DCUC
DEFENSE CREDIT UNION COUNCIL

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The Honorable Mike Crapo
Chairman
Finance Committee
United States Senate
Washington, D.C. 20510

The Honorable Ron Wyden
Ranking Member
Finance Committee
United States Senate
Washington, D.C. 20510

The Honorable Jason Smith
Chairman
Ways and Means Committee
United States House of Representatives
Washington, D.C. 20515

The Honorable Richard Neal
Ranking Member
Ways and Means Committee
United States House of Representatives
Washington, DC 20515

Subject: Defense of Credit Unions' Tax-Exempt Status and the Critical Impact on Military and Underserved Communities

Dear Chairman Crapo, Ranking Member Wyden, Chairman Smith and Ranking Member Neal:

I write on behalf of the Defense Credit Union Council (DCUC) to express **strong opposition to any change in the tax-exempt status of credit unions**. DCUC represents credit unions stateside and overseas serving military and veteran communities as well as their families, encompassing over 40 million members and having over $525 billion in assets.

As the House Ways and Means Committee and Senate Finance Committee work on a comprehensive tax package, this issue is both urgent and timely. Removing credit unions' tax exemption would severely harm the financial well-being of our military community – **active-duty service members, veterans, and their families** – and by extension, undermine military readiness and retention. I respectfully urge you to preserve the credit union tax exemption, a policy that has for decades enabled credit unions to fulfill their unique mission to those who serve our country.

Credit Unions' Critical Role for Military Families. Unlike banks, credit unions have no shareholders to enrich; any earnings are reinvested in our members through better rates and services. This member-centric structure is the reason Congress granted (and consistently reaffirmed) credit unions' tax-exempt status. Credit unions return value directly to members in the form of **lower loan interest rates, higher savings yields, and reduced fees**. These benefits are not theoretical – they translate into real dollars saved for military households. For example, one recent analysis found that the presence of credit unions saves U.S. consumers about **$15 billion every year** through better rates and lower fees. Indeed, in the most recent year, credit unions delivered an estimated **$35 billion** in direct financial benefits to American consumers, including countless service members. These benefits arise precisely because credit unions are tax-exempt member-owned institutions, allowing them to forgo profit maximization in favor of community service.

Military families disproportionately **rely on credit unions for affordable financial services**. Credit unions operate on many military installations, often in remote or overseas locations where for-profit banks are absent, ensuring troops have access to safe financial services wherever they are stationed. Credit union offerings are tailored to military life: for instance, defense credit unions routinely provide lower-rate loans, penalty-free savings accounts, and waived fees for deployed personnel and their spouses. They also deliver the kind of personalized, compassionate service that large institutions often cannot – understanding the challenges of frequent relocations, deployments, and the complexities of military pay. This mission is longstanding. Since the 1930s, federal credit unions have been exempt from income tax in recognition of their cooperative nature and public purpose, and Congress **reaffirmed this policy in 1998** with the Credit Union Membership Access Act (CUMAA) to underscore that the rationale for credit unions' tax exemption "remains as valid today as it was decades ago".

Real-World Support for Military Members. The benefits of credit unions to our Armed Forces community are best illustrated through examples. Consider the financial emergencies that military families sometimes face. During the 2018–2019 federal government shutdown, when many service members and defense employees faced missing paychecks, Navy Federal Credit Union stepped up with 0% APR "paycheck relief" loans. In that single shutdown period, Navy Federal provided nearly **20,000 military and federal members** with interest-free loans to cover their lost pay. This lifeline prevented military families from falling behind on bills or resorting to predatory lenders during a crisis. In another example, at Fort Belvoir in Virginia, the on-base credit union organized **"Money and Mobility for Military Families" workshops** to help service members' families budget and prepare for deployments and Permanent Change of Station moves. Through these classes, young enlisted spouses learned how to manage finances while their loved ones are abroad, gaining tools to avert debt and financial stress during deployments. These stories are echoed across the country: whether it's offering a deferment on loan payments during a deployment, a zero-fee emergency loan after a natural disaster, or financial counseling for a young family, credit unions consistently **go the extra mile to support military families in moments of need**.

