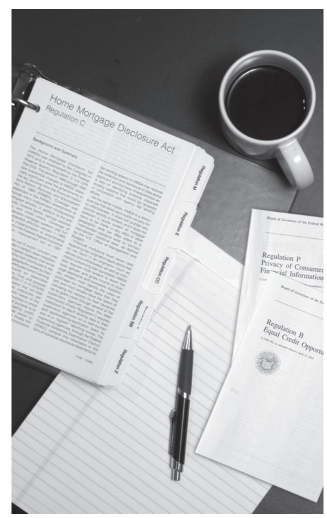
6 Consumer and Community Affairs

The number of federal laws intended to protect consumers in credit and other financial transactions has been growing since the late 1960s. Congress has assigned to the Federal Reserve the duty of implementing many of these laws to ensure that consumers receive comprehensive information and fair treatment.

Among the Federal Reserve's responsibilities in this area are

- writing and interpreting regulations to carry out many of the major consumer protection laws,
- reviewing bank compliance with the regulations,
- investigating complaints from the public about state member banks' compliance with consumer protection laws,
- addressing issues of state and federal jurisdiction,
- testifying before Congress on consumer protection issues, and
- conducting community development activities.

In carrying out these responsibilities, the Federal Reserve is advised by its Consumer Advisory Council, whose members represent the interests of consumers, community groups, and creditors nationwide. Meetings of the council, which take place three times a year at the Federal Reserve Board in Washington, D.C., are open to the public.



Consumer Protection

Most financial transactions involving consumers are covered by consumer protection laws. These include transactions involving credit, charge, and debit cards issued by financial institutions and credit cards issued by retail establishments; automated teller machine transactions and other electronic fund transfers; deposit account transactions; automobile leases; mortgages and home equity loans; and lines of credit and other unsecured credit.

Writing and Interpreting Regulations

The Federal Reserve Board writes regulations to implement many of the major consumer protection laws. These regulations may cover not only banks but also certain businesses, including finance companies, mortgage brokers, retailers, and automobile dealers. For example, Congress passed the Truth in Lending Act to ensure that consumers have adequate information about credit. The Board implemented that law by writing Regulation Z, which requires banks and other creditors to provide detailed information to consumers about the terms and cost of consumer credit for mortgages, car loans, credit and charge cards, and other credit products. The Board also revises and updates its regulations to address new products or changes in technology, to implement changes to existing legislation, or to address problems encountered by consumers.

Educating Consumers about Consumer Protection Laws

Well-educated consumers are the best consumer protection in the market.

Well-educated consumers are the best consumer protection in the market. They know their rights and responsibilities, and they use the information provided in disclosures to shop and compare. The Federal Reserve Board maintains a consumer information web site with educational materials related to the consumer protection regulations developed by the Board (www.federalreserve.gov/consumers.htm). In addition, the Federal Reserve staff uses consumer surveys and focus groups to learn more about what issues are important to consumers and to develop and test additional educational resources.

Enforcing Consumer Protection Laws

The Federal Reserve has a comprehensive program to examine financial institutions and other entities that it supervises to ensure compliance with consumer protection laws and regulations. Its enforcement responsibilities generally extend only to state-chartered banks that are members of the Federal Reserve System and to certain foreign banking organizations. Other federal regulators are responsible for examining banks, thrift institutions, and credit unions under their jurisdictions and for taking enforcement action.

Each Reserve Bank has specially trained examiners who regularly evaluate banks' compliance with consumer protection laws and their Community Reinvestment Act (CRA) performance. Most banks are evaluated every forty-eight months, although large banks are examined every twenty-four months and poorly rated banks are examined more frequently.

To make the most effective and efficient use of resources while ensuring compliance with consumer protection laws and regulations, the Federal Reserve uses a risk-focused approach to supervision, focusing most intensely on those areas involving the greatest compliance risk. Examinations always include a comprehensive assessment of an institution's CRA performance in order to present to the public a full and fair portrait of the institution's efforts. Examiners also assess the broad range of large complex banking organizations' activities to determine the level and trend of compliance risk in the area of consumer protection.

