

# Supporting Kentucky's Community Banks:

## Key Issues for the Kentucky General Assembly



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Photo: Legislative Research Commission



# Introduction to BCBA



BLUEGRASS COMMUNITY  
BANKERS ASSOCIATION

## Who We Are:

The Bluegrass Community Bankers Association (BCBA) is an organization dedicated to supporting and promoting the interests of Community Banks in Kentucky.

## Who We Are:

Our member banks are deeply rooted in the communities they serve, providing essential financial services and contributing to local economic development.

## Our Mission:

The mission of the Bluegrass Community Bankers Association is to create and promote an environment in Kentucky where community banks flourish.

# Appreciation for the General Assembly

The BCBA extends its sincere gratitude to the members of the General Assembly for their ongoing support of Community Banking in Kentucky.

We value our partnership with the General Assembly and appreciate your commitment to creating a business-friendly environment that allows community banks to flourish.

## Key Contributions of Community Banks:

- Driving local economic growth
- Providing personalized financial services
- Supporting community development initiatives



# Issue 1: Credit Union Acquisitions of Community Banks

## "Leveling the Playing Field: Addressing Unfair Competition from Credit Unions"

### The Issue:

- Credit unions, which operate under a tax-exempt status, are increasingly acquiring Community Banks.
- This trend creates an uneven playing field, as credit unions do not face the same tax burdens as Community Banks, giving them a competitive advantage in acquisitions.

### Impact:

- Reduced tax revenue for the state, impacting essential public services.
- Potential loss of local control and decision-making as Community Banks are absorbed into larger, non-tax-paying entities.

### BCBA's Position:

- We urge the General Assembly to review and address the tax advantages that enable credit unions to acquire Community Banks, ensuring a fair and competitive banking landscape.



# Issue 2: Credit Union Acceptance of Government Deposits

## "Ensuring Fair Competition for Government Deposits"

### The Issue:

- Credit unions are seeking to expand their acceptance of municipal and government deposits.
- As tax-exempt entities, credit unions have an unfair advantage over Community Banks in bidding for these deposits.

### Impact:

- Diversion of government deposits away from Community Banks, reducing their ability to invest in local communities.
- Potential erosion of the tax base, as government funds are directed to tax-exempt institutions.

### BCBA's Position:

- We ask the General Assembly to consider the implications of allowing credit unions to compete for government deposits without addressing their tax-exempt status.
- We believe that all financial institutions competing for government deposits should be subject to the same tax requirements.



# ADDITIONAL IMPACT: Credit Union Acquisitions of Community Banks & Acceptance of Government Deposits

**Reduced Tax Revenue:** If government deposits shift to tax-exempt credit unions, Community Banks' profits decrease, leading to lower state tax payments.

**Altered Investment:** Credit unions might not reinvest government deposits into the local economy in the same ways Community Banks do, impacting growth and tax revenue.

**Job and Wage Impacts:** Community Bank downsizing due to deposit losses could result in fewer jobs and lower wages, reducing income tax collected from Community Bank employees.

**Diminished Community Support:** Community Banks' capacity to fund local development and charities could decline, potentially slowing economic progress and decreasing the tax base.



# Issue 3: Revenue-Based Financing (RBF)



## Issue 3: Revenue-Based Financing (RBF)

### What is RBF?:

- Revenue-Based Financing (RBF) is a type of commercial financing where a business sells a fixed sum of its future revenue in exchange for an upfront payment.
- Unlike traditional loans, RBF agreements do not have fixed periodic payments.

### The Issue:

- Some RBF providers are seeking to operate without adhering to the same regulatory requirements as banks and other financial institutions.
- The BCBA believes that entities engaging in financial activities should be subject to appropriate oversight and regulation to protect consumers and ensure market stability.

### BCBA's Position:

- We urge the General Assembly to ensure that RBF providers are subject to appropriate regulatory oversight, including consumer protection measures and disclosure requirements.
- This will help prevent predatory lending practices and maintain a level playing field in the financial services industry.



# **Core Argument: Fair Competition and Consistent Standards**

## **Summary of Concerns:**

- In all three instances – credit union acquisitions, government deposits, and revenue-based financing – the central issue is about maintaining fair competition and consistent regulatory standards.
- These entities should not be able to gain a competitive advantage by avoiding taxes or circumventing regulations designed to protect consumers and ensure financial stability.

## **Our Request:**

- We respectfully ask the General Assembly to address these issues to ensure that Kentucky's Community Banks can continue to thrive and serve their communities effectively.



# Partnering for a Stronger Kentucky

The BCBA is committed to working with the General Assembly to promote a healthy and competitive banking environment in Kentucky.

By addressing the issues outlined in this presentation, we can ensure that community banks continue to play a vital role in driving economic growth and supporting local communities.



Photo: Legislative Research Commission



# Thank You

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