Harmful Impacts of Removing the Tax Exemption. If Congress were to eliminate credit unions' tax-exempt status, the negative consequences for military members would be immediate and severe. In fact, the Defense Credit Union Council recently warned that such a move would amount to an effective pay cut for our troops and veterans. I urge you to consider the following likely impacts:

- **Higher Costs for Military Families:** Credit unions would be forced to offset new tax expenses by raising loan interest rates and lowering savings dividends. For a young enlisted family living on a tight budget, even a slight rate increase can mean paying hundreds or thousands more over the life of an auto loan or mortgage. Higher rates and fees would **take money directly out of the pockets of service members** who count on credit unions' low-cost loans and free checking. In short, military households would pay more for the same financial products, straining their finances.
- **Reduced Access to Safe Financial Services:** Many defense credit unions operate on-base or in military communities with very slim profit margins, as a service rather than a profit center. Imposing taxes on these not-for-profit institutions could make some military base branches financially unsustainable. The likely result is **branch closures or reduced services on installations**, especially in remote areas. This would leave our service members with fewer options and could drive them toward high-cost alternatives off-base. Notoriously, predatory payday lenders and title loan companies cluster outside military bases to target young troops. If credit unions are taxed and pressured to pull back, **many junior enlisted members might have no choice but to fall into the debt traps of payday lenders** for emergency cash. We cannot allow the closure of on-base credit union facilities to create a void filled by predatory actors.

- **Weakened Financial Education and Readiness:** Credit unions devote significant resources to financial literacy training, counseling, and products designed to promote financial stability (such as debt consolidation loans, credit-builder programs, and budgeting assistance). These programs are not profit-makers, but they are vitally important in reducing financial stress in the ranks. If credit unions must divert funds to pay federal income taxes, they will inevitably have less capacity to fund **free financial education workshops, deployment briefings, and special low-rate loans** tailored for military life. Eroding these programs will directly **undermine the financial readiness** of military families. DOD leaders have recognized that financial readiness is mission readiness – when troops are worried about money, they are less focused on the mission. Eliminating the credit union tax exemption would force credit unions to cut back on these readiness-enhancing services at the worst possible time.

In short, taxing credit unions would **function as a tax on military families and veterans themselves**, in the form of costlier credit and reduced services. The very populations that credit unions were designed to serve – those of modest means, the financially underserved, and our servicemen and women – would bear the brunt of this policy change. This outcome is fundamentally at odds with the intent behind credit unions' tax status and with our obligation to support the troops.

Threats to Military Readiness and Retention. I cannot overstate the connection between our servicemembers' financial stability and our military's operational readiness. Personal financial problems can quickly become military problems. The Department of Defense has found that **financial issues are a leading cause of security clearance revocations – roughly 80% of clearance denials/revocations in a recent year – and contribute to the loss of thousands of service members annually due to separations**. Indeed, military personnel who experience serious financial trouble can lose their clearance, face disciplinary action, or even be discharged. Every time a service member is distracted by debt collectors or predatory loans, or loses focus because of money worries, their unit's readiness suffers. By providing affordable alternatives and financial guidance, credit unions have been a key partner to the Pentagon in shoring up troops' personal finances – helping them pay down costly debt, build emergency savings, and stay clear of scams – all of which directly supports mission readiness. If credit unions' capacity to help is diminished, we could see **more troops struggling with financial stress, more defaults and bankruptcies, and ultimately more attrition from the force due to financial disqualifications**.

Eliminating the credit union tax exemption could also negatively impact **military retention and recruitment**. Military families today face significant financial challenges – from rising housing costs to spouse underemployment – and many are feeling squeezed. Quality of life considerations, including financial well-being, play a major role in a family's decision to continue in military service. Alarmingly, surveys show the proportion of military families willing to recommend a military career has plummeted in recent years (from 55% in 2016 down to just 32% in 2023). Financial strain is one of the factors driving this decline. If Congress were to increase that strain by jeopardizing credit union services or raising the cost of credit, even fewer military families would encourage their sons, daughters, or spouses to stay in uniform. **Retention of experienced service members could falter** at a time when the All-Volunteer Force is already under manpower pressures. Simply put, a policy change that increases financial stress on military families will make it harder for the services to retain the talent they need to maintain readiness. This Committee has always been a stalwart supporter of our men and women in uniform – we ask that you continue that support by rejecting any measure that would compound their financial burdens.

The Tax Exemption's Value Far Exceeds its Cost. It is important to recognize that the credit union tax status is not a special favor but a reflection of a special mission – and that the economic benefits credit unions generate vastly outweigh any potential tax revenue that might be gained by eliminating it. In fact, a recent study by America's Credit Unions projected that **removing credit unions' tax exemption would actually *reduce* federal revenue by $56 billion over ten years**. This counterintuitive result stems from the broader economic impacts: without the competitive pressure from credit unions, banks would likely offer less favorable rates, costing consumers more and dampening economic activity. The same study estimated a hit of **$120 billion less economic activity over the decade** if credit unions were taxed. Furthermore, the contraction of credit union services could **cost approximately 80,000 jobs per year** across the economy (credit unions employ many Americans, and their financing helps small businesses grow). In sum, the **modest revenue gain** from taxing credit unions would be "pale in comparison" to the **widespread harm** it would inflict on military families, local communities, and the economy at large. This assessment aligns with past findings by the non-partisan U.S. Treasury and others that the credit union tax expenditure is one of the most efficient, well-justified provisions in the tax code – yielding a huge return in public benefit relative to its cost. It is also worth noting that credit unions *do* pay many taxes (payroll taxes, property taxes, etc.), contributing over $12 billion in taxes at all levels in 2023. They are simply exempt from federal and state income tax because of their cooperative, service-driven model. Given the immense benefits described above, preserving that exemption is sound policy economically and socially.

A Longstanding Bipartisan Consensus. Congress has consistently supported credit unions' role and tax status for nearly 90 years. The Federal Credit Union Act of 1934 established not-for-profit credit unions to provide thrift and credit to ordinary Americans, and it exempted them from income tax to ensure they could succeed in that public mission. More recently, **in 1998 Congress reaffirmed the credit union tax exemption in CUMAA**, recognizing that credit unions "provide access to financial services for individuals and communities that might otherwise be underserved". That rationale holds especially true for **military communities**, which historically were often underserved by for-profit institutions (one reason credit unions thrived on bases and in military towns). Nothing has changed about credit unions' structure or purpose since 1998 – they remain dedicated to members, not profit, and continue to focus on service rather than risk-taking or shareholder returns. The only thing that would change by taxing them is that credit unions would have fewer resources to fulfill the very mission Congress has entrusted to them. Given this history, any proposal to tax credit unions isn't just a line-item budget decision; it's a reversal of a long-established policy consensus that has benefited millions of Americans and our servicemembers. On behalf of military credit unions and the members we serve, I ask that you **stand by that longstanding bipartisan commitment** to credit unions and the financial health of those who serve our nation.

Conclusion and Request. Preserving the tax-exempt status of credit unions is not about protecting an industry – it is about protecting our **military families** and ensuring they have continued access to affordable, fair financial services. At a time when our service members face enough dangers abroad, we must not compromise the support they receive on the home front. Financial readiness is a core component of military readiness, and credit unions are indispensable partners in maintaining both. Eliminating their tax exemption would, in effect, put a new tax on our troops and veterans, jeopardize the financial institutions they rely on, and threaten the foundation of financial stability that underpins an effective fighting force. Such a move would be **penny-wise and pound-foolish**, hurting those who sacrifice for our country while yielding negligible fiscal benefit.

I urge you, as leaders of Congress's tax-writing committees, to **oppose any changes to credit unions' tax status** as you develop upcoming tax legislation. This will ensure that defense credit unions can continue offering low-cost loans, high-yield savings, financial counseling, and emergency assistance to the military community – services that Congress itself has long encouraged and deemed worthy of tax exemption. Thank you for considering our views on this critical issue. We stand ready to provide any additional information or data you may need. Above all, thank you for your ongoing support of our nation's service members, veterans, and their families. Protecting the credit union tax exemption is one tangible way to honor that support and keep faith with those who keep us safe.

Should you or your team have any questions or desire additional information, please do not hesitate to contact me at 202.557.8528 or by email at jstverak@dcuc.org.

Sincerely,

Jason Stverak
Chief Advocacy Officer
DCUC

CC: Senate Finance Committee Members
House Ways and Means Committee Members