

## **Randall S Kroszner: The role of federal banking agencies in strengthening federal financial consumer protection**

Testimony of Mr Randall S Kroszner, Member of the Board of Governors of the US Federal Reserve System, before the Committee on Financial Services, US House of Representatives, Washington DC, 13 June 2007.

*The original speech, which contains various links to the documents mentioned, can be found on the US Federal Reserve System's website.*

\* \* \*

Chairman Frank, Ranking Member Bachus, and members of the Committee, I appreciate the opportunity to appear today to discuss the Federal Reserve Board's role in protecting consumers in financial services transactions.

### **Introduction**

An important part of the Federal Reserve's statutory mandate is promoting the availability of credit throughout the banking system. In the case of consumer credit, equally important with promoting its availability is the Federal Reserve's responsibility for implementing the laws designed to protect consumers in financial services transactions. Many of these laws are based on ensuring that consumers receive adequate information in the form of disclosures about the features and risks of a particular product.

Information is critical to the effective functioning of markets. A core principle of economics is that markets are more competitive, and therefore more efficient, when accurate information is available to both consumers and suppliers. When information on alternatives is readily available, product offerings have to meet customers' demands and offering prices have to reflect those of market competitors. If consumers are well informed, they are in a better position to make decisions that are in their best interest. Information helps and empowers individual consumers by improving their ability to compare products and to choose those that will help them meet their personal goals.

With the aid of technological advances, financial institutions have been able to offer innovative products that are increasingly diverse but also increasingly complex. While this has expanded consumers' access to credit and their options, it also presents a challenge in ensuring that consumer disclosures about these more complex products are effective. To be effective, disclosures must give consumers information at a time when it is relevant, and in language they can easily understand. The information must also be in a format that allows consumers to identify and use the information that is most important to them. In a nutshell, because effective disclosure gives consumers information they notice, understand, and can use, it empowers consumers and enhances competition.

The Board is committed to developing more effective disclosures, but even well-designed disclosures can only be useful if they can be understood by consumers who have the necessary financial knowledge. Accordingly, we must promote financial education, and having been an educator for many years, I am very pleased that the Board is actively involved in this area.

The Board is keenly aware, however, that disclosures and financial education may not always be sufficient to combat abusive practices. Indeed, the consumer financial services laws implemented by the Board contain a number of substantive protections, reflecting carefully considered legislative judgments that certain practices should be restricted or prohibited. The Board also has the responsibility to prohibit other practices by issuing rules, for example, if the Board finds they meet the legal standard for "unfair or deceptive" practices under the Federal Trade Commission Act (FTC Act) or the Home Ownership and Equity Protection Act (HOEPA). We must be mindful, however, of unintended consequences.

Crafting effective rules under the "unfair or deceptive" standard presents significant challenges. Whether a practice is unfair or deceptive depends heavily on the particular facts and circumstances. To be effective, rules must have broad enough coverage to encompass a wide variety of circumstances so they are not easily circumvented. At the same time, rules with broad prohibitions could limit consumers' financing options in legitimate cases that do not meet the required legal standard.

This has led the Federal Reserve to focus primarily on addressing potentially unfair or deceptive practices by using its supervisory powers on a case-by-case basis rather than through rulemaking. The FTC, which has authority to prohibit unfair or deceptive practices for financial services firms that are not depository institutions, has taken a similar approach. Because the prohibition on unfair or deceptive acts or practices applies to all depository institutions as a matter of law, the banking and thrift agencies can and do enforce this prohibition using their supervisory enforcement powers.

The Board also addresses concerns about some practices under other statutes, such as the Truth in Lending Act (TILA) or Truth in Savings Act (TISA). For example, the Board used its HOEPA authority to address the "flipping" of high-cost mortgage loans. Under TILA, we recently proposed a rule prohibiting credit card issuers' from describing their rates as "fixed" unless they specify a period where the rate is not subject to change for any reason. The Board also revised its TISA rules to address concerns about overdraft protection programs. The Board is committed to addressing abusive practices and will consider how it might use its authority to prohibit specific practices consistent with the legal standards in appropriate cases, such as when there are widespread abuses that cannot be effectively addressed through case-by-case determinations in the supervisory process.