In accordance with the Community Reinvestment Act of 1977, the Federal Reserve reviews a bank's efforts to meet the credit and community development needs of its entire community, including low- and moderate-income neighborhoods; for example, it looks at the extent to which a bank has programs that contribute to the building of affordable housing and to other aspects of community development. When deciding whether to approve an application for a bank acquisition or merger or for the formation of a bank holding company, the Federal Reserve takes into account an institution's performance under the CRA. An important aspect of the process is that it gives the public the opportunity to submit written comments on the proposal. These comments, which often provide insight into a financial institution's CRA performance, are reviewed by Federal Reserve staff and considered by the Board when it evaluates an application.

The Federal Reserve reviews a bank's efforts to meet the credit and community development needs of its entire community.

At the end of this chapter is a list of the consumer protection laws for which the Federal Reserve has rule-writing or enforcement responsibility, the dates the laws were enacted, and the highlights of the laws' provisions.

Consumer Complaint Program

The Federal Reserve responds to inquiries and complaints from the public about the policies and practices of financial institutions involving consumer protection issues. Each Reserve Bank has staff whose primary responsibility is to investigate consumer complaints about state member banks and refer complaints about other institutions to the appropriate regulatory agencies. The Federal Reserve's responses not only address the concerns raised but also educate consumers about financial matters.

The Federal Reserve Board maintains information on consumer inquiries and complaints in a database, which it regularly reviews to identify potential problems at individual financial institutions and, as required by the Federal Trade Commission Improvement Act, to uncover potentially unfair or deceptive practices within the banking industry. Complaint data are a critical component of the risk-focused supervisory program and are used as a risk factor to assess a bank's compliance with consumer regulations. Data about consumer complaints are also used to determine the need for future regulations or educational efforts.

Community Affairs

Community affairs programs at the Board and the twelve Federal Reserve Banks promote community development and fair and impartial access to credit. Community affairs offices at the Board and Reserve Banks engage in a wide variety of activities to help financial institutions, community-based organizations, government entities, and the public understand and address financial services issues that affect low- and moderate-income people and geographic regions. Each office responds to local needs in its District and establishes its own programs to

- foster depository institutions' active engagement in providing credit and other banking services to their entire communities, particularly traditionally underserved markets;
- encourage mutually beneficial cooperation among community organizations, government agencies, financial institutions, and other community development practitioners;
- develop greater public awareness of the benefits and risks of financial products and of the rights and responsibilities that derive from community investment and fair lending regulations; and
- promote among policy makers, community leaders, and private-sector decision makers a better understanding of the practices, processes, and resources that result in successful community development programs.

Each Federal Reserve Bank develops specific products and services to meet the informational needs of its region. The community affairs offices issue a wide array of publications, sponsor a variety of public forums, and provide technical information on community and economic development and on fair and equal access to credit and other banking services.

The Fair Housing Act prohibits discrimination in the extension of housing credit.

Consumer Protection Laws

- ***Fair Housing Act (1968)***
  Prohibits discrimination in the extension of housing credit on the basis of race, color, religion, national origin, sex, handicap, or family status.
- ***Truth in Lending Act (1968)***
  Requires uniform methods for computing the cost of credit and for disclosing credit terms. Gives borrowers the right to cancel, within three days, certain loans secured by their residences. Prohibits the unsolicited issuance of credit cards and limits cardholder liability for unauthorized use. Also imposes limitations on home equity loans with rates or fees above a specified threshold.
- ***Fair Credit Reporting Act (1970)***
  Protects consumers against inaccurate or misleading information in credit files maintained by credit-reporting agencies; requires credit-reporting agencies to allow credit applicants to correct erroneous reports.
- ***Flood Disaster Protection Act of 1973***
  Requires flood insurance on property in a flood hazard area that comes under the National Flood Insurance Program.
- ***Fair Credit Billing Act (1974)***
  Specifies how creditors must respond to billing-error complaints from consumers; imposes requirements to ensure that creditors handle ac-

counts fairly and promptly. Applies primarily to credit and charge card accounts (for example, store card and bank card accounts). Amended the Truth in Lending Act.

