



1278 Rocky Point Drive • Oceanside, CA 92056
800.736.4500 • frontwavecu.com

May 10, 2024

The Honorable Elizabeth Warren
United States Senate
309 Hart Senate Office Building
Washington, DC 20510

Re: Correspondence of April 25, 2024

Dear Senator Warren:

Please accept this correspondence as Frontwave Credit Union's response to your April 25th letter. On behalf of Frontwave, I welcome the opportunity to tell you more about Frontwave, our history, and the services we are proud to provide to our membership as a whole and, in particular, to our Marine members. Frontwave's leadership cares deeply about our relationship with our Marine members. After all, I served in the Marine Corps for 25 years, retiring at the highest enlisted rank of Sergeant Major, and I remain closely connected to my fellow Marines through my work at Frontwave.

I also welcome the opportunity to tell you more about Frontwave's overdraft protection program in this correspondence, which we refer to as our "Courtesy Pay" service. Our members have told us that they appreciate being offered the Courtesy Pay option and that they fully understand the Courtesy Pay service. Our members have described this program as helpful when more money is needed for an expense than is currently deposited in their account, and they appreciate the security that this program provides to them. We strive to provide transparency at multiple points in the life of a member's relationship with Frontwave to ensure all of our members are well-informed about the Courtesy Pay service. We also strive to provide safeguards to our members related to the Courtesy Pay service, including limits on certain merchant transactions that would otherwise cause multiple overdrafts to occur in a single day and expedited availability of funds from members' paychecks, in order to help our members minimize the need for Courtesy Pay. When our members do need to use our Courtesy Pay service, we charge significantly less than the industry average for this service and the cost for our members to use Courtesy Pay has not increased in 13 years. (See chart on p. 5 herein).

As will be more fully described below, we are incredibly proud of our extensive history of serving the Marine community, and we are committed to helping our members through the offering of transparent and fairly priced services.



Frontwave's History, Leadership and Membership

Frontwave traces its history back to 1952 when Camp Pendleton Federal Credit Union was formed by eight civil servants who pooled \$40 together to make small loans to Marines. Over several decades the credit union merged with various Marine-affiliated credit unions such as the Marine Corps Air Ground Combat Center Federal Credit Union, Marine Corps Recruit Depot Federal Credit Union, and the Marine Corps Logistics Base Federal Credit Union, changing its name to the Marine Corps West Federal Credit Union in the process. For the first 49 years of its existence, the credit union exclusively served the Marines, Sailors, and civilians on the four Marine Corps installations we serve.

When Base Realignment and Closure (BRAC) initiatives threatened to impact the installations we serve, the credit union in response sought to diversify our membership and, in 2002, converted from a federally chartered credit union to a California state-chartered credit union. In the process, we expanded our field of membership to anyone who lived or worked in San Diego, San Bernadino, or Riverside counties. At that time, we changed our name to Pacific Marine Credit Union, and served 69,334 members. We rebranded as Frontwave Credit Union in November 2018.

Frontwave is proud of our history and the service we provide to all of our members. Today, we have nearly 123,240 members with approximately \$1.5 billion in assets. Even with those figures, Frontwave remains a small credit union with limited resources compared to many others, as we are not among the 25 largest Credit Unions in Southern California based on total assets.¹ Significantly, our membership is unique due to its average age. Thirty-seven percent (37%) of our members are under the age of 24, with the average age for our members being only 35. Currently, 54% of our members are current or former Marine Recruits, while the remaining 46% of our members joined from the communities we serve. We have members in every state, with only 56% residing in California.