### **The Board's role in protecting consumers**

In carrying out its mandate related to consumer protection in financial services, the Federal Reserve has several roles that are carried out through four complementary processes. First, there is the Board's role as rulewriter, in which we issue regulations, either alone or jointly with other federal agencies, to implement the consumer financial services and fair lending laws. Second, there is the Federal Reserve's role in examining the financial institutions that we supervise for safety and soundness, as well as for compliance with consumer protection laws and regulations. This includes taking supervisory action for the institutions under our jurisdiction, as appropriate, to enforce the laws and resolve any consumer complaints. Third, the Federal Reserve actively promotes consumer education through its publications and through a variety of partnerships with other organizations. Finally, the Federal Reserve's Community Affairs Program supports the Board's objective of promoting community development and fair and impartial access to credit by conducting outreach activities in lower-income communities and traditionally underserved markets. Today, I would like to discuss each of these four roles and some significant actions that the Board has taken in these areas. I will also highlight how the Board is coordinating its efforts with the other federal and state supervisory agencies.

### **The Board's rulewriting responsibilities**

The Board has sole responsibility for issuing rules to implement a number of consumer financial services and fair lending laws, including TILA, TISA, the Electronic Fund Transfer Act (EFTA), Consumer Leasing Act, Equal Credit Opportunity Act (ECOA), and Home Mortgage Disclosure Act (HMDA). In conducting these rulemakings, the Board reviews public comment letters and solicits the views of other federal and state regulators who have valuable insights based on their own experience and expertise in supervising financial institutions and protecting consumers. We often obtain the views of other agencies on Board rulemakings through informal outreach efforts, but sometimes we receive written comment letters, as was the case with the Office of the Comptroller of the Currency's (OCC) recent recommendations for revised credit card disclosures. We receive the views of state agencies through such organizations as the Conference of State Bank Supervisors (CSBS), the American Association of Residential Mortgage Regulators (AARMR), and the National Association of Attorneys General (NAAG), as well as from individual state regulatory agencies.

In addition to the statutes for which the Board has exclusive rulewriting responsibility, the Board shares rulewriting responsibility with other agencies under certain laws, such as the Community Reinvestment Act (CRA) and the Fair Credit Reporting Act (FCRA). Moreover, the Board and other federal financial regulators sometimes play a consulting role in the development of consumer regulations issued by other agencies such as the Department of Housing and Urban Development, and the FTC. For example, most recently, the Board has consulted with the Department of Defense (DOD), as Congress directed with respect to DOD's development of regulations governing loans to members of the armed services and their families.

In addition to its rulemakings to implement statutory changes, the Board updates its regulations in response to the changing marketplace and emerging issues. As markets change and products evolve,

questions arise about how existing rules apply in new circumstances. We often address these matters with amendments that specifically target a particular issue, or by updating the interpretations published in the commentaries to our regulations. That was the case with the Board's recent revisions to the rules governing electronic fund transfers, which addressed electronic check conversions and payroll card accounts. It was also the case with our recent amendments to the TISA rules addressing overdraft protection programs.

As a matter of policy, the Board periodically conducts a comprehensive review of each regulation. For the consumer financial services laws, one goal of our regulatory reviews is to develop more effective consumer disclosures. Writing regulations always involves the challenge of crafting rules that are, on the one hand, clear and specific enough to facilitate compliance and promote consistency among financial institutions but, on the other hand, flexible enough to accommodate market developments as products and pricing continue to change. We also consider ways to eliminate unnecessary burdens consistent with consumer protection. By balancing these interests we seek to avoid imposing undue regulatory burdens that could hinder innovation and raise costs without producing offsetting benefits in consumer protection.

