



**OFFICE OF THE DEPUTY ASSISTANT SECRETARY OF THE ARMY
(FINANCIAL OPERATIONS)**

**REPORT OF ON-BASE FINANCIAL INSTITUTIONS
STUDY OF OPERATIONS AND FEES**

20 SEPTEMBER 2011

Approved by: DASA(FO)

EXECUTIVE SUMMARY

The Office of the Deputy Assistant Secretary of the Army (Financial Operations) studied operations of Financial Institutions (FIs) located on 66 installations. Each installation was supported by a bank, credit union or both operating within the installation. A summary of study results is provided below:

Each financial institution has a written operating agreement with the installation commander that identifies fees, services and operating requirements.

Fees charged are disclosed in the fee schedule attachment of the operating agreement and cover both elective services requested by customer and assessments. Assessment fees include fees charged for debit card overdrafts and non-sufficient fund checks. Elective service fees include automated teller machine use, cashier's checks and wire transfers.

Our analysis determined the average assessment and elective fees for on-base FIs are lower than similar fees charged within the banking industry. Overdraft fees charged by on base FIs averaged \$25.43 per transaction compared to the industry average of \$35. On-base ATM fees for non-account holders averaged \$2.00 per transaction compared to an industry average of \$2.33 per transaction.

On-base FIs offer best practice alternatives to overdraft fees including linked accounts, lines of credit and credit card transfers. Additionally, the on-base FIs provide on-line banking and account alerts transmitted to customers via text message or email, providing real-time account balance information.

We reviewed the sequence in which the on-base FIs process deposit and debit transactions. In our analysis of a judgmental sampling of 17 FIs operating on 48 installations, we determined that 15 of 17 FIs process debit transactions from low to high or in the order presented, while two FIs process from high to low. Processing debit transactions from low to high reduces the likelihood of customers incurring assessment fees which reduces the amount of fee income to the FI. Federal and state regulators will monitor FIs to ensure payment programs have clear disclosures, identification mechanisms are in place for excessive or chronic customer use, and are not designed to maximize fees.

The FIs provide financial education and training to Soldiers and Family Members on the installation at no charge covering wealth management, credit, budget and other personal financial issues.

Our review of on-base FIs will continue to include complaint resolution procedures and the effectiveness of oversight provided by installation commanders and their bank/credit union liaison officers.

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1. **FEE ANALYSIS:** There are 89 Army Installations with at least one FI operating within the installation, meaning the installation provides a bank, credit union or both to installation personnel. We analyzed operating agreements from 66 installations covering 150 FI branches and 500 Automated Teller Machines (ATM).

a. The fees charged by on-base FIs are approved and listed in the fee schedule attachment of the operating agreement signed between the FI and the installation commander. The types of fees range from customer elective services such as cashier's checks, wire transfers and notary services to assessment fees charged when a customer overdraws their account or writes a check without adequate funds. The Army ensures the fees charged are fair, equitable and in line with industry standards.

b. An overdraft fee is assessed for ATM and Point of Sale (POS) transactions that the FI clears when a customer does not have adequate funds in their account. The payee is paid, but the customer is assessed a fee. This fee is charged only if the customer chooses or opts-in for this coverage. The average overdraft fee charged by on-base FIs is \$25.43 compared to the industry average of \$35. If a Soldier does not elect this coverage, no fee will be assessed, but the transaction is declined at the POS and the payee is not paid.

c. A Non-Sufficient Funds (NSF) fee is assessed on Automated Clearing House (ACH) debits, such as automatic bill payments or paper checks that a FI cannot honor because of insufficient funds in the customer's account. The FI may choose to pay the item, in which case an overdraft fee is assessed. If the item is not paid, it will be returned to the customer and an additional charge may be assessed to the customer by the FI and the merchant/vendor to whom the payment was originally made. The Army cannot control any fee assessed by a merchant/vendor. The average NSF fee charged by on-base FIs is \$25.72 compared to the industry average of \$30.47 (according to a 2010 bankrate.com study).

d. ATM Fees: No fees are assessed when account holders use an ATM provided by their own FI. However, the average fee for non-account holder usage is \$2.00 and for member use of another FI's ATM is \$1.29. The industry average is \$2.33 and \$1.41 respectively (according to a 2010 study by bankrate.com). The on-base FIs often enter into agreements not to charge each other's customers for use of an on-base ATM. Additionally, the FIs participate in shared networks providing on-base customers access to thousands of ATMs around the world at no charge.

