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The Honorable Senator Leone
The Honorable Representative Tong
Co-Chairmen, Joint Committee on Banks
Legislative Office Building, Room 2400
Capitol Avenue
Hartford, Connecticut 06106

Dear Senator Leone, Representative Tong and esteemed Members of the Banks Committee:

Thank you very much for the opportunity to testify before you today in support of **House Bill 5470, An Act Requiring a Sales and Use Tax Exemption for Sales to Connecticut Credit Unions**. I am the President and CEO of Connex Credit Union, a state -chartered credit union located in North Haven, serving 48,000 members in New Haven, Middlesex and Hartford counties.

I felt compelled to come here today to represent our membership, support our state-chartered credit union friends, and support our State Department of Banking.

Connex Credit Union converted to a state-chartered credit union in late 2002, and as one of the larger credit unions in CT, this incremental sales tax has and continues to have an impact on our business and on our membership. Pressure continues to mount on our relatively small number of credit unions from several fronts: from the economic downturn since 2008, to the corporate stabilization assessments that have impacted our business since then, an Unrelated Business Income Tax (UBIT) that continues to hinder state-chartered credit unions, and from increased regulatory burden that not only adds costs to our business, but also reduces our ability to recognize income that we once relied on. Notwithstanding these pressures, Connecticut still continues to lag the rest of the country in terms of recovery, with persistently high levels of unemployment, depressed real estate values, and businesses that have to annually care for double digit increases in health care costs.

No doubt others have told you today that the number of credit unions in the country and in Connecticut are declining, and at an alarming rate. Today there are only 29 state-chartered credit unions in CT, 12 fewer than in 2006. In 2006, the DOB and Office of Fiscal Analysis (OFA) estimated that the sales and use tax exemption would result in fiscal impact of only \$500,000.

*Improving the Lives of Our Members...
One Member at a Time*



Keep in mind that this sales tax exemption does not affect other taxes that credit unions pay – both federal and state chartered credit unions pay payroll taxes, real estate taxes and personal property taxes. As the number of state-chartered credit unions continues to decline or completely disappear, the sales tax revenue from them will be lost, along with other taxes that impact our local economy. If Connecticut does not eliminate this tax on state-chartered credit unions, the State is facing a “lose-lose” situation.

Under current law, state chartered credit unions are required to pay sales and use taxes, while federal credit unions are not. As state-chartered credit unions continue to look for ways to compete in this marketplace, there is a real possibility that they consider a conversion to the sales tax-exempt federal charter; the natural result will be that Connecticut will lose State supervision of these institutions. We have found our regulators at the Department of Banking to be fair and understanding, and they allow state-chartered credit unions more flexibility in the products and services that we can provide our members. As one example, I was pleased to write a comment letter last year to the National Credit Union Administration (NCUA) in support of allowing our State regulator to retain oversight of Derivative Investments for state-chartered credit unions, as our federal counterparts would have made the exercise so costly to credit unions that they would have not likely considered this a viable option for their business.

As significant as is the decline in the number state chartered credit unions, there is the practical reality that the federally chartered credit unions will not consider a change to a state charter because of the significant impact that sales tax will have on their business. While there are only 29 state-chartered credit unions, there are 90 federal chartered credit unions doing business in Connecticut. This sales tax exemption would more directly impact larger credit unions, and those wanting to invest in growth through increased branches, investment in technology, and advertising to promote growth. A sales tax exemption would make the state charter a viable option for federally chartered credit unions, and we would likely see a more equal distribution of credit unions in the future.

Most importantly, it is our members that will benefit from this change. Please remember that credit unions are not-for-profit cooperatives, mutually owned by their members, with unpaid Directors who are democratically elected by the credit union members. Any savings achieved through this tax exemption will be returned to the members in the form of better savings and loan rates, and improved products and services. Credit unions are an important asset for Connecticut’s consumers and economy, serving over 900,000 people. As not-for-profits dedicated to their communities, state-chartered credit unions would also use this tax exemption to further serve the communities in their field of membership, create jobs, and provide for continued economic growth while placing service to their members as their highest priority.

I will share with you the results of the 2013 Community Impact Report Card (CIRC), a recent study commissioned by the City of New Haven in conjunction with Yale to evaluate financial institutions and how they serve the “unbanked” or under-banked” in New Haven. I was pleased to announce in October 2013 that we were named the top financial institution in the report, and were the only credit union invited to participate, and certainly not the largest amongst a broader list of banks that we compete with in the area. This acknowledgement tells us that we are recognized in the community for being focused and successful at providing value to our members, providing support to the communities we serve, and providing guidance on how we still can improve given the resources that we have.

Thank you for your time today, and we appreciate your consideration and support of this Bill.

Sincerely,



Frank Mancini
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