**Rob Nichols - Washington Update**
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## No Deal: States Slam on Brakes for CU Acquisitions of Community Banks

It would have been the largest acquisition of a community bank by a credit union—but word came in mid-June that the deal was off between VyStar Credit Union and Heritage Southeast Bancorporation, after a failure to receive regulatory approvals. If completed, the deal would have made Jacksonville, Florida-based VyStar the 13th largest credit union in the nation.

The deal was just one of a growing list of mergers that have been announced between tax-exempt credit unions and taxpaying banks in recent months—but states are starting to sour on the idea.

Earlier this year, the Minnesota Department of Commerce blocked the acquisition of state-chartered Lake Area Bank by Royal Credit Union, officially clarifying that state law does not permit the acquisitions of state-chartered banks by credit unions. Similar actions have taken place in Colorado, Iowa, Tennessee and Nebraska.

Meanwhile, the Mississippi state legislature succeeded in passing a law stipulating that only FDIC-insured banks can acquire or merge with Mississippi-chartered state banks. The law, which goes into effect this July, puts a halt to any deals in progress that don't comply with the new requirement.

These are encouraging developments.

The decision to merge is, of course, a business decision that must be made at the individual level. But states are increasingly acknowledging that allowing tax-exempt credit unions to gobble up taxpaying banks—taking them off the tax rolls for good—is poor public policy that imposes costs on consumers and taxpayers, and they're taking sensible steps to prevent it from happening in the future.

The fact that states are beginning to take action is due in no small part to banker advocacy—and it's a good reminder of the importance of speaking up whenever we see the credit union industry pushing the boundaries of the statutory limits imposed on it by Congress.

Unfortunately, those attempts are only becoming more brazen.

Recently, the industry lobbied to create a new loophole designed to enable credit unions to greatly expand their fields of membership and business lending capacity. The House bill, which we don't expect to advance in the Senate, was included as part of a broader package of financial inclusion measures, despite the fact that the bill contained no language to ensure that these expanded powers would be used by credit unions to serve underserved communities.

If credit unions were serious about promoting financial inclusion, they should welcome the opportunity to demonstrate their commitment to serving low- to moderate-income communities by meeting the same Community Reinvestment Act requirements banks must meet. But it's become clear that credit unions aren't interested in that mission—in fact, recent data has shown a general pattern of credit unions opening more branches on net in upper- and middle-income census tracts and closing more branches on net in low- to moderate-income census tracts.

It’s wrong for credit unions to try and shoehorn self-serving pieces of legislation through Congress under the guise of promoting financial inclusion—just as it’s wrong for them to exploit their tax advantaged status to subsidize acquisitions of taxpaying banks, pay for stadium naming rights or private jets, or open multi-million dollar headquarters.

It’s encouraging that states are starting to scrutinize the credit union industry more closely. Now Congress must do the same.

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