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Comptroller Urges Industry to End Abusive Practices
And Elevate Customer Service Standards

SAN FRANCISCO -- Comptroller of the Currency John D. Hawke, Jr. appealed today to the banking industry to improve customer service standards and warned that some current practices are abusive and may invite government scrutiny if not corrected.

"While it might be unfair to burden an entire industry with legislation aimed at curbing the poor conduct of a few institutions, the persistent failure of the industry itself to address abusive conduct creates a fertile seedbed for legislation," Mr. Hawke said in a speech to bank lending officers sponsored by the Consumer Bankers Association and Robert Morris Associates.

In particular, Mr. Hawke cited the sale of customers' personal financial information by banks to telemarketing firms in return for a commission on sales. The information sold includes addresses, telephone numbers, account balances, credit card purchases, last payment dates, occupations and credit-scoring information, among other items.

"With this information, a telemarketer can profile bank customers and offer so-called trial memberships' most likely to appeal to a particular customer," he said. "If a customer indicates an interest in seeing materials about the offer or expresses an interest in the trial membership, his account at the bank is automatically charged by the telemarketer -- without the customer ever divulging his account number, much less knowingly authorizing the charge or withdrawal."

The Comptroller said this practice raises a number of serious legal concerns, which the OCC and other agencies are in the process of reviewing. "Judging from the calls we receive from state attorney general offices around the country, the scope of the concern may be widespread," he added.

Beyond legal concerns, Mr. Hawke said, the sale of customer information to third parties raises questions about the preservation of customer confidentiality in the bank-customer relationship.

"We heard loud complaints from many in the banking industry that the now defunct Know Your Customer regulation would do severe damage to customer confidence -- as I believe it would have," he said. "But there doesn't seem to be the same sensitivity about damaging that relationship when there are commissions to be earned from the sale of confidential information."

Another troubling trend, Mr. Hawke said, is the growing practice of some financial institutions to not report information about customer credit lines, high credit balances and payment records

to credit bureaus. Some lenders appear to have stopped reporting information about subprime borrowers to protect against their best customers being picked off by competitors. Many of those borrowers were lured into high-rate loans as a way to repair credit histories.

"These high-interest borrowers may be rudely surprised when they discover that their good credit history as a subprime borrower isn't reflected in their credit files when they seek credit in the future and that they are unable to obtain better rates based on their good credit record," Mr. Hawke said.

"Perhaps it's too late for industry codes of conduct, self-policing arrangements or even statements of best practices to relieve the burden of regulatory legislation already on the books," he added. "But it may still be possible to avoid new legislation crafted to remedy today's excesses."

Mr. Hawke said industry leaders, including trade groups such as the Consumer Bankers Association and Robert Morris Associates, should speak out on these issues and make it clear that the banking industry is willing to address problems on its own.

"In my view, the banking industry's response must be clear and unambiguous in order to stem the tide of corrective legislation," he said.

The Comptroller said the OCC's Customer Assistance Group, which appears likely to log more than 100,000 consumer complaint calls this year, has helped the OCC amass a significant amount of data about bank-customer relationships which can be of real value to any bank seeking to upgrade its service. The office not only provides an outlet for consumers, it adds value to the supervisory process by giving bankers insight into their customers' assessment of the service they provide, Mr. Hawke added.

"Most of the complaints we receive are the result of a breakdown in communication between a bank and a customer," Mr. Hawke said. "We lend our good offices to the resolution of disputes. If the customer's complaint lacks merit, we're frank to say so."

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What's most disturbing, Mr. Hawke said, is the large number of complaints received by the OCC that, "intentionally or not, violate the letter or spirit of consumer protection laws or that clearly strain the boundaries of ethical conduct."

Mr. Hawke said it is in the best interest of the banking industry and its customers to eliminate shoddy or unethical practices, even if they are not currently sanctionable under law.

"Effective self-policing should be undertaken as a matter of enlightened self-interest -- not only to improve customer relationships, but to demonstrate to Congress that new regulatory legislation aimed at curbing abuses by banks is not needed," Mr. Hawke said. "The industry's future could well depend on how it

responds to this challenge."

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The OCC charters, regulates and examines approximately 2,500 national banks and 61 federal branches of foreign banks in the U.S., accounting for more than 59 percent of the nation's banking assets. Its mission is to ensure a safe and sound and competitive national banking system that supports the citizens, communities and economy of the United States.