



**Massachusetts Bankers Association Statement
in Opposition to
H 1034, H 1163 & S 652, An Act to Allow Municipalities to Invest in Credit Unions
Joint Committee on Municipalities and Regional Government
June 20, 2023**

On behalf of our 120 commercial, cooperative and savings banks and federal savings banks and savings and loan associations with more than 72,000 employees located throughout the Commonwealth and New England, and particularly our state-chartered community banks throughout Massachusetts, we appreciate the opportunity to testify today to express our strong opposition to H 1034, H 1163 & S 652, an Act to Allow Municipalities to Invest in Credit Unions. H 1034, H 1163 & S 652 are refiles of legislation from past sessions (most recently H 1213) that was ultimately referred to a study by the Committee.

As you know, credit unions were initially established to serve individuals of “modest means” with a “common bond” of membership. Today, the top 25 largest credit unions in the Commonwealth are growing at a rate that reflects an agenda that is far from the mission of small, fraternal, or community-based institutions that the founders of the credit union movement envisioned more than 100 years ago. The top fourteen credit unions in Massachusetts now exceed \$1 billion in assets and are sophisticated full-service financial institutions that have taken advantage of an outdated state subsidy and lax regulations to capture significant shares of the financial market in Massachusetts.

Our position remains clear: Massachusetts banks **have no objection** to authorizing credit unions expanded powers if, and only if, they are subject to the same tax and regulatory obligations as community banks.

Specific Comments Regarding H 1034, H 1163 & S 652

H 1034, H 1163 & S 652 authorize the state, along with local governments and other political subdivisions throughout the Commonwealth, to deposit public funds in tax-exempt credit unions. This legislation is part of a continued effort by the credit union industry in Massachusetts to greatly expand their powers and further blur the lines between **taxpaying community banks** and **tax-exempt credit unions**. These bills would greatly expand the current credit union tax subsidiary by allowing public funds to flow out of tax paying banks into income tax-exempt credit unions. This would also compound into additional loss of state tax revenue to the Commonwealth’s General Fund that will negatively affect the distribution of the Commonwealth’s vital tax dollars back to municipalities in the form of local aid.

While this legislation has been presented under the guise of credit unions seeking fairness among financial institutions, these bills are in fact money bills that will result in significantly less overall tax revenue for the Commonwealth. While the first five provisions in the bills authorize state, county and municipal entities to make deposits in any credit union, credit union law must have a reciprocal provision allowing a credit union to receive public funds. That authority is set out in section 6, which does so with a “Notwithstanding any other provision of law” proviso. The applicable law negated by the “Notwithstanding” clause is the requirement to be an eligible member of a credit union under the institution’s membership qualification by-law. Therefore, if this legislation passed, a credit union could seek public deposits from any political subdivision in the Commonwealth with no membership or eligibility requirements – a significant shift of scope and clear profit-driven departure from credit unions’ original core mission.

This language also makes it clear that, contrary to the claims of the credit union industry, H 1034, H 1163 & S 652 were not filed on behalf of the approximately 57% of the credit unions that have less than \$100 million in assets and maintain their traditional common bond requirements. MBA believes that these bills were filed to benefit the 25 largest bank-like credit unions, which are currently experiencing significant growth and have greatly expanded their fields of membership in recent years.

The current public deposit market in Massachusetts has more than 120 Massachusetts-based banks who operate in a highly competitive marketplace for these deposits. The Massachusetts Municipal Depository Trust (MMDT), a special mutual fund administered by the state treasurer and managed by Federated Investments also holds another \$31.0 billion in public deposits, according to its last report in 2023. The vast majority of MMDT's funds are invested in commercial paper and jumbo CDs in institutions outside Massachusetts.

In Massachusetts, state- and federally chartered banks, as well as state-chartered credit unions, are subject to state and/or federal CRA laws. These institutions are regularly examined for their performance in lending, investment and providing services to their local communities. However, six (6) of the largest ten (10) Massachusetts credit unions -- and 3 of the top 4 -- are federally chartered and entirely exempt from the Massachusetts CRA statute. This means that the institutions likely to be the most aggressive at bidding for public funds will have no responsibility to use those deposits in the communities from which they came for reinvestment purposes and to serve individuals and businesses in low- and moderate-income census tracts. Therefore, if credit unions are granted the right to accept public deposits, two of the largest competitors for this business -- large bank-like federal credit unions and the MMDT -- will have no CRA mandates. Given the Commonwealth's history as one of the first states to enact a CRA law and the focus on economic equity issues, we believe the Legislature would want to maintain this requirement for any depository institution that receives public funds.

Massachusetts Banks Provide Numerous Services to Municipalities and Government Agencies

In addition to banks' CRA requirements, our member institutions invest significant funds and resources back into the communities they serve through charitable donations, investment in affordable housing and support for non-profit community organizations. Many banks that provide services to local municipalities also offer specialized banking products and services at reduced or no cost to the municipalities that deposit funds with their institutions. These complementary services for public depositors include online banking, wire transfers, stop payments, positive pay, remote deposit services, account reconciliation, specialized trust reporting, printing and supply of check stock, among others. Many of these specialized programs have been adjusted through the years to fit the changing needs of individual cities and towns or other political subdivisions.

Conclusion

Notwithstanding the claims of the credit union industry, H 1034, H 1163 & S 652 are not designed to help small, traditional credit unions. These bills were carefully crafted to benefit the largest bank-like credit unions that offer the more sophisticated services that municipalities require. Even if municipalities receive a slightly higher return from the largest bank-like credit unions, the Commonwealth and cities and towns will lose in terms of a shrinking income-tax base and fewer CRA investments from community banks with every dollar that is deposited in a tax and CRA-exempt credit union.

Thank you again for the opportunity to provide you with our views on this important legislation.