2. **OPERATING AGREEMENTS:** Before operations of an on-base bank or credit union begin, a written operating agreement is required. The operating agreement is negotiated directly between the installation commander and the officials of the approved and selected bank or credit union. The on-base Bank/Credit Union Liaison Officer (BLO/CULO) reviews the schedule of service charges and fees annually and renegotiates services and fees as necessary. The BLO/CULO also ensures that the operating agreement is updated at least every five years and signed by the installation

commander and the FI; with a copy sent to the Army Banking Officer. Major elements of operating agreement are listed below:

- a. Definition of all fees, circumstances governing how fees will be assessed, the types of fees, and dollar amount by type.
- b. Basic FI/customer relationships, services to be rendered, conditions for services, mutual support agreements and security arrangements.
- c. Positive requirement for the FI to accommodate command requests for financial education and training, related materials and products or services to support the needs of the installation including morale and welfare.
- d. Operating hours and physical location of branches and ATMs to include co-location of branches and ATMs with AAFES, PX and commissary outlets.

3. **BEST PRACTICES:** The FIs offer best practice alternatives to maximize account holder value. These best practices include:

- a. Requiring account holders to positively opt-in to any overdraft program. At the time the account is opened, the default is to opt-out of any overdraft program.
- b. Enabling customers to opt-out of an elected overdraft program at any time.
- c. Providing clear disclosures to customers about overdraft fees and how they will be assessed.
- d. FIs provide customers the option to put money aside in a separate “transfer from” account linked to a checking account. If debit transactions are presented for payment for more than the checking account balance, a transfer is made from the “transfer from” account to cover the presented items and the account holder is assessed a transfer fee of \$2.
- e. A FI with branches on multiple Army installations, offers a line of credit overdraft protection. When a customer exceeds a checking account balance, funds equaling the actual overdraft amount are automatically transferred from the line of credit into the checking account. Transfers are made up to the available credit limit with an annual percentage rate of 14.65% and no annual fee.
- f. FI processes cash advances from a credit card to the customer’s checking account in increments specified by the customer. The customer must meet the credit eligibility requirements.
- g. All FIs offer online access to account balances and other financial information. Customers can view transactions and statements, transfer funds between accounts and

make payments. Some FIs offer mobile applications for smart phones that allow the same functions.

h. Many FIs offer text or email alerts that inform customers of when deposits are made or account balances get above or below a specified amount.

4. TRANSACTION PROCESSING: The order in which FIs posts transactions to a customer's account is not regulated. However, state and federal regulators will monitor FIs during regular inspections to ensure programs are not designed to maximize assessment fees. Additionally, all FIs follow standard practice applied to all accounts which is specified in written account terms and conditions. These terms and conditions specify the sequence in which transactions are cleared including deposits, returned deposited items, outbound wire transfers, automatic loan payments, checks cashed by tellers, ATM transactions, debit card transactions, transfers between accounts and ACH debits. FIs cannot deviate from standard processes without providing written notice to customers. In a judgmental sampling of FIs operating on 48 installations, representative of the largest Army installations with the greatest troop strength, we determined that:

a. 65 percent (11 of 17) of the FIs process payments from low to high, 24 percent (4 of 17) process in the order presented and 11 percent (2 of 17) process from high to low.

b. The Army will conduct an additional review with the FIs that process payments from high to low to determine what impact it has on Soldiers and Family Members who are account holders.

5. FI PROVIDED TRAINING: On-base FIs are required to provide financial education, training and counseling to installation personnel. Topics covered include basic personal and family finances, budgeting, savings, and managing credit. The installation commander determines the scope of the training to ensure it is compatible with the demographic population and economic conditions of the specific community. The liaison officer coordinates with the financial counselors and legal assistance to understand the financial needs on the base. Following are examples of training by the on-base FIs:

a. A bank provided training to over 8,000 Soldiers and Family Members during in/out processing, deployments and separation on topics like credit reports, reducing debt, household budgets, technology, loan options and fraud prevention.

b. A credit union offered on-line and classroom financial education and investment planning. Topics included buying a home, managing taxes and fundamentals of investing.

