



**DCUC**  
DEFENSE CREDIT UNION COUNCIL

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**Anthony R. Hernandez**  
President/CEO

June 3, 2024

The Honorable Michael C. Burgess, M.D.  
Chairman  
House Committee on Rules  
H-312, The Capitol  
Washington, D.C. 20515

The Honorable Jim McGovern  
Ranking Member  
House Committee on Rules  
H-312, The Capitol  
Washington, D.C. 20515

**Re: Changing the Federal Credit Union Act and the Credit Union Tax Exemption Status**

Dear Chairman Bugress and Ranking Member McGovern:

On behalf of the Defense Credit Union Council over 37 million members of defense and veteran credit unions, we respectfully ask your office to protect the credit union industry's tax exemption status by rejecting an amendment to the NDAA submitted by Rep. Sessions (R-TX). This amendment would change the Federal Credit Union Act to allow for non-member deposits. The language of this amendment has not been given a hearing by the House Financial Services Committee nor was there any discussion of this type of amendment in the NDAA mark-up by the House Armed Services Committee. In fact, a similar amendment was pulled from consideration by the committee.

It is unclear why the Department of Defense (DoD) awarded a contract to Navy Federal Credit Union of Virginia to act as a "community bank" at DoD facilities in a manner inconsistent with DoD regulations as well as inconsistent with the Federal Credit Union Act and National Credit Union Administration (NCUA) regulations. However, our deepest concern is changing the Federal Credit Union Act after-the-fact for the benefit of a single credit union to operate a "for-profit" bank contract which will alter the industry's tax exemption status. This is a danger that our members cannot afford to overlook.

DoD formally announced Navy Federal Credit Union of Virginia as the winner of DoD's Overseas Military Banking Facility contract. This contract has a 10-year term and is a "cost plus fixed fee" contract with a profit margin. While the bid process was largely obscured, we understand those who reviewed the bid foresaw the exact predicament both DoD and Navy Federal Credit Union find themselves in today. Apart from the lack of federal deposit insurance, there are several other legal and regulatory restrictions which should prevent a credit union from fully operating this contract while assuming the title as DoD's "community bank."

Traditionally, every DoD installation has been served by one FDIC-insurance bank and one NCUA-insured credit union. Section 231.10 of DoD regulations (32 C.F.R. § 231.10) provides that each military base shall in general have "no more than one banking institution and one credit union." There are very good reasons why this rule exists. It serves to limit confusion, protect against predatory lenders, and sustain competition by local credit unions versus large, out-of-state entities. Plus, most credit unions operating under this rule, including Texas-based defense credit unions, have signed operating agreements to serve on specific DoD installations.

While credit unions receive no cost land leases as part of their "not-for-profit" status, they are required to operate at their own expense. Credit unions are also required to provide FREE financial readiness training for members and non-members on base, manage the installation's treasury general account, and provide ample cash at a moment's notice for all contingencies. Yet, no credit union has ever been awarded a "cost plus fixed fee" contract that would subsidize operating costs while providing a guaranteed residual profit. This already threatens our tax exemption status.

*Serving Those Who Serve Our Country*

Thus, changing the Federal Credit Union Act to allow non-member deposit accounts essentially changes the definition of a member-owned credit union. Thus, credit unions would be no different than banks. If Navy Federal Credit Union wishes to become a bank, it should not drag the rest of the industry down that path. We work very hard to maintain the industry's tax exemption status for all not-for-profit credit unions.

The only exception in the Federal Credit Union Act that grants statutory authority to extend credit union share insurance to non-members is exclusively where credit unions are considered "low-income-designated credit unions", i.e. those primarily serving low-income individuals. Navy Federal Credit Union, with assets over \$170 billion does not have a low-income designation and currently holds \$0 in non-member deposits because it is legally prohibited from accepting them.

The award of this contract to Navy Federal Credit Union means that the world's largest credit union, with assets over \$170 billion, now enjoys government-subsidized costs for capital, significantly improving their lending and investing ability with an additional \$44 million in subsidized loans per the contract. Meanwhile, other credit unions are already facing one more competitive disadvantage since they must provide financial services at our own expense while competing for members.

Navy Federal knew it could not legally fulfill the regulatory requirement for federal insurance before they submitted their bid. DoD awarded the contract with the expectation that Navy Federal Credit Union could get Congress to change the law. This is a significant change to the Federal Credit Union Act and would be after-the-fact, and selectively designed to accommodate Navy Federal Credit Union's self-inflicted predicament. Nobody coordinated this change with industry partners. Again, this is not only unfair in terms of how the contract was awarded, but it also has an adverse impact on the rest of the industry.

The headline is the nation's largest credit union (Navy Federal Credit Union) is trying to change the Federal Credit Union Act for their own interest. This action does not have the authority of the other 4,600+ credit unions in the nation as it would create severe and irreparable harm to all of the other credit unions in the nation. This action should at least have a hearing in the House Financial Services Committee.

We ask for your support in rejecting this and any other amendment to change the Federal Credit Union Act for the benefit of a single credit union seeking to become a bank and operate a "for profit" contract. We ask for your support in protecting the industry's hard-earned, tax-exemption status.

Thank you for the opportunity to bring this important matter to your attention. If there is anything we can do to provide additional information on the impact of this regulation or other payments issues, please let us know. My office can be reached at (202) 734-5007 or at [ahernandez@dcuc.org](mailto:ahernandez@dcuc.org).

Sincerely,



Anthony Hernandez

cc: House Leadership  
HASC Leadership  
HFSC Leadership