Over the last several years, the Board has completed several regulatory reviews. The Board reviewed the regulations implementing HOEPA and issued revised rules in 2001. The Board's review of the rules implementing HMDA was completed in 2002, resulting in expanded data collection and reporting requirements, and the Board completed a review of the rules implementing ECOA in 2003. Most recently, the Board initiated a review of the TILA rules, which are implemented in the Board's Regulation Z. The initial phase of the Board's review of Regulation Z focused on credit cards and other revolving credit accounts. Last month, the Board issued a proposal for public comment that would substantially revise the rules governing credit cards and improve credit card disclosures. Our review of the Regulation Z rules for mortgage transactions is now under way as well.

### **The Board's efforts to improve the effectiveness of credit disclosures**

The Board has recently undertaken an innovative approach to improve the effectiveness of credit disclosures – namely, using consumer surveys and testing to assess consumers' needs and develop our regulatory proposal. Having taught at the University of Chicago's business school for many years, I am well aware of the types of consumer testing that firms have long employed: surveys, focus groups, and so-called "mall intercepts" in which shoppers are interviewed at random. However, it is relatively novel to systematically use such techniques to develop regulatory proposals to improve the effectiveness of disclosures requirements.

Consumer testing can help the Federal Reserve address the considerable challenge of making disclosures more effective by providing insight into consumers' understanding of financial products and their decision-making process. Given the complexity of certain products, such as credit card products with multiple features and nontraditional mortgages, we have to be mindful of the pitfalls of information overload. We must seek to carry out the responsibilities Congress has given us to design disclosures that are not only accurate, but also clear and simple enough that they are meaningful and useful to consumers. Pages of fine print that provide comprehensive descriptions might satisfy lawyers, but the legalese needs to be translated into something consumers can use.

This requires the Board to make judgments about which credit terms are most important to highlight and which could be eliminated. We plan to make these judgments with the benefit of surveys of actual consumers and extensive consumer testing. We recently completed several rounds of consumer testing for credit card disclosures, and that testing was critical to our effort to redesign and, I believe, dramatically improve those disclosures in the proposed regulations recently published for comment.

The substantial investment we have made in developing and testing revised credit card disclosures has given us insights that will contribute to our ability to make mortgage disclosures more effective. We are finding that it is tremendously beneficial to listen to consumers so that we can learn more about how they use information and how we can simplify disclosures and enhance consumers' understanding. Through our testing, we learned firsthand what information consumers find useful when making credit decisions and what information they ignore. Second, we learned what information consumers comprehend and what information they do not. Third, we saw the impact that different formats and presentation can have on consumers' ability to notice and use the information.

The Board's proposal for credit card accounts would revise the format and content of various credit card disclosures to make them more meaningful and easier to read, and to highlight the various costs.

The disclosure table accompanying credit card applications and solicitations would highlight fees and the reasons penalty rates might be applied, such as for paying late. Creditors would be required to use the same type of disclosure table to summarize key terms at account opening and when the account terms change. In addition, format changes to periodic statements – such as grouping fees, interest charges, and transactions together – would make them more understandable. As I noted earlier, card issuers would be prohibited from describing their rates as "fixed" unless they specify a time period where the rate cannot be changed for any reason, or if the rate is fixed for the life of the program.

The proposal to revise the credit card rules would also expand the circumstances under which consumers receive advance notice of changes in their account terms, including advance notice before a penalty rate is applied. Creditors would be required to send notice of a rate increase or other change in terms forty-five days before the change becomes effective, instead of the current fifteen days. The proposal would also revise the rules governing the advertising of open-end credit to help consumers better understand the credit terms being offered.

As I mentioned earlier, the Board plans to conduct extensive consumer testing as part of its review of mortgage disclosures. Like credit cards, mortgage products have become more diverse and more complex. In some cases, creditors are using pricing strategies similar to those used for credit cards, for example, offering customers discounted introductory rates that will be replaced in a short time by a much higher rate, often a variable rate. Of course, there is an inherent difficulty in adjustable rate mortgage (ARM) disclosures because future interest rate changes are not known. Consumer testing is needed to determine whether, for example, consumers would find disclosure of the "worst-case" payment useful given that such a payment might never occur or might not occur for several years or more, by which time the consumer's own financial circumstances may have changed.