- ***Equal Credit Opportunity Act (1974)***
  Prohibits discrimination in credit transactions on several bases, including sex, marital status, age, race, religion, color, national origin, the receipt of public assistance funds, or the exercise of any right under the Consumer Credit Protection Act. Requires creditors to grant credit to qualified individuals without requiring cosignature by spouses, to inform unsuccessful applicants in writing of the reasons credit was denied, and to allow married individuals to have credit histories on jointly held accounts maintained in the names of both spouses. Also entitles a borrower to a copy of a real estate appraisal report.
- ***Real Estate Settlement Procedures Act of 1974***
  Requires that the nature and costs of real estate settlements be disclosed to borrowers. Also protects borrowers against abusive practices, such as kickbacks, and limits the use of escrow accounts.
- ***Home Mortgage Disclosure Act of 1975***
  Requires mortgage lenders to annually disclose to the public data about the geographic distribution of their applications, originations, and purchases of home-purchase and home-improvement loans and refinancings. Requires lenders to report data on the ethnicity, race, sex, income of applicants and borrowers, and other data. Also directs the Federal Financial Institutions Examination Council, of which the Federal Reserve is a member, to make summaries of the data available to the public.

The Community Reinvestment Act encourages financial institutions to help meet the credit needs of their entire communities.

- ***Consumer Leasing Act of 1976***
  Requires that institutions disclose the cost and terms of consumer leases, such as automobile leases.
- ***Fair Debt Collection Practices Act (1977)***
  Prohibits abusive debt collection practices. Applies to banks that function as debt collectors for other entities.
- ***Community Reinvestment Act of 1977***
  Encourages financial institutions to help meet the credit needs of their entire communities, particularly low- and moderate-income neighborhoods.
- ***Right to Financial Privacy Act of 1978***
  Protects bank customers from the unlawful scrutiny of their financial records by federal agencies and specifies procedures that government authorities must follow when they seek information about a customer's financial records from a financial institution.
- ***Electronic Fund Transfer Act (1978)***
  Establishes the basic rights, liabilities, and responsibilities of consumers who use electronic fund transfer services and of financial institutions that offer these services. Covers transactions conducted at automated teller machines, at point-of-sale terminals in stores, and through tele-

phone bill-payment plans and preauthorized transfers to and from a customer's account, such as direct deposit of salary or Social Security payments.

- ***Federal Trade Commission Improvement Act (1980)***
  Authorizes the Federal Reserve to identify unfair or deceptive acts or practices by banks and to issue regulations to prohibit them. Using this authority, the Federal Reserve has adopted rules substantially similar to those adopted by the FTC that restrict certain practices in the collection of delinquent consumer debt, for example, practices related to late charges, responsibilities of cosigners, and wage assignments.
- ***Expedited Funds Availability Act (1987)***
  Specifies when depository institutions must make funds deposited by check available to depositors for withdrawal. Requires institutions to disclose to customers their policies on funds availability.

The Fair Credit and Charge Card Disclosure Act requires that applications for credit cards contain information about key terms of the account.

- ***Women's Business Ownership Act of 1988***
  Extends to applicants for business credit certain protections afforded consumer credit applicants, such as the right to an explanation for credit denial. Amended the Equal Credit Opportunity Act.
- ***Fair Credit and Charge Card Disclosure Act of 1988***
  Requires that applications for credit cards that are sent through the mail, solicited by telephone, or made available to the public (for example, at counters in retail stores or through catalogs) contain information about key terms of the account. Amended the Truth in Lending Act.
- ***Home Equity Loan Consumer Protection Act of 1988***
  Requires creditors to provide consumers with detailed information about open-end credit plans secured by the consumer's dwelling. Also regulates advertising of home equity loans and restricts the terms of home equity loan plans.
- ***Truth in Savings Act (1991)***
  Requires that depository institutions disclose to depositors certain information about their accounts—including the annual percentage yield, which must be calculated in a uniform manner—and prohibits certain methods of calculating interest. Regulates advertising of savings accounts.
- ***Home Ownership and Equity Protection Act of 1994***
  Provides additional disclosure requirements and substantive limitations on home-equity loans with rates or fees above a certain percentage or amount. Amended the Truth in Lending Act.
- ***Gramm-Leach-Bliley Act, title V, subpart A, Disclosure of Nonpublic Personal Information (1999)***
  Describes the conditions under which a financial institution may disclose nonpublic personal information about consumers to nonaffiliated third parties, provides a method for consumers to opt out of information sharing with nonaffiliated third parties, and requires a financial institution to notify consumers about its privacy policies and practices.

- ***Fair and Accurate Credit Transaction Act of 2003***
  Enhances consumers' ability to combat identity theft, increases the accuracy of consumer reports, allows consumers to exercise greater control over the type and amount of marketing solicitations they receive, restricts the use and disclosure of sensitive medical information, and establishes uniform national standards in the regulation of consumer reporting. Amended the Fair Credit Reporting Act.