Credit Union Data from 2015 Study

## Executive Summary

In recent years credit unions in Vermont have grown much faster than credit unions nationally. Credit unions now have a much larger share of the market for retail banking in Vermont than they did in 2001. This study examines trends in the market for banking services and compares the performance of Vermont credit unions and community banks during the time period from 2001 through 2013. The study compares the size, growth, and market share of credit unions and community banks in Vermont, examines similarities and differences in the sources of income, revenues, expenses, and profitability of credit unions and community banks, and considers factors, outside of consumer choice, that contribute to key trends and changes in the market shares of credit unions and community banks. This study estimates the impact that exemptions from corporate income/franchise taxes have on credit unions, their members, state revenues, and the size and competitive position of credit unions in the market for financial services.

The corporate income/franchise tax subsidy provided to credit unions was originally justified as an incentive for credit unions to provide banking services to lower income areas and individuals. The findings of this study and studies nationally, however, indicate that banks serve higher percentages of lower income residents and geographic areas than do credit unions. Our results suggest that the primary impact on Vermont credit unions of the corporate income/franchise tax subsidy is to increase profits and their retained earnings, providing them with the capital necessary to increase market share.

The results of this study suggest that the original justifications for exempting credit unions from the corporate income tax no longer appear appropriate. Policymakers must decide whether the benefits of credit union tax exemption, and their allocation among depositors, borrowers, employees, and owners, warrants a continuation of the exemption. In addition, policymakers must consider the impact that the tax exemption is having on the competitive landscape of the financial services market and the impact that an increasing share of financial services captured by credit unions will have on government revenues.

Key findings of the report include:

- Vermont credit unions are growing much faster than national and regional credit unions, with virtually all of that growth coming from a handful of large credit unions.

- Credit unions have nearly doubled their share of the market for bank deposits in Vermont, going from 11 percent in 2001 to 21 percent of the market in 2014.

- Vermont credit unions now hold about 37 percent of the assets of depository institutions headquartered in Vermont while community banks hold about 63 percent.

- Four of the 10 largest depository institutions headquartered in Vermont are now credit unions.

- Credit union branch locations have increased by 24 percent in Vermont since 2010. Credit unions now own about one-quarter of all branches of depository institutions in Vermont.

- Delinquent loans at Vermont credit unions have been rising in tandem with credit union growth. Vermont credit unions now have the third highest rate of loan delinquencies among credit unions in any state.

- Vermont credit unions are now more profitable than Vermont community banks despite having higher expense ratios.

- Based on the reported deposits of Vermont credit unions, the bank franchise tax exemption cost the State of Vermont about $1.3 million in 2013.

- The exemption from the federal corporate income tax provided a $4.85 million subsidy to Vermont credit unions in 2013 and a total of over $58 million in subsidies since 2001.

- The median family income of communities in which credit union branch locations exist is higher than the median family income of communities with Vermont community bank branches.

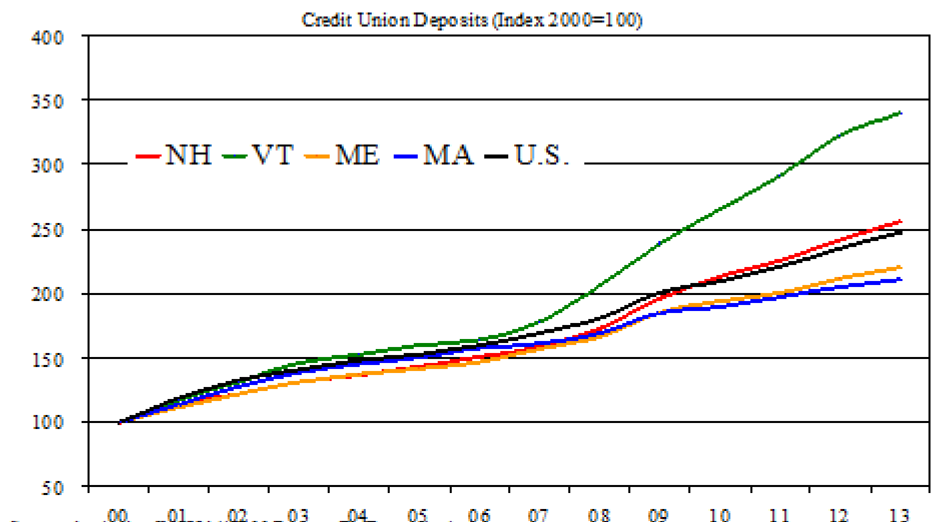
- Credit unions provided few mortgages to lower income borrowers in 2013, while 87 percent of the mortgages they issued went to middle and upper income borrowers.