The wider marketing of payment-option mortgages presents another challenge. Consumers have the choice of making low minimum monthly payments that increase the overall cost of the credit and ultimately lead to higher payments. Just as with credit cards, however, disclosing a consumer's repayment obligation and the cost of the credit is more complex when there are unknowns – such as the future rate if it may vary based on an index, the amount of the consumer's monthly payment, and the possibility of negative amortization. When the Board reviews mortgage disclosures, it will consider these developments and conduct extensive consumer testing to determine how the features and risks of today's mortgage products can be communicated effectively.

The Board has already taken some initial steps in its review of mortgage disclosures. Last summer, the Board held a series of four public hearings on home-equity lending, where we gathered views on the impact of federal and state predatory lending laws and on the adequacy of mortgage disclosures, particularly those concerning nontraditional mortgage products. Following those hearings, the Board revised the consumer handbook that creditors are required to provide with applications for all ARMs. The revised handbook gives consumers a better explanation of the features and risks of nontraditional ARMs, especially "payment shock" and the risk of increasing loan balances, also known as "negative amortization."

The recent problems in the subprime mortgage market have prompted the Board to hold a fifth hearing, which I will chair tomorrow, here in Washington, D.C. The purpose of the hearing is to gather information to evaluate how the Federal Reserve might use its rulemaking authority to curb abusive lending practices in the subprime mortgage market in a way that also preserves incentives for responsible lenders. Specifically, hearing participants will discuss concerns about prepayment penalties, escrows for taxes and insurance, "stated-income" loans, and lenders' standards for determining that consumers can afford to make the scheduled payments. Some of these concerns may call for more effective disclosures. However, we will also seriously consider whether there are mortgage lending practices that should be prohibited under HOEPA.

We must be careful, however, not to curtail responsible subprime lending or beneficial financing options for consumers. A robust and responsible subprime mortgage market benefits consumers by allowing borrowers with non-prime or limited credit histories to become homeowners, access the equity in their homes, or have the flexibility to refinance their loans as needed. Under HOEPA, lenders are subject not only to regulatory enforcement actions but also to private lawsuits to redress violations. Thus, any rules should be drawn sharply with bright lines to avoid creating legal and regulatory uncertainty, which could have the unintended effect of substantially reducing consumers access to legitimate credit options.

## **Supervisory activities**

### ***Examination and enforcement***

The Board has responsibility for enforcing compliance by state-member banks and certain foreign banking organizations with consumer financial services laws, the fair lending laws, and the CRA. Because of the complexity of consumer regulatory requirements, the Board has had a specialized consumer examination program since the late 1970s. The Federal Reserve System has a trained cadre of examiners dedicated solely to this function.

The scope of the consumer compliance examination program has evolved and grown significantly over the years. In 1977, the program covered just nine federal consumer protection laws and regulations. Today the program covers compliance with more than twenty federal laws related to deposits, credit, and the privacy of consumers' financial information. Consumer compliance examinations assess the bank's compliance with ECOA, HMDA, TILA, TISA, RESPA, the EFTA, FCRA, and CRA, section 5 of the FTC Act, and other federal consumer protection laws.

Examinations and other supervisory activities conducted as part of the Board's consumer compliance program follow a risk-focused approach and are tailored to fit the risk profile of the bank. This approach ensures that supervisory resources are directed to the products, services, and areas of the bank's operations that pose the greatest risk to consumers. In addition to assessing an institution's compliance with particular laws and its performance under the CRA, examinations evaluate a bank's processes for identifying, measuring, monitoring, and controlling its risk exposure.

Examiners routinely analyze consumer complaints submitted to the Federal Reserve regarding the bank being examined, looking for any trends, issues, or areas of possible risk. The examiners also analyze any consumer complaints received directly by the bank. The results of this analysis are factored into examiners' decisions regarding the scope of the compliance examination. We view this analysis of consumer complaint activity as an integral component of the examination scoping process. Moreover, consumer complaints can serve as an early warning signal about emