

October 15, 1992

T. J. Hughes, President  
Navy Federal Credit Union  
P.O. Box 3000  
Merrifield, VA 22119-3000

Re: Termination of Service (Your September 25, 1992, Memo)

Dear Mr. Hughes:

You have asked whether Navy Federal Credit Union's (FCU's) plan to terminate most services to some of its members in the Philippines is legally permissible. We have no legal objections to your proposed policy.

#### BACKGROUND

You have informed us that the mail system in the Philippines is unreliable and unsafe. The theft of items introduced into that system is commonplace, including checks, other negotiable instruments, and periodic statements which thieves use to obtain account numbers and balances for use in effecting fraudulent charges or withdrawals. In recognition of this threat to the financial integrity of its members and the safety and soundness of the FCU's assets, the FCU does not send debit cards, credit cards, share drafts, or monthly VISA statements through the Philippine mail system. The FCU offices located on U.S. Navy bases in the Philippines have disbursed negotiable items and served as "mailing addresses" for pickup of plastic cards and statements.

With the closing of U.S. military bases in the Philippines, the FCU will no longer be able to serve members in that country through U.S. Navy facilities. By November 13, 1992, all FCU offices in the Philippines will be closed. As of November 13, 1992, for safety and soundness reasons, members with mailing addresses in the Philippines will be subject to the following policies:

1. The FCU will disapprove applications for debit cards, credit cards, and share draft accounts, unless the applicant can arrange for pickup of the card, share drafts, and monthly VISA statements at an FCU office or can provide a mailing address in a country other than the Philippines.
2. The FCU will close existing credit card accounts, unless the cardholder can arrange for a pickup of monthly VISA statements at an FCU office or can provide a mailing address in a country other than the Philippines.
3. The FCU will decline to honor share draft reorders if the blank drafts are to be mailed to an address in the Philippines.
4. The FCU will approve consumer loans and honor requests for cash withdrawals only on the condition that funds will be disbursed at an FCU office.
5. The FCU only send periodic statements of accounts other than VISA through the Philippine mail system.

#### ANALYSIS

The FCU Act grants all FCU members two basic rights: the right to maintain a share account, and the right to vote at annual and special meetings. However, nothing in the FCU Act precludes an FCU from restricting

the availability of certain services, provided that there is a rational basis for doing so. The FCU has determined that limiting services to its members in the Philippines, in the manner stated above, is required due to safety and soundness concerns. We believe the FCU has a rationale basis for limiting services, hence we have no legal objection to the FCU's proposed policy.

Sincerely,

Hattie M. Ulan  
Associate General Counsel

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