17 July 2018

The Honorable James Inhofe
Acting Chairman
Senate Armed Services Committee
228 Russell Senate Building
Washington, DC 20510-6050

The Honorable Mac Thornberry
Chairman
House Armed Services Committee
2216 Rayburn House Office Building
Washington, DC 20515-0001

The Honorable Jack Reed
Ranking Member
Senate Armed Services Committee
228 Russell Senate Building
Washington, DC 20510-6050

The Honorable Adam Smith
Ranking Member
House Armed Services Committee
2216 Rayburn House Office Building
Washington, DC 20515-0001

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

As the House and Senate work to reconcile differences in the Fiscal Year 2019 John S. McCain National Defense Authorization Act (NDAA), the undersigned urge the conference to preserve Section 2808 of H.R. 5515, a provision that would permit military banks to operate on military installations in the same way current law allows credit unions to operate on federal property.

Currently, banks are required to pay rent for the use of facilities on military bases according to a "fair market value." This value is determined on a facility by facility basis, often times with ineffective and unfair outcomes, forcing many banks to leave military bases. Over the past ten years, 50 military bases have lost their only banks. This exodus has left many military communities with the options of only being served by non-regulated establishments off base or a credit union on base, depriving them of a choice in secure financial institutions.

Section 2808 would require the U.S. Department of Defense (DoD) to accept the value of services provided by military banks as full payment for any lease, services, and utilities costs for the space they occupy on military installations. Similar legislation enacted over a decade ago provides credit unions currently operating on military bases this same benefit. Keeping Section 2808 as part of the final conference package would allow for the full complement of financial services needed by our military communities.

According to a recent article in American Banker, despite the safeguards in the Military Lending Act (MLA), military service members obtain high-interest rate payday loans, tax refund loans, and pawn shop loans at rates much higher than their civilian contemporaries. Because of their special relationship with DoD, on-base financial institutions serve as resources for military leaders to ensure their troops understand how to manage their finances. In the absence of a bank or credit union on base, service members and their families are more likely to turn to financial products that are detrimental in the long run.

Congress has done a great deal in the past two decades to protect military personnel from predatory financial institutions and practices. Additional steps can be taken to ensure those service members have the financial knowledge, services, and products necessary to shield them from the “bad actors” outside the base gates. Section 2808, which would allow banks and credit unions to operate side-by-side under the same “rent-free” rules, is one of those steps. We urge you to preserve access to the full range of responsible, regulated financial services our service members and their families need and deserve.

Very Respectfully,

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

Paul G. Merski

Paul Merski
Group Executive Vice President
Congressional Relations and Strategy
Independent Community Bankers of America

James C. Ballentine
Executive Vice President
Congressional Relations and Political Affairs
American Bankers Association

Attachment: BankThink Article

BankThink: Why are payday loans so popular with the military?

By Al Pascual
Published July 11 2018, 9:40am EDT
Editor's note: A version of this first appeared on Javelin Strategy & Research's blog.

Short-term lending products bridge a financial gap for their users, but the rates that lenders charge — and sometimes obscure as fees — can verge on predatory. Most consumers avoid these products, but active members of the military seem to embrace them.

For those who are enlisted, they have some protections under the law. The Military Lending Act, which was first enacted in 2006, addresses predatory lending. That law also goes above and beyond the Consumer Financial Protection Bureau's rule designed to stop payday debt traps, which has yet to go into effect. But considering how popular these products are with active-duty military personnel, one has to wonder if the existing law has just encouraged a bad financial practice.

Regardless of the product, usage rates of short-term loans and other alternative financial products are incredibly high among active duty members of the military — despite a concerted effort by the U.S. armed forces to promote fiscal responsibility and deter their active duty members from obtaining short-term lending products. At Javelin Strategy & Research's blog, we've found 44% of active duty military members received a payday loan last year, 68% obtained a tax refund loan, 53% used a non-bank check-cashing service and 57% used a pawn shop — those are all extraordinarily high use rates. For context, less than 10% of all consumers obtained each of those same alternative financial products and services last year.

Members of the military tap payday loans at much higher rates than average.
Why is this happening? At least part of this phenomenon can be attributed to age as those in the military tend to be young and Gen Y consumers are generally higher adopters of these services because they are earlier in their financial lives — earning less income and in possession of less traditional forms of credit.

But those conditions don't tell the whole story. With the explosion of digital financial services, a lack of accessibility doesn't explain these differentials. Is there something more? Why are these products so attractive to a segment of the population with a very regular paycheck? It could be a function of unintended consequences.

Military members have some protections from the predatory aspect of short-term loans. The Military Lending Act was enacted to address predatory lending, similar to the CFPB's recent regulations on short-term lending. One area where the Military Lending Act goes beyond the bureau's regulations is specifically in setting limits on one of the most criticized aspects of short-term lending: the interest rate. The act caps the interest rate lenders can charge military members to just 36% for products like tax refund loans and payday loans. The intent of the act was to prevent companies from shackling the U.S. military with loans while they were overseas

— an outcome that could induce stress and hamper their ability to focus. But even at the interest-rate cap, military members are still paying high rates — the kind of rates that are typically reserved for consumers with bad credit.

Considering that so many members of the active military are younger and may lack established credit, the question becomes: Has the act legitimized these products for members of the active military, and as result, actually driven usage higher than it would be otherwise? And is that delaying progress toward obtaining mainstream financial products with more favorable terms? It is possible. Consider that the rates military members pay to use these services as a result of the act are not all that much higher than a thin- or no-file consumer could expect to pay on more traditional types of products, such as credit cards. As a result, there is less incentive to engage with traditional credit and loan products if they don’t have strong, established credit. Unfortunately, using these types of short-term loan products does not help military members build a positive credit history.

With financial fitness being such an important factor to our military, it is evident that more must be done to not only encourage good financial habits, but to build a pathway to the use of more traditional financial products. In doing so, active-duty members of our military will more quickly gain access to fairly priced financial products. Over time, that will help them avoid falling into a short-term lending trap that could extend far beyond their service.
James Wilson contributed to this article.