Like other credit unions, Frontwave is a not-for-profit, member owned financial cooperative. We prioritize service to our community by offering lower loan rates for mortgages and automobile loans, minimal fees, a significant digital platform to allow for easy account access, and mobile transactions. As a credit union with a unique member base, Frontwave plays a critical role in our community and the larger financial service space. As just one example of our community focus, our Frontwave Foundation², which is a self-funded 501(c)(3) charitable organization, has made significant donations to veterans' associations and local charities as part of its mission to empower and improve the lives of our community. Our commitment to the community is represented through Frontwave's participation on the Defense Credit Union Council, Armed Forces Financial Network, Camp Pendleton Armed Services YMCA, Camp Pendleton Historical Society, Oceanside Chamber of Commerce, and Moonlight Cultural Foundation to name a few. Frontwave is a participant in the Veterans Benefits Banking Program. We also provided Paycheck Protection through the federal program for hundreds of local small businesses who were negatively impacted by COVID-19. An additional example of our community support is that we

¹ See <https://www.latimes.com/b2bpublishing/banking-and-finance-trends-updates-and-2024-visionaries/story/2024-03-23/top-25-credit-unions-in-southern-california>.

² The Frontwave Foundation does not receive funding from Frontwave Credit Union and it is largely funded by donations from our members and the community.

often employ military spouses and retired veterans at Frontwave and, at present, 18% of our employees are military spouses, veterans, or are married to a veteran.

I am honored to lead our team at Frontwave as President and CEO. During my 25 years in the Marine Corps, I served combat tours in Operation Desert Storm in Kuwait and United Shield in Somalia, and I retired with the enlisted rank of Sergeant Major. I am a Marine at heart. During my military service, I worked my way through night school to earn an undergraduate degree in finance and eventually an MBA. I began at Frontwave in 1997, and then went on to lead Eagle Community Credit Union as its President and CEO from 2007-2015, and then returned to Frontwave in 2015 in my current position. Our team of 256 full-time employees make up a diverse, membership-focused force who are committed to our members' financial success.

Frontwave's Relationship with the Marine Corps

In 1980, the Marine Corps Recruit Depot Federal Credit Union was on the cusp of insolvency. Frontwave Credit Union, then known as Marine Corps West Federal Credit Union, was asked to merge the failing credit union and assume the role as the Marine Corps Recruit Depot's financial institution. That action began a strong partnership that has spanned the past 44 years. The Marine Corps Recruit Depot (MCRD) in San Diego approached us in 1996 to participate in the Recruit Direct Deposit (RDD) Program. Our operating agreement with MCRD was amended to add the RDD program in 1996. This operating agreement is reviewed every five (5) years and has always been renewed, most recently in 2020.

Through the RDD Program, we provide the invaluable service of a depository institution for young Marines. Our agreement with MCRD is not unusual, as there is an identical program at MCRD Parris Island. The establishment of Frontwave as the base credit union follows the applicable DoD regulations.³

The Marine Corps Recruit Depot fully supports Frontwave's presence and the programs we offer. As a result, Frontwave has become an invaluable member of the MCRD community. When the RDD program began, the Marine Corps advised us that they estimated the program would save the Corps \$4 million per year in administrative costs and manpower. Thus, over the 28 years we have participated in the program, Frontwave has **saved the Marine Corps and American taxpayers an estimated \$112 million.**

Frontwave offers enhanced services to the entire membership that have become vital to their daily lives. As just one example, we post all direct deposits (including paychecks) at the time we receive the ACH pre-notification, which is typically two days before the actual payday. This means that we provide what amounts to a two-day, interest free loan to our members, valued at about \$70 million, twice a month. Further demonstrating our commitment to our Marine members, each time the federal government threatens to shut down, we provide assurance to our federal government employee members – most notably our Marine members – that Frontwave will post federal government payroll, based on the most recent payroll received. This commitment guarantees that our members will have access to their funds should the federal government fail to provide them with the on-time pay they earned.

³ See DoD 7000.14-R, *Financial Institutions on DoD Installations*, Section 3306.

Frontwave has been repeatedly recognized for its superior performance and service to the Marine community. We received Vice President Gore’s Golden Hammer Award in 1997 for service to the Marine Corps and our dedicated participation in the RDD Program. Further, we have been recognized in 7 of the past 10 years as the Department of the Navy’s Distinguished Small Credit Union for our commitment to serve the Marines and Sailors through financial services, philanthropy, and a passion to provide financial education.

