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Requesters

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CREDIT DISCRIMINATION

Alleged Credit Discrimination in Fort Ord Area



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National Security and
International Affairs Division

B-238319

February 28, 1990

The Honorable Leon E. Panetta
House of Representatives

The Honorable Beverly B. Byron
House of Representatives

As you requested, we conducted a review to determine whether financial institutions serving the Fort Ord, California, area were denying credit to military personnel based solely on their military rank. You were concerned that military personnel were being denied credit solely on the basis of rank without considering the individual's other financial assets. This letter summarizes the results of our review and provides information on credit discrimination complaints from military personnel in the Fort Ord area. It also discusses the number of similar complaints received by California and federal regulatory agencies.

Results in Brief

Our work indicated that denying credit based on military rank is not a pervasive problem. Few military personnel have filed complaints about adverse credit practices by financial institutions¹ at Fort Ord or in other parts of the country. Specifically, we found the following:

- Four of the five financial institutions we contacted in the Fort Ord area granted credit to military personnel regardless of rank. Although one (a finance company) did not take credit applications from military personnel in the lower ranks, a company headquarters' official said that this local practice contradicted its company guidance, and, subsequently, headquarters directed the branch to stop this practice.
- Military organizations at Fort Ord that would likely receive credit discrimination complaints had received no complaints in recent years concerning credit practices based on military status or rank.
- Of the 10 military personnel we interviewed at Fort Ord to discuss credit, credit was denied primarily because the applicants had a poor credit history. In those cases where credit was granted, applicants did not have to make additional financial commitments.

¹Financial institutions considered in this report were banks, thrifts, credit unions, finance companies, and acceptance corporations.

- Federal and California regulators² indicated they received relatively few complaints from military personnel about credit practices by financial institutions.

Credit Practices in the Fort Ord Area

We contacted five major financial institutions—a bank, a credit union, and three finance companies—serving the Fort Ord area. The bank and the credit union are located on the base. The finance companies have branch offices that serve military personnel in the Fort Ord area.

According to headquarters officials of the three finance companies, their local offices should accept and evaluate all credit applications on an individual basis. Moreover, these officials said that credit practices adversely affecting military personnel are not only unacceptable, but could mean lost business opportunities.

However, a branch office of one of the finance companies we contacted did not offer credit to military personnel below a certain rank. Specifically, the company's branch office near Fort Ord did not accept credit applications from military personnel in ranks E1 through E4. According to a branch official, this practice had been in effect for several years and was the result of the branch's poor experience with these individuals who generally did not meet credit qualifications, often left the area, and did not repay their debts.

An official from the company's headquarters office stated that this local practice contradicted company guidelines, which are unwritten, requiring the evaluation of each application on its own merit, taking into consideration not only income but other factors as well. Consequently, after our inquiry, the branch was directed to change its practice to comply with company guidelines.

During the last 2 to 3 years, military organizations that would normally receive complaints had not received any complaints from military personnel alleging inequitable credit treatment. Such organizations, which included the Armed Forces Disciplinary Control Board, Equal Opportunity Office, Army Emergency Relief, and Inspector General, are responsible for correcting conditions that adversely affect the welfare and

²We contacted the Federal Reserve System, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency regarding the banks. We contacted the Office of Thrift Supervision regarding the thrifts, and the National Credit Union Administration regarding the credit unions. We also contacted the Federal Trade Commission and the California Department of Corporations regarding finance companies and acceptance corporations.

morale of Fort Ord military personnel. Thus, officials at Fort Ord believed that credit was not a major issue facing the military and cited the lack of complaints as support for their view.

Military status or rank was not the reason for denying loans to personnel we contacted at Fort Ord. We interviewed six soldiers who were privates or specialists in the ranks E2 through E4 and four noncommissioned officers in the ranks E7 and E8. Two E4s and three noncommissioned officers stated that they had been rejected by the on-post credit union or bank for loans.

Based on our review of the loan files and our discussions with the five unsuccessful applicants, we found that these individuals were unable to obtain loans because they could not meet the standard financial criteria. In all but one case, their debt to income ratio was too high, or their credit report indicated too many unpaid debts or delinquent payments. In the remaining case, the individual lacked an adequate number of credit references. Of the successful applicants, we found that they did not have to make other financial commitments, such as payroll allotments.

Both the credit union and bank accepted loan applications from and made loans to military personnel in all ranks. A credit union official stated that the vast majority of credit union loans were to military personnel and more than half were to E4s and below. Similarly, a bank official stated that the bank makes almost all of its loans to military personnel and that E4s and below generally qualify for its loan program for low-income applicants.

We also noted that the credit union and bank have similar qualification and evidence requirements for military and civilian personnel. When evaluating any applicant, they consider several factors, including debt to income ratio, length of employment, and gross income.

Extent of Credit Discrimination Complaints Nationwide

The California and federal agencies responsible for overseeing the financial institutions indicated that military personnel have filed few complaints in recent years alleging adverse credit practices by financial institutions. For example, nationwide statistics maintained by the Office of the Comptroller of the Currency on complaints against national banks showed that military personnel filed 70 credit complaints between 1987 and 1989, which was only .2 percent of the 43,000 complaints received. Available data from other regulators indicated that 1 percent or less of

all complaints received during the last 2 to 3 years were credit complaints from military personnel.

According to regulators, most credit complaints from military personnel concerned financial institutions denying or cancelling credit cards for individuals who live or move overseas. In 1988, the Army & Air Force Exchange Service began a credit card program which provided credit cards to all military personnel, including those overseas, who qualified.

We conducted this review between September 1989 and January 1990 in accordance with generally accepted government auditing standards. Our objective, scope, and methodology is contained in appendix I.

Unless you publicly announce its contents earlier, we plan no further distribution of this report until 10 days from its issue date. At that time, we will send copies to interested parties and make copies available to others upon request.

Please contact me at 275-3990 if you or your staff have any questions concerning this briefing report. Other major contributors are listed in appendix II.



Paul L. Jones
Director, Manpower Issues

Objective, Scope, and Methodology

Our objective was to determine whether financial institutions serving the Fort Ord, California, area were denying credit to military personnel solely on the basis of rank. The requesters were concerned that military personnel were being denied credit without considering the individual's other financial assets. We conducted most of our work at Fort Ord, California, where a complaint by an enlisted person alleged that a finance company did not accept credit applications from military personnel below the rank of E5. This individual had not been denied credit, but believed that the company applied credit practices which discriminated against lower ranked military personnel.

To accomplish our objective, we used a multi-faceted approach. We contacted the individual who had initially made the allegation. We talked with officials from five financial institutions serving the Fort Ord area, state of California officials responsible for overseeing the finance companies, and the responsible national regulatory agencies. In these discussions, we discussed established policies and procedures for granting credit to military personnel, the frequency and nature of complaints from military personnel, and, in particular, whether the complaints from military personnel alleged credit discrimination. We also obtained copies of applicable policy and procedure statements, and reviewed and analyzed complaint files. In addition, we met with the military organizations serving the Fort Ord community which would likely be aware of instances of alleged credit discrimination.

To determine whether financial institutions were discriminating against military personnel, we looked for the following types of evidence:

- denying credit to military personnel below a certain rank,
- accepting credit applications only from military personnel above a certain rank,
- using different criteria for granting credit to military personnel versus civilians, and
- requiring payroll allotments from military personnel when credit was granted.

In addition, we assumed that, if credit discrimination against military personnel was occurring, there would be complaints in the state, federal, or local files. As an additional check, we interviewed 10 military personnel at Fort Ord and reviewed their application folders on file at the financial institutions to determine whether they were approved or denied credit based on rank.

Appendix I
Objective, Scope, and Methodology

After completing our analysis, we briefed the congressional staff, and we agreed that no additional work was warranted.

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