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DEFENSE CREDIT UNION COUNCIL

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Anthony R. Hernandez
President/CEO

August 23, 2023

The Honorable Michael J. McCord
Under Secretary of Defense
Office of the Under Secretary of Defense
(Comptroller)
1100 Defense Pentagon
Washington, DC 20301-1100

Re: Concerns with DoD's Overseas Military Banking Program

Dear Mr. McCord:

On behalf of our nation's 186 defense credit unions and over 35 million members, the Defense Credit Union Council, in conjunction with many of the Chief Executive Officers of our overseas credit unions, are deeply concerned regarding the contractual terms and bid selection process for the Overseas Military Banking Program. We understand a credit union may be selected for the new overseas banking contract. If so, we believe there are several legal and regulatory compliance issues which, if not perfected, will not only harm military members and their families, but also erode decades of goodwill with the credit union industry.

The most significant concern is the ability for a credit union to obtain mandatory deposit insurance for overseas bank customers and military families. There are explicit legal, contractual, and regulatory mandates which restrict a credit union's ability to obtain deposit insurance if selected for the overseas banking contract. The DoD Banking Office is, or should be, aware of these legal restrictions since they are codified in Article 72 of the Status of Forces Agreement (SOFA), DoD's own regulations and in the Federal Credit Union Act.

Deposit insurance is the bedrock of consumer protection and confidence in the financial services sector. Executing an overseas banking contract without deposit insurance would be unconscionable given recent bank failures such as Silicon Valley Bank and Signature Bank. The resulting social and political concerns regarding deposit insurance make acceptance of any bid that lacks deposit insurance a poor optic in terms of consumer protection. Plus, it threatens the financial readiness of our military who serve in harm's way.

The DoD Financial Management Regulation is very clear: *"Except in limited situations overseas, **only** banking institutions insured by the Federal Deposit Insurance Corporation and credit unions insured by the National Credit Union Share Insurance Fund, or by another insurance organization specifically qualified by the Secretary of the Treasury, **shall** operate on DoD installations. These financial institutions may either be State or federally chartered; however, U.S. credit unions operated overseas shall be federally insured."* We hope DoD will be transparent in enforcing this legal requirement.

Furthermore, the Federal Credit Union Act (12 USC Chapter 14, §1781 paragraph e) contains a prohibition on certain associations with respect to the National Credit Union Share Insurance Fund. *"In general, no insured credit union may be sponsored by or accept financial support, directly or indirectly, from any Government-sponsored enterprise, if the credit union includes the customers of the Government-sponsored enterprise in the field of membership of the credit union."* Thus, the contractual terms as written already conflict with both the Federal Credit Union Act and the DoD Financial Management Regulation.

This contract deficiency could have been avoided if the DoD Banking Office had continued its successful history of working constructively with the Defense Credit Union Council, instead of deviating from established and proven practices. We have a rich history of working with DoD and Congress starting in 1963. As such, we wish to help DoD avoid potential missteps along with any unwanted attention and scrutiny during the selection process.

To guarantee safe deposits for overseas military members, it is clear the contractual terms will have to be rewritten. Consequently, this will also require another public comment period along with a whole new bidding process and timeline. Additionally, Article 72 in the current Status of Forces Agreement would likely need to be re-negotiated. In the meantime, credit unions already serving overseas will continue to ensure that service members and their families stationed overseas continue to receive all the financial protection they deserve.

However, there is one other major discrepancy caused by selecting a credit union for the Overseas Banking Contract. Specifically, it would directly violate 32 CFR Part 230—the “one bank/one credit union” policy. The Defense Credit Union Council remains a staunch advocate of the “one bank/one credit union” policy. The main reason we vigorously defend this policy is because it is the **foundational consideration** our member credit unions receive for all the FREE financial services provided to the department itself (e.g., management of the base Treasury General Account, provisions for expeditionary cash, and financial educational requirements). These requirements, which provide direct support to DoD as an institution, are delineated in all base operating agreements.

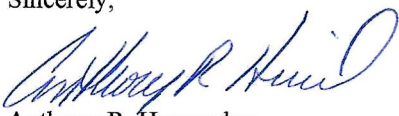
Thus, DoD should not casually discard six decades of goodwill in seeking a successor for the overseas Community Bank. Doing so conflicts with DoD’s policies governing overseas geographical franchises and would create chaos in terms of marketing and soliciting members on installations overseas and throughout the continental United States. On behalf of all our member credit unions, we would strongly oppose any bid selection that ultimately places two of the same type of institutions, in this case credit unions, on the same installation. We would have no issue if a bank bid on the contract.

We respectfully ask the DoD Comptroller to not only re-examine why banks have declined to bid on the Overseas Military Banking Program, but to also consider other plausible alternatives. In fact, we believe a credible solution exists by enlisting the support of those credit unions already located on overseas bases without the need for a new all-encompassing contract. This option would continue to provide quality financial products and services to help families in need along with exceptional financial readiness education FREE of charge and reducing or eliminating the contract may save the taxpayer some money. Given all the issues and concerns highlighted above, we have little time to waste in moving forward.

It is our hope to work with DoD and continue to enforce the highest standards of performance for operating credit unions on the installation once again. Our military members deserve the highest level of excellence. As such, we will always strive to exceed the standard in terms of service, structure, and ethos in concert with our core values.

We thank you for your attention to this matter.

Sincerely,



Anthony R. Hernandez

cc: Director, Defense Finance and Accounting Service
Under Secretary of Defense, Personnel and Readiness
National Credit Union Administration Board of Directors
Department of Defense Office of the Inspector General
Service-level Banking Liaison Officers