- Vermont credit unions rely more on non-interest income for their profitability than do Vermont's community banks.

Focus on Deposits:

Deposits at Vermont credit unions have also grown faster than have overall deposits at credit unions in the U.S., and faster than deposits at credit unions located in other New England States. Figure 2 shows the change in deposits at credit unions in Vermont, the U.S. and other New England States since 2000. Total deposits held by the credit unions of each state and the U.S. are presented as index numbers that show the percentage change from the reference or starting year (2000) in credit union deposits for each state.[1] Thus Vermont's index number of 340 indicates that deposits grew by 240% between 2000 and 2013 (340 index number in 2013 minus 100 in the reference year of 2000, equals 240 or 240%). Deposits at Vermont credit unions grew almost 80% more than did deposits at credit unions in the next fastest growing state (New Hampshire).

Figure 2
Deposits at Credit Unions in Vermont Have Grown at Exceptional Rates Since the Mid-2000s



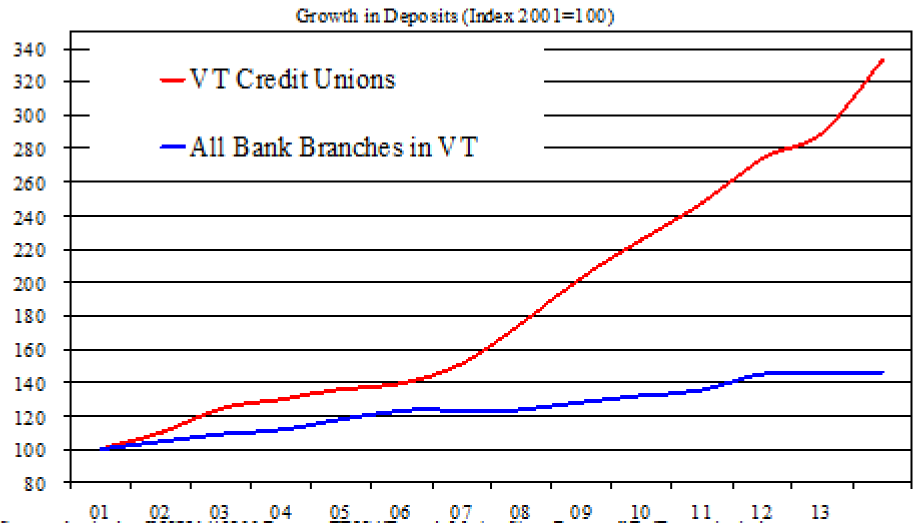

Source: Analysis of NCUA "5300 Reports, PolEcon calculations

### Vermont Credit Unions are Gaining Market Share

Over the past decade, deposits at Vermont credit unions have grown dramatically faster than deposits at commercial and savings banks located in the state. Deposits at credit unions in Vermont increased from about $1 billion in 2001 to just over $3 billion as of June of 2014, an increase of 200 percent. During the same time period, deposits at all bank branches in Vermont (including branches of banks that are headquartered outside of Vermont) increased from $8 billion to $11.8 billion, or an increase of about 46 percent (Figure 3). In part, these trends reflect the fact that it is easier to achieve a larger percentage change in deposits from a baseline of $1 billion than it is from a baseline of

[1] Index numbers are used so that the trends in credit union deposits among states with large differences in the total volume of credit union deposits can be compared on the same graph.

Figure 3
Deposit Growth at Vermont Credit Unions Has Far Outpaced Deposit Growth at Banks




Source: Analysis of NCUA "5300 Reports, FDIC "Deposit Market Share Reports," PolEcon calculations

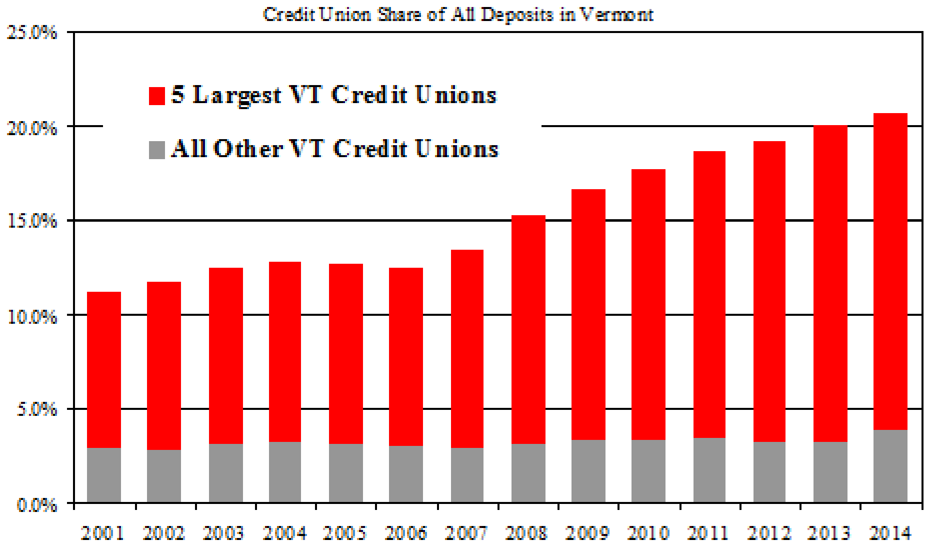
$8 billion. But the trend also reflects a movement of some deposits away from larger national and regional banks that has benefited smaller financial institutions. Both Vermont credit unions and community banks have seen greater growth in deposits than have national or regional banks in the state. However, when customers move deposits from a larger national or regional bank to a community bank in Vermont, there is no net increase or change in deposit market share for Vermont banks, while a movement of deposits from a national or regional bank in Vermont to a credit union increases the market share of Vermont credit unions while decreasing the market share of Vermont banks.

Determining the market share or other trends for individual or an aggregation of credit unions is challenging. Unlike data on banks made available interactively from the Federal Deposit Insurance Corporation, NCUA does not require credit unions to report deposit and other data by individual branch location. Nor does NCUA make data on credit unions (individual or an aggregation) available interactively as does the FDIC. Analyzing credit unions trends requires downloading 10 bulk data files containing different data elements for each of the thousands of U.S. credit unions and then linking the files to get all information on a single credit union or to combine a group of credit unions (say for a single state) for analysis. NCUA does provide some trend data and analysis but the manner in which they make credit union data available electronically discourages independent analysis.

Aggressive competition for deposits by larger credit unions in Vermont has helped credit unions gain an increasingly large share of the deposit market in Vermont. That trend is highlighted in Figure 4 which shows that credit unions now have about 21 percent of the deposit market in Vermont, up from just 11 percent in 2001. Almost all of that increase in market share is attributable to a small number of the largest credit unions in the state.

Figure 4

Credit Union's Share of all Deposits in VT Have Increased From 11% to 21%.
Virtually all of the Increase is Attributable to Large Credit Unions




Source: NCUA "*5300 Call Report*" data, FDIC "*Deposit Market* Share *Reports*," PolEcon Analysis.