



March 22, 2010

Dear PACB Member:

As you know, federal and state law limits credit unions to serving either groups of individuals joined together by occupation or association, or persons living in “well-defined local communities, neighborhoods and rural districts.” For almost five years a group of banks and savings associations known as the Credit Union Strategies Task Force of Pennsylvania (CUSTF) has worked with the Pennsylvania Bankers Association and the Pennsylvania Association of Community Bankers in extensive litigation challenging so-called community charters issued to credit unions which allow credit unions to serve vast regions of the state in a manner indistinguishable from banks and savings associations while enjoying a near total exemption from state and local taxes.

In 2003 and 2004 credit unions sought approval from the Pennsylvania Banking Department and the National Credit Union Administration to serve an eight-county area in Pennsylvania and New Jersey surrounding the City of Philadelphia; a six-county area in Central Pennsylvania; and a rural district located within a 40 mile radius of the City of Corry in Northwestern Pennsylvania.

CUSTF initiated a variety of proceedings and initiatives in state and federal courts and before the Pennsylvania General Assembly to challenge these applications. As a result of these efforts:

- the application for a charter to serve eight counties in two states in the Philadelphia region was disapproved and the charter was limited to providing service only to Philadelphia and four surrounding counties in Pennsylvania;
- a charter issued to three credit unions to serve a six-county area in Central Pennsylvania was rescinded;
- the application to serve the Corry area was limited to municipalities within the Corry Area School District;
- the Pennsylvania General Assembly enacted legislation making community charter applications available for review by other financial institutions and created an expedited and informal process for the review of credit union charter applications.

Despite these successes, the fundamental issue which has motivated challenges to credit union community charters remains unresolved - *i.e.*, whether it is fair to provide tax exemptions to one group of financial institutions while imposing substantial taxes on other similarly situated institutions. The banking industry has not challenged the right of credit unions to directly compete with banks and savings associations, and would not challenge their efforts to expand the

scope of their geographical operations if they pay taxes. The banking industry remains adamantly opposed, however, to the geographical expansion of tax exempt credit union operations beyond well-defined local communities, neighborhoods and rural districts.

The banking industry stands willing to discuss with credit unions the enactment of legislation to create a level playing field for all financial institutions. These discussions would focus in four principal areas of concern, *i.e.*, (1) creating a reasonable definition of what constitutes well-defined local communities, neighborhoods, or rural districts; (2) ensuring parity of the federal and state treatment of tax exemptions provided to credit unions which confine their operations to well-defined local communities, neighborhoods, or rural districts; (3) allowing credit unions to serve additional areas to the extent their operations are subject to the Mutual Thrift Institutions Tax; and (4) ensuring that credit unions comply with community reinvestment requirements comparable with those imposed upon banks and savings associations.

While our industry hopes these efforts will lead to an amicable and mutually beneficial resolution of these issues, absent successful negotiations regarding compromise legislation, the banking industry is also prepared, when the time is right, to initiate significant legislative efforts to ensure the fair and equal treatment of all financial institutions on issues of taxation and community reinvestment.

Given that our state administrative, legislative and litigation efforts have ended for the moment, the PACB and PBA Boards have resolved to dissolve CUSTF. This in no way signifies lessened resolve by the banking industry to level the playing field between tax-paying banks and “bank-like” credit unions.

To those who contributed to CUSTF’s efforts, please accept our gratitude for your support.

We wish you great success.

Sincerely,



Daniel C. Berninger
PBA Chairman



William E. Ritenour
PACB Chairman