

# Consumer and Community Affairs

**S**ince the late 1960s, the number of federal laws intended to protect consumers in credit and other financial transactions has been growing. Congress has assigned the Federal Reserve the duty of implementing 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 about compliance from the public
- Addressing issues of state and federal jurisdiction
- Testifying before Congress on consumer protection issues
- Directing a community affairs program.

In its efforts, the Federal Reserve is advised by a 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

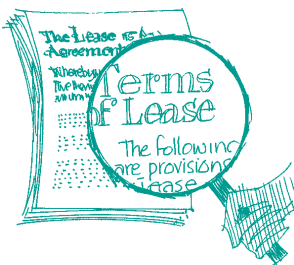
Virtually all financial transactions involving consumers are covered by the consumer-protection laws. These include transactions involving charge and credit cards from financial institutions and retail establishments, automated teller machines, deposit accounts, automobile leases, and mortgages.

## Writing and Interpreting Regulations

The Federal Reserve writes regulations to implement these laws, which cover not only banks but also certain businesses, including finance companies, mortgage brokers, retailers, and automobile dealers. Most aspects of financial transactions are governed by regulations written by staff members at the Federal Reserve Board. For example, Congress passed the Truth in Lending Act to ensure that consumers had adequate information about credit. The Board implemented that law by writing Regulation Z, which requires that banks and other creditors provide detailed information about mortgages, car loans, credit and charge cards, and other lending products. The Board also revises and updates its regulations to address new products, such as home equity lines of credit, adjustable-rate mortgages, and so forth; to implement legislative changes to existing laws; or to address problems encountered by consumers.

## Enforcing Consumer-Protection Laws

The Federal Reserve has a comprehensive program to examine banks to ensure that they comply with the consumer-protection laws. Its enforcement responsibilities generally extend only to state-chartered banks that are members of the Federal Reserve System. Other federal regulators are responsible for examining bank and thrift institutions under their jurisdictions and for taking enforcement action.



Each Reserve Bank has on its staff specially trained examiners who regularly evaluate the performance of banks in its District. Most banks are evaluated every eighteen months. Poorly rated banks are examined more frequently, and highly rated banks are examined every twenty-four months.

The examiners review the bank's policies and procedures and consumer files and other financial documents, and they verify that disclosures are given in a timely and accurate fashion and that the bank has dedicated enough resources to ensure compliance.

At the end of this chapter is a list of the consumer protection laws for which the Federal Reserve has implementation and enforce-

ment responsibility, the dates that the laws were enacted, and the highlights of the laws' provisions.

## CONSUMER COMPLAINT PROGRAM

The Federal Reserve operates a Systemwide program to respond to inquiries and complaints from the public about consumer protection issues involving the policies and practices of financial institutions. It investigates complaints involving state member banks and refers complaints involving other institutions to the appropriate regulatory agencies.

The Federal Reserve Board maintains information on consumer inquiries and complaints in a database. It regularly reviews the data 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.

## COMMUNITY AFFAIRS

In accordance with the Community Reinvestment Act of 1977 (CRA), the Federal Reserve encourages banks to work with community organizations to promote local economic development. In the examination process, the Federal Reserve reviews a bank's efforts to meet the credit 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. Banks are rated separately for compliance with the CRA, and the Federal Reserve takes an institution's performance under the CRA into account when deciding whether to approve an application for acquisition or merger or for formation of a bank holding company. The public may protest the approval of an application on the basis of the institution's record in community reinvestment.

Each Reserve Bank has on its staff a community affairs officer who is familiar with the credit needs in the communities served by the institutions in the Bank's District. The officer's responsibilities include fostering communication among banking institu-

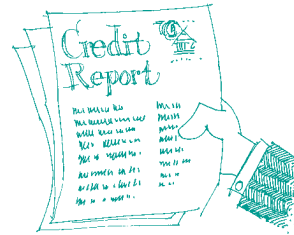


tions, government agencies, and community groups. Through newsletters and other publications, seminars, workshops, and conferences, the Federal Reserve provides information to banks and bank holding companies about economic initiatives in the private sector, community development finance, public-private partnerships, and federal and state development programs. Staff members also work directly with individual bankers and community development representatives to promote community lending.

### Consumer-Protection Laws

- **Community Reinvestment Act of 1977**  
Encourages financial institutions to help meet the credit needs of their communities, particularly low- and moderate-income neighborhoods.
- **Consumer Leasing Act of 1976**  
Requires that institutions disclose the cost and terms of consumer leases (such as those on automobiles).
- **Electronic Fund Transfer Act (1978)**  
Establishes rules concerning a consumer's liability for unauthorized use of a debit card and the unsolicited issuance of debit cards by financial institutions. Covers transactions conducted at automated teller machines, at point-of-sale terminals in stores, and through telephone bill-payment plans and preauthorized transfers to and from a customer's account, such as direct deposit of salary or social security payments.
- **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.

- **Expedited Funds Availability Act (1987)**  
Specifies when depository institutions must make consumers' deposited funds available to them; requires institutions to disclose to customers their policies on funds availability.
- **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 (such as at counters in retail stores or through catalogs) contain information about key terms of the account.
- **Fair Credit Billing Act (1974)**  
Specifies how creditors must respond to billing complaints from consumers; imposes requirements to ensure that creditors handle accounts fairly and promptly. Applies primarily to revolving and credit card accounts (for example, store card and bank card accounts).
- **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.
- **Fair Debt Collection Practices Act (1977)**  
Prohibits abusive debt collection practices; applies to banks that function as debt collectors for other entities.
- **Fair Housing Act of 1968**  
Prohibits discrimination in the extension of housing credit on the basis of race, color, religion, national origin, sex, handicap, or family status.
- **Federal Trade Commission Improvement Act of 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 that restrict certain practices in the collection of delinquent consumer debt, for example, practices related to late charges, responsibilities of cosigners, and wage assignments.)
- **Flood Disaster Protection Act of 1973**  
Requires flood insurance on property in a flood hazard area that comes under the National Flood Insurance Program.



- **Home Equity Loan Consumer Protection Act of 1988**  
Requires creditors to provide consumers with detailed information about open-ended credit plans secured by the consumer's dwelling and with a brochure describing home equity loans in general. Also regulates advertising of home equity loans and restricts the terms of home equity loan plans.
- **Home Mortgage Disclosure Act of 1975**  
Requires mortgage lenders to publicly disclose the geographic distribution of their mortgage and home improvement loans and their loan approval rates by sex, race, and other applicant characteristics. Also directs the Federal Financial Institutions Examination Council (of which the Federal Reserve is a member) to make summaries of these data available to the public.
- **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.
- **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.
- **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. Also prohibits the unsolicited issuance of credit cards and limits cardholder liability for unauthorized use.
- **Truth in Savings Act (1991)**  
Requires that depository institutions disclose to depositors certain information about their accounts, including the annual percentage yield calculated in a uniform manner; regulates advertising of savings accounts; and prohibits certain methods of calculating interest.
- **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.

