



August 28, 2019

The Honorable James M. Inhofe
Chairman
Senate Armed Services Committee
228 Russell Senate Office Building
Washington, DC 20510

The Honorable Adam Smith
Chairman
House Armed Services Committee
2216 Rayburn House Office Building
Washington, DC 20515

The Honorable Jack Reed
Ranking Member
Senate Armed Services Committee
228 Russell Senate Office Building
Washington, DC 20510

The Honorable Mac Thornberry
Ranking Member
House Armed Services Committee
2216 Rayburn House Office Building
Washington, DC 20515

Dear Chairman Inhofe, Chairman Smith, Ranking Member Reed, and Ranking Member Thornberry,

We write today to urge you to support the financial readiness of our service members and their families by adopting Sec. 2821 of S.1790 in the upcoming House-Senate conference on the 2020 National Defense Authorization Act. By requiring the Department of Defense to treat on-base banks and credit unions equally when assessing rent and related charges, this language offers the best way to end the increasing exodus of banks from military installations.

This legislation requires DoD to exercise the discretion it already has under 10 USC §2667 (banks) and 12 USC §1770 (credit unions) in the same way for both banks and credit unions. If DoD waives or charges rent for credit unions, this language requires it to do the same for banks. Currently, DoD waives rent for credit unions, thereby subsidizing their on-base operations, while it charges banks ever-increasing rent. Under these circumstances, banks can't compete. Since 75% of on-base banks are community banks with very small margins, every dollar counts. It's no surprise that this disparate treatment has led to banks leaving more than 40% of our bases. That number grows each year.

Banks and credit unions are different from other non-federal entities operating on military installations. The government does not pay for the financial services it receives or that it requires to be provided to non-customers. Despite these differences – differences that credit unions successfully argued over a decade ago justified “rent-free” status for them – DoD persists in its refusal to treat banks equally unless Congress mandates it.

Credit unions have told you they oppose this legislation because “it will put [them] at a disadvantage.” That is false. This provision would only partially level the playing field for banks on military bases because credit unions still enjoy the biggest federal subsidy of all: tax-exempt status. Nevertheless, it would close the competition gap enough to encourage banks to remain on bases and, hopefully, to entice banks that have already left to return.

If the Senate language does not prevail in the upcoming 2020 NDAA conference, military communities will continue to be disadvantaged by additional military banks closing their doors. When banks and credit unions work together – in collaboration and competition – military families win. They win because they have all the financial education and services both financial institutions can provide. They win because competition keeps prices low. They win because banks and credit unions support community activities and provide free financial services to the government. They lose when all these benefits disappear; these benefits disappear when credit unions have monopolies on military bases.

Very Respectfully,



Steven J. Lepper
Major General, USAF (Ret.)
President & CEO
Association of Military Banks of America



Rebecca Romero Rainey
President & CEO
Independent Community Bankers of America



Rob Nichols
President & CEO
American Bankers Association

Attachment: Fact Sheet on Military Banks and S.1790, Sec. 2821



MILITARY BANKS AND S.1790, SEC. 2821: THE FACTS

The future of military banking is at risk due to the increasing costs of operating on military installations. With the Department of Defense's encouragement, AMBA has been seeking legislative relief from these rising costs. The Senate Armed Services Committee, in its version of Senate Bill 1790, Section 2821, provides the potential for such relief.

Q: Why is AMBA seeking legislative relief for its banks from the rising costs of operating on military bases?

A: Military banks are federally-regulated, DoD approved financial institutions that have served for many decades on military installations pursuant to DoD operating agreements and at no cost to DoD or the Military Services. They provide financial services to the entire military community. Over the past 15 years – since 2004 – over 40% of bases that previously had banks no longer do (129 to 76). This exodus is accelerating: In the past 6 years, 26 banks either closed their military branches or reduced their services to ATM-only.

Q: Why are military banks leaving military installations?

A: The most significant reasons banks are leaving military bases are the lease, utilities, and services costs that increase each time a new lease is negotiated.

Q: What is lost when a bank closes its branch on a military installation?

A: Military banks have operated for decades on military installations to provide financial services DoD can't. Banks offer responsible and regulated financial services for military personnel and their families and cash management for federal and non-federal entities on the base. The services lost when banks close their military base branches include:

- **Full-scope financial services** offered not only to bank customers, but also to any member of the base community.
- **Financial education**. Military banks and credit unions commit in their operating agreements to provide financial education to all base personnel and family members. This benefit is particularly important as DoD implements new changes to military compensation and retirement benefits.
- **Responsible lending**. Military banks and credit unions are alternatives to predatory lenders, often operating outside the base's main gate, which prey on military personnel. Military banks offer loans at reasonable rates and employ safe and sound lending practices designed to improve borrower credit.
- **Convenience**. On-base banks and credit unions offer base personnel financial services that are accessible during duty hours and with minimum disruption to the military mission.
- **Partnership**. On-base banks partner with military commands and military communities to provide financial services and sponsor community activities.
- **TGA services**. Banks typically maintain Treasury General Accounts enabling them, free of charge, to store and dispense cash maintained by federal and non-federal entities on the base. Without an on-base TGA account, these entities must transport their cash off-base at additional cost.

Q: How would S.1790, Sec. 2821 (The 2020 National Defense Authorization Act) help?

A: This bipartisan language could extend the "rent-free" benefits credit unions currently enjoy under the Federal Credit Union Act (12 USC 1770) to on-base banks that satisfy the same threshold requirements. In other words, this Senate provision would require DoD to treat all financial institutions on military bases equally.

Q: Would this legislation affect DoD's discretion under current law?

A: If this legislation is enacted, DoD will have the same discretion regarding charging banks and credit unions rent and other facilities costs as it does today, as long as it exercises that discretion in the same way for both. The Senate language specifically does not require DoD to provide "no cost office space or a no-cost land lease" to any bank or credit union.

Q: Why do the credit unions oppose this legislation?

A: In letters to Congress and statements to the press, the credit union trade associations (CUNA, NAFCU, DCUC) argue that treating on-base banks and credit unions equally would "alter the status quo" and put "credit unions at a disadvantage." The status quo advantage credit unions enjoy is the discretion DoD has exercised in their favor by allowing them to operate "rent-free" on military installations. It's discretion Congress gave DoD and other Federal agencies in the Federal Credit Union Act (12 USC 1770).

Q: Would S.1790, Sec. 2821 disadvantage credit unions?

A: No. This language would not impair the ability of credit unions to continue operating in a “rent-free” status on any military installation. DoD would still have the same discretion to charge or not charge credit unions rent. The only possible “disadvantage” credit unions might suffer is the likelihood that this legislation, if enacted, would encourage banks to remain on or return to fill vacancies at military bases. In other words, credit unions might not exercise monopolies on bases banks are leaving or have already left.

Q: Does credit union “non-profit” status for Federal tax purposes make them better suited to provide financial services to military communities?

A: No. Although in the same public statements, the CU trade associations have implied that their business structure and tax status somehow make them better than banks when delivering financial services to military communities, the truth is that both banks and credit unions are subject to the same laws and regulations and undertake the same commitments when they agree to operate on military installations. The SASC, in its report accompanying S.1790, Sec. 2821, said that it “believes no particular group of financial institutions should be advantaged or disadvantaged by DoD policy on the basis of its business structure and tax status.”

Q: In a letter to the HASC, CUNA argued that current law already allows DoD to extend “rent-free” status to military banks. Is that true?

A: Yes. Current law (10 USC 2667) allows DoD to consider the value of bank services as “in-kind consideration” to offset lease costs; however, neither its policies nor the policies of the Military Services allow such offsets. That’s why S.1790, Sec. 2821 does not establish new DoD authorities. Rather, it simply requires DoD to exercise existing authorities in a way that treats on-base banks and credit unions equally.

Q: CUNA has also stated that banks have not sought the “rent-free” status current law allows. Is that true?

A: No. Over the past four years, AMBA, representing banks on military installations, has engaged in numerous discussions with DoD and the Military Services on this issue. Despite our encouraging DoD to establish a policy allowing the Military Services to treat the value of bank services as “in-kind consideration,” it has declined to do so. Consequently, Army Corps of Engineers and Naval Facilities Command officials have told us that because no such policy exists, any requests by individual banks to seek such offsets would be denied.

Q: The credit unions have argued that S.1790, Sec. 2821 would “open the floodgates,” allowing other commercial enterprises to enjoy rent-free status on military bases. Is that true?

A: No. Most non-federal entities operating on military installations are contractors whose costs are typically covered by the government or concessions whose costs are covered by sales of products or services. In both cases, the government pays for the products and services it receives. Banks and credit unions are different in that they are neither contractors nor concessions; their revenues are generated only by financial services provided to customers. The government does not pay for financial services it receives or that it requires to be provided to non-customers. Over a decade ago, credit unions successfully argued that these differences justified “rent-free” status for them. No floodgates opened then. Since these differences distinguish both banks and credit unions from all other on-base commercial entities, why would equal treatment open the floodgates now?

Q: The credit unions argue that S.1790, Sec. 2821 would disproportionately benefit big banks. Is that true?

A: No. Although some large banks have branches on military installations, 75% of military banks are community banks. In fact, most of our banks are much smaller than the two largest credit unions – Navy Federal and PenFed – operating on an even greater number of military bases. The truth is that when it comes to providing financial services to military communities, size doesn’t matter. What matters is that those communities have access to the full range of responsible, regulated financial services and education banks and credit unions working collaboratively and competitively can provide.

Q: What is the ultimate risk to military communities when banks leave military bases?

A: If this language does not prevail in the upcoming House-Senate Conference on the 2020 NDAA, military banks will continue to close their doors and military communities will be disadvantaged. When banks and credit unions work together – in collaboration and competition – military families win. They win because they have all the financial education and services both financial institutions can provide. They win because competition keeps prices low. They win because banks and credit unions both support community activities and provide free financial services to the government. They lose when all these benefits disappear; these benefits disappear when credit unions have monopolies on military bases.