6. FINANCIAL COUNSELING AND EMERGENCY PLANNING: There are occasions when Soldiers and Family Members need additional financial products and services to assist them with unexpected financial emergencies. These products and services are alternatives to payday lending and other high interest options and include:

a. Counseling provided by Army Community Service's financial readiness program managers and unit level command financial specialists. Counseling covers prescreening for allowances, debt liquidation assistance, consumer advocacy and complaint resolution. Additionally, Soldiers have access to Army One Source/Military One Source for 24/7 phone access to financial counselors.

b. Army Emergency Relief (AER) is the Army's own emergency financial assistance organization. AER provides commanders a valuable asset in accomplishing their basic command responsibility for the morale and welfare of Soldiers.

c. On-base FIs provide affordable small dollar loan alternatives. The Federal Deposit Insurance Corporation specifically acknowledged an on-base FI for their small dollar loan program which was instrumental in developing the FDICs template for the national program. The program offers a no fee loan with an 18% APR including a savings component for a reserve after the loan is paid off.

d. A bank provides an interest and fee free overdraft repayment plan, a five percent APR graduation credit card with a \$500 limit, a five percent relocation loan, and a 10 percent PCS loan.

e. A credit union offers a no credit check loan to help Soldiers get out of the payday loan cycle and maintains 50 percent of the loan in a savings account. The program enables Soldiers to establish a budget and savings plan in conjunction with the loan. Additionally, the FI offers beginner credit cards and relocation assistance loans.

f. Another credit union offers emergency loans up to \$500 to Soldiers or spouses upon request at a low variable rate of 2-3.5 percent.

7. FORMAL FINANCIAL TRAINING: The Army has a comprehensive financial training program led by the IMCOM G-9 (formerly the Family and Morale, Welfare and Recreation Command). Below is a summary of personal finance training the Army provides to Soldiers:

a. Basic Training Soldiers receive a two hour block of instruction entitled "Manage Personal Finance." This training focuses on reading and understanding Leave and Earnings Statements, details on pay entitlements and benefits, and an introduction to saving for retirement under the Thrift Savings Plan.

b. Advanced Individual Training (AIT) Soldiers receive eight hours of training on Personal Financial Management. This course is offered at 16 AIT locations and the Program of Instruction covers spending plans, essentials of credit, consumer scams and rip-offs, car buying, insurance, retirement, investments and savings.

c. Once Soldiers arrive at their first duty station they receive mandatory First Termers Sustainment Training provided by Army Community Services.

d. To ensure personal financial training is relevant and current, the Army participates in a Quarterly DoD Financial Council led by OSD (Personnel & Readiness), Office of Finance Policy, Military Community and Family Policy and ASA (Manpower &

Reserve Affairs). This forum provides guidance on minimum requirements for Personal Financial Management, shares educational resources, tracks common areas of concern across DoD and brings together the efforts and data obtained from the financial readiness counselors on base.

8. **WAY AHEAD:** The Office of the Deputy Assistant Secretary of the Army (Financial Operations) has undertaken several initiatives to increase oversight of on-base FIs operations and fees which includes:

a. Continuing to provide oversight and recommendations to BLO/CULO and trade associations to ensure their members are providing the best products and services at the best price, aware of requirements to update operating agreements and provide financial education and counseling services to ensure that the welfare and interests of installation personnel as consumers are protected.

b. Coordinating the inclusion of oversight of the on-base FIs into recurring base level formal inspection programs.

c. Working closely with the Office of Servicemember Affairs on predatory financial practices and what actions the Army can take to influence changes.

CONCLUSION: We have reviewed the operations of on-base FIs and determined that the fees charged are less than those commonly charged by other FIs within the industry. Installation Liaison Officers (BLO/CULOs) monitor FI activity and serve as advocates for installation personnel and family members. FIs on Army installations are offering best practice alternatives to overdraft and high-interest loan programs while providing numerous financial education and counseling programs to enhance Service Member's financial readiness. The on-base FIs are regulated by state and federal entities who monitor for predatory and deceptive practices. The Army will continue to monitor operating agreements with the on-base FIs in coordination with the BLO/CULO to ensure the services and fees of the FIs are within acceptable standards.

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