit Union Tax Treatment.** Congress last convened a hearing on credit unions in 2005; oversight is necessary to determine whether 21st-century credit union industry activities, like acquiring banks, align with its tax treatment.
- **Mandate Transparency in Credit Union Service to LMI Communities.** Congress should assess whether credit unions fulfill their statutory mandate of serving low- and moderate-income communities in a robust, demonstrable way.

Credit Unions

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- **Reject Proposals that Expand Credit Union Powers.** Congress should oppose legislation seeking to expand credit union powers and enhance its oversight of credit union service organizations.