Courtesy Pay Service

Frontwave’s Courtesy Pay service provides a vital and transparent service for members who have overdrawn their accounts. Prior to the advent of overdraft protections such as our Courtesy Pay, member transactions would be simply rejected for insufficient funds. As a result, rent payments, car payments, grocery payments, utility payments, etc., would all be rejected, and merchants would charge additional fees to offset the costs of collection of those failed payments. For many, overdraft protection provides a lifeline that bridges the gap between paychecks and covering essential expenses. Without this service, our members would face embarrassing situations, increased fees, disrupted services, and financial insecurity.

The protection Courtesy Pay provides is an essential lifeline for our members and avoids the alternative of predatory, debt-driven payday lenders that charge excessive interest rates. Our members trust that Frontwave will be there if they need to utilize Courtesy Pay, and they understand the cost of the service. Frontwave charges a reasonable – and well below market – fee for the service, which is fully disclosed upfront.

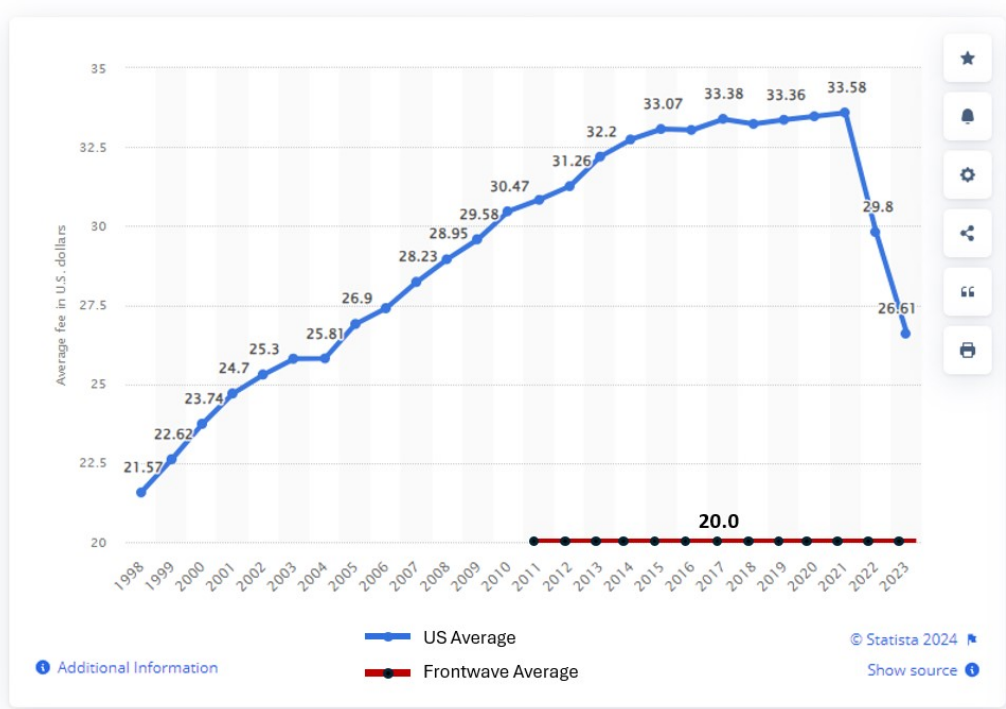
Frontwave began the Courtesy Pay service in January 2011. Our members are fully advised upfront of the Courtesy Pay service charges with multiple disclosures provided at several points in time. These disclosures include the following and are all attached to this letter:

Disclosure	Provided at	Details		
Courtesy Pay Opt-In Notice (Exhibit A)	Account Opening	1 page disclosure covers the following: <ul style="list-style-type: none"> ➤ <i>What You Need to Know about Overdrafts and Overdraft Fees</i> ➤ <i>What are the standard overdraft practices (Courtesy Pay) that come with my account?</i> ➤ <i>What fees will I be charged if Frontwave pays my overdraft?</i> ➤ <i>What if I want Frontwave to authorize and pay overdrafts on my ATM and everyday debit card transactions?</i> Member makes their election in writing and signs.		
Account Disclosures & Agreement (Exhibit B)	Account Opening	Explains details of Overdraft Protection, Courtesy Pay, and how NSF fees work on pages 3-4		
Schedule of Fees & Charges (Exhibit C)	Account Opening	1 page disclosure includes Service Charges such as: <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">Overdraft Courtesy Pay</td> <td style="text-align: right;">\$ 20.00</td> </tr> </table>	Overdraft Courtesy Pay	\$ 20.00
Overdraft Courtesy Pay	\$ 20.00			
Financial Training Materials (Exhibit D)	Marine Recruit Training Events	Slide provides exact image of Schedule of Fees & Charges but with Overdraft charges noted for attention: <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">Overdraft Courtesy Pay</td> <td style="text-align: right;">\$ 20.00</td> </tr> </table>	Overdraft Courtesy Pay	\$ 20.00
Overdraft Courtesy Pay	\$ 20.00			

The Courtesy Pay service’s existence and associated fees are disclosed at multiple touchpoints to our members – they are neither hidden nor a surprise. Members also have alternatives to Courtesy Pay. Members can choose to establish automated transfers from a separate checking, savings, credit card, and/or overdraft line of credit to protect from overdrawing their account. Frontwave does not extend overdraft protection service for debit card transactions or ATM withdrawals unless the member has affirmatively opted-in to the service. Currently, 8% of Marine members have opted in for the ATM/debit service. Members may choose to opt out of the Courtesy Pay service at any time.

As mentioned above, the Courtesy Pay service cost of \$20 is significantly lower than the industry average of \$33.58 (2021), \$29.80 (2022), and \$26.61 (2023) as seen in the following chart from Statista. Moreover, Frontwave has not increased the \$20 charge in the 13 years since its inception in 2011. Members receive monthly account statements that clearly spell out the number and amount of any Courtesy Pay fees incurred and members have real time access to their account balances on the digital platform.

Average Courtesy Pay Fee in US compared to Frontwave



We also take affirmative measures to help limit the number of transactions that require use of our Courtesy Pay service as one way of minimizing cost to our members. We limit Courtesy Pay incidents to five times per day and \$500 of a total negative account balance. In addition, in July 2023, we discontinued APPSN (Authorize Positive, Posted, and Settled Negative) transactions and, in February 2024, we limited merchant chargeback representations to only one per transaction. This is a critical change for our members and significantly limits the potential for account overdrafts. For example, some merchants, such as gyms, will make repeated representations for payment, but the limitation to only one representation acts to minimize the charges to the member.

Additionally, we forgave over \$385,000 in Courtesy Pay service fees for members in 2023, supporting our members through financial challenges. As reflected by these multiple measures, we strive to minimize expense and to make sure our members are informed about the program, know their alternatives, and are empowered to manage their finances.

Based on our conversations with and feedback from our members, we believe they are well-informed about the Courtesy Pay service details and that they appreciate the flexibility the service provides to them. Their perception of the service is positive overall. They generally tell us that they understand how the service works and that it does not come as a surprise to them when they see the charges on their account. Members express relief at having the service available and describe it as helpful when they need more than what they have in the bank. In fact, one member recently told me that it helps him as a veteran living paycheck to paycheck.

Because of the various services that Frontwave offers its members, including the Courtesy Pay service, Frontwave enjoys strong membership loyalty. Although our members can change depositories at any time, over 80% of our Marine members stay with Frontwave after one year, and 38% stay with Frontwave after four years. The latter figure is impressive, in our view, when considering that Marines routinely move away from our geographical area. In fact, this retention rate is a higher percentage than the Marine re-enlistment rate of 25% after four (4) years of service.⁴ The Courtesy Pay service is a vital, transparent, and appreciated service to our members, and we believe our members are loyal because of the quality of services we provide to them.

Credit unions such as Frontwave play a critical role in helping individuals, small businesses, and communities prosper. The Courtesy Pay service helps our members make responsible financial decisions and encourages on-time payments. The associated fees also enable Frontwave to offset the costs of late payments and their related risks to both the member and the membership. Although Frontwave is a not-for-profit enterprise, we must remain financially viable so that we can continue to offer attractive financial products such as better interest rates for credit cards, mortgages, and auto loans to its communities. We are committed to enhancing member value through investment in technology, innovation, and continuous improvement that includes digital account access, branch/ATM network, and its workforce.

The Courtesy Pay service is a fully disclosed opt-in program for our members. The percentage of our membership who take advantage of the Courtesy Pay service is in alignment with the larger financial services industry. In 2023, 22% of our membership utilized the Courtesy Pay service, and less than 5% of our members utilized the service 12 times or more. Of our members that used the Courtesy Pay Service an average of one time per month, 39% are from the community and are not Marine Recruits. Of those who used the Courtesy Pay service the most, roughly half were from our community membership (46.6%). In other words, our Marine Members are far from the only ones who use this important service.

Training and Education

As described earlier, Frontwave has a significantly higher percentage of younger, lower income, and financially inexperienced members. To address this challenge, our certified financial

⁴ See Marine Corps Times, “The Corps has a plan to stop Marines from leaving. Is it working?” February 19, 2024.

counselors provide practical personal financial education to our current and former Marine Recruit members as well as our larger membership. In 2022, we provided financial education to over 51,000 people, members and non-members alike. Contrary to some of the allegations made against Frontwave, we provide two thorough 60-minute financial education classes for all Marine Recruits on the account particulars, how pay deposits work, Frontwave's Schedule of Fees & Charges, Frontwave's Account Disclosures and Agreement, debit card usage, courtesy pay/overdraft protection, account alerts, credit reporting, online and mobile account access and capabilities, how to save money, keys to building responsible credit, among a wider range of topics.

The training materials used in these classes explicitly highlight and describe the Courtesy Pay service. The instructors for the financial education program are all retired Marines who are passionate about taking care of their fellow Marines. In 2023, we provided 34,405 hours of instruction to Marine Recruits, 3,165 hours of instruction to Marine units, and 1,035 hours of instruction to the community regardless of whether they are members or not. This includes the work we do to provide practical financial education for local high school and college students. Our training program is a vital service that our Marine bases and communities support and appreciate. I stand behind the thorough financial education program we provide to Marine Recruits to equip them to make informed financial decisions. Frontwave is always seeking to best serve and educate our members, and we will continue to constantly evaluate our products, programs, and offerings.

Closing

One thing has remained consistent since our founding: our dedication to the financial needs of our membership. The interests of our membership are paramount. We are forever mindful that our Marine members are the roots of our small credit union. We are dedicated to providing exceptional service to all of our members, and like numerous other credit unions, we are proud to offer a number of services tailored to assist our members and provide real value to their financial lives. While some of these services do have a charge associated with them, we take multiple measures to educate and inform our members, and we endeavor to help them limit the amount of charges against their accounts.

We are intently focused on serving our unique membership and strive to continuously improve in these areas—and in others—every day. We frequently evaluate our programs to make sure we are providing value to our members including efforts to communicate, educate, and highlight alternative solutions and tools that are in the best interest of our membership.

We are proud of our relationship with the Marine Corps, and we are passionate about the service we provide to our Marines. I have dedicated my entire adult life in service—to our nation, to the credit union industry, to Frontwave, and to our communities. I am committed to ensuring the best member experience for my fellow Marines as they begin their service to our country. I stand steadfast and am passionate about continuous improvement of our services to our membership.

Respectfully submitted,



Bill Birnie
President & Chief Executive Officer
Frontwave Credit Union
Sergeant Major, USMC (Ret)

Enclosures

Cc: Senator Laphonza Butler, Senator Richard Blumenthal, Senator Benjamin Cardin, Senator Tim Kaine, Senator Bernard Sanders, Senator Cory Booker, Senator Mazie Hirono, Senator JD Vance, and Congresswoman Sara Jacobs.