

Testimony in Opposition to Senate Bill 259
January 22, 2020

To: Chairman Olson
Senate Financial Institutions & Insurance Committee

From: Michael Augustine
Frontier Community Credit Union

Chairman Olson and Members of the Committee,

I'm Michael Augustine, president and CEO of Frontier Community Credit Union. Our credit union exists primarily to serve veterans and military families at Fort Leavenworth and in the surrounding counties of Atchison, Douglas, Jefferson, Johnson and Wyandotte counties. Our mission is to provide our members with the safety of a not-for-profit alternative in an era where we've seen other lenders seek to profit off military families.

I am here today – along with our credit union's members - to stand in opposition to SB 259, which would disregard the structural difference between not-for-profit credit unions and for-profit banks.

I've worked on both sides of this equation and have seen the difference firsthand. I originally worked as a commercial banker in the Johnson County market. Though there is a place and a need for both types of institutions in the market, banks and credit unions serve a vastly different purpose and have a vastly different way of operating and, therefore, are subject to different taxation.

The bottom line is this: Banks answer to shareholders who expect a maximum return on their investment. Any increased profits or reduced expenses, like the tax exemption proposed in SB 259, are passed on to those shareholders – not consumers. Credit unions answer to their members who expect any profits to be passed onto them.

Banks already have the option to choose the type of taxation they are asking for in SB 259.

The option already exists in the marketplace for banks to be exempt from the privilege tax by switching to a not-for-profit charter. However, we're not aware of a Kansas bank choosing this option - we suspect because they do not want to adhere to the same structural rules that credit unions adhere to. **Instead, the proponents are asking for the benefits of not-for-profit taxation in certain markets without any of the responsibilities.**

Those responsibilities include:

- Returning the profits to Kansas consumers instead of stockholders;
- Operating democratically with each member having an equal vote;
- Being governed by a volunteer board of directors that is elected by and from the membership and that receives no personal financial gain;
- Operating without the ability to raise outside capital or have outside investors; and
- Operating under a “for people, not profit” mission.

For our credit union, the “for people, not profit” mission is vital to the military families we serve. Military families face financial hardships that most other families do not face. One of those hardships is making the transition to civilian life and identifying employers who recognize how their military skills correlate to a civilian job. Many veterans and transitioning active duty soldiers find their best opportunity may be to start their own business.

But, with sometimes less-than-perfect credit scores and the small size of these business loans, these men and women often cannot finding small business financing through a for-profit bank. Filling that gap is part of our mission as not-for-profit cooperatives. Oftentimes, banks send these consumers to us because these loans tend to take more time and more paperwork, while generating little to no profit.

Senate Bill 259 would un-level the playing field in the market.

This bill would create a double standard in the commercial market that further favors for-profit lenders over not-for-profit lenders despite the fact that for-profit lenders already have the upper-hand.

Why? Because in addition to the structural parameters listed above, credit unions are hampered in their ability to serve consumers because of arbitrary market restrictions. These same market restrictions are not imposed on banks. They are instead allowed to operate in a free market.

Among the market restrictions on credit unions is one that pertains specifically to the markets being discussed today. That is a federal cap that generally prohibits a credit union from loaning more than 12.25% of its assets in the commercial & ag market. This cap largely limits competition and limits consumers from having choice in those markets. The effect of that cap indicates that credit unions are not the threat banks make us out to be in the commercial market:

- Banks control 99% of the commercial market with Kansas credit unions holding only 1% of the state’s commercial loans.
- Commercial & ag lending makes up less than 3.4% of the average Kansas credit union’s total portfolio.
- For our credit union specifically, commercial and ag lending is only 1.7% of our portfolio.

On behalf of the state’s 93,395 military credit union members, we ask you to reject legislation like SB 259 that would unlevel the playing field and create a double standard for one type of lender.

Thank you for your time and attention. I would be happy to stand for questions at the Chairman’s discretion.