

## Third OSD-AMBA-DCUC Meeting 1 October 2018

### Introduction

Thank you for the continuing opportunity to address issues concerning the Private-Public Partnership between the military banks and defense credit unions serving our military communities, represented by AMBA and DCUC, and the OSD offices – Comptroller, Personnel & Readiness, Energy, Installations & Environment – responsible for establishing and implementing military banking program policies.

### AMBA & DCUC Perspectives on Overall Health of the Military Banking Program

Despite the increased OSD senior leader focus on military financial readiness and its components, including the military banking program, AMBA and DCUC believe there is a significant disconnect between senior leadership interest and engagement and staff/field implementation. Some examples of this failure to translate our headquarters engagements into tangible field results include:

- OSD abandonment of the Defense Financial Readiness Roundtable (last meeting: 28 Sep 2017)
- Continued tension between DoD interest in the military banking program and Service military banking policy execution
  - Bank leases
  - Overseas access to on-base branches (only extended to government contractors)
  - Bank/credit union ability to engage in financial education at installations
  - Enforcement of DoD FMR with respect to MWR sponsorships/ATM revenue
- Continued implementation of E.O. 13658 imposing federal minimum wages on “non-contractor” banks and credit unions
- Lack of consultation prior to implementation of MLA regulations
  - Small-dollar lending
  - Automobile “gap” insurance

### Military Bank and Credit Union Operational Issues

1. **Previous Issues (Inactive)** – We are continuing to track a number of issues we’ve previously discussed. No further discussion needed at this time.
  - Military Star Card – (Regulatory concerns)
  - MWR advertisement
2. **Previous Issues (Active)** – A number of issues require continuing focus and discussion.

- Bank Lease Costs: Banks continue to leave military installations at alarming rates (see attachment). Despite this trend, OSD continues to oppose legislative efforts – efforts OSD recommended AMBA pursue – to secure for military banks the same lease cost exemption enjoyed by defense credit unions

Our “Ask”: AMBA believes OSD has three options:

- Do nothing and, through increasing lease costs, continue to force military banks to leave military bases.
- Adopt a policy solution that requires Service real estate leasing authorities to treat the value of banking services as in-kind consideration to offset rising lease costs. This solution is consistent with 10 USC 2667.
- Support AMBA’s legislative initiatives that would amend 10 USC 2667 to require the Service Secretaries to offset the value of banking services against fair market lease costs.

Thus far, OSD has elected to pursue the “do nothing” option.

- Small Dollar Lending: Because the 36% MAPR is an “all in” rate – which means it includes all fees and interest – it has essentially eliminated the small dollar loans our military banks and credit unions traditionally offered. Recently, Senator Bill Nelson (D-FL) proposed legislation that would amend the Military Lending Act by reducing that MAPR to a maximum of 24%. While this sounds good, it will further erode our service members’ ability to secure small dollar loans from any source other than the Aid Societies.

Our “Ask”: We discussed this issue briefly at our last meeting. At a minimum, we believe OSD should include questions about the availability of small dollar loans in its next survey of the force. It’s difficult to know the impact of the 36% MAPR on the ability of service members to borrow small amounts of money. We understand the math: all US lenders must loan larger sums to military members and their dependents in order to keep the interest rate below the cap. We don’t understand the impact other than the principle that it doesn’t make much sense to lend anyone more than he or she needs. That only makes the financial hole they’re trying to climb out of even deeper.

- Automobile “Gap” Insurance: We understand OMB recently returned DoD’s request to withdraw its regulation eliminating the MLA exemption for automobile loans that include “gap” insurance. We would like to continue our dialog with you on this matter.

Our “Ask”: In the wake of Hurricane Florence, we believe it makes sense for DoD to determine how many military members and dependents were left with automobile loan liabilities following the totaling of their vehicles. These are the liabilities “gap” insurance is designed to eliminate. While AMBA and DCUC are opposed to “gap” insurance policies with unreasonably high premiums, we do believe the choice to purchase such policies should remain. DoD’s rule effectively eliminates that option for service members and their families.

- E.O. 13658: This Obama Administration Executive Order established a minimum wage for government contractors almost \$3 higher than the federal minimum wage. We discussed this at our last meeting. Since then, this E.O. is still being included in bank and credit union real estate leases. Because the government contractors originally intended as the target of this order can pass these increased costs back to the government, the only businesses affected are non-federal entities on military installations that don't have contracts with the government. It's a perverse result of an executive action never originally intended to apply to non-contractors.

Our "Ask": We continue to ask that OSD join AMBA/DCUC in asking the administration to either retract this entire Executive Order or tailor it to remove banks and credit unions from its scope.

- Lease Termination Clauses: At our last meeting, we raised our members' concern that new real estate leases transfer financial responsibility from the government to the financial institution in all cases where leases are terminated, even when the termination is for the convenience of the government.

Our "Ask": We continue to ask that OSD issue a policy placing financial responsibility for lease termination on the party terminating the lease.

3. **New Issues** – We have a number of new issues or topics of discussion for this meeting. Most of these topics are offered for information and discussion. A few are issues requiring additional information or some kind of resolution.

- Financial Readiness Roundtable: At the top of this paper, we cited the lack of a Financial Readiness Roundtable meeting over the past year as an example of the continuing "disconnect" between senior leader interest in the military banking program and staff/field engagement. Prior to this year, the Roundtable had been a valuable opportunity for DoD, the Military Services, other relevant government agencies, and industry to consult and collaborate on financial issues facing the military. Results of prior Roundtable meetings include the DoD Financial Readiness "pillars," consultation with industry on unified BRS rollout messaging, and many other ideas and suggestions that helped advance our common public-private financial readiness partnership.

Our "Ask": Since September 2017, OSD has not convened a Roundtable meeting. Because we continue to believe these meetings are valuable opportunities for our community to collaborate, AMBA and DCUC are prepared to assume responsibility for hosting future meetings as long as DoD commits to participate. We believe returning to a quarterly schedule will restore the value and purpose of the Roundtable.

- Updating Financial Readiness Data: The most recent discussion of the impact of the Military Lending Act on service members occurred in 2015, when DoD issued its MLA Final Rule (80 Fed. Reg. 43559). Since then, adjustments have been made and our

military communities and the financial institutions that serve them have lived under most of these new MLA regulations for over two years. Based on anecdotal data suggesting that military communities are still targets of predatory lenders, military members no longer have access to small dollar loans (see discussion above), and some regulated financial institutions are no longer lending to military members, we believe a look at the impact of the MLA regulations is warranted.

**Our "Ask":** We recommend that in the coming year, DoD commission a study that examines the impact of its revised MLA regulations on the financial readiness of our troops.

- Senior Leader Representation at DCUC/AMBA Events and Conferences: Although we appreciate the support you have given our associations, particularly Mr. Easton's support of the recent AMBA workshop in DC, our members and audiences would benefit from hearing from you more often.

**Our "Ask":** We would like to send you or your schedulers a list of our upcoming events and invitations to speak at or attend them.

4. ***New Items of Interest*** – Finally, we offer the following information items for your consideration.

- DCUC Visit to Poland – meeting with senior government officials
  - Strong interest in permanent US Military Base in Poland
  - Overseas banking issues (e.g., fintech, cross-border fees, exchange rates)
- 2019 Advocacy Goals
  - Bank Lease Resolution
  - Report on the Health of the Military Banking Program
  - "Gap" Insurance Remedy
- Ongoing AMBA/DCUC Sponsorships and Military Support Programs
  - Defense Community Programs
  - Military Child Education
  - Spouse Employment
  - Military Transition Programs
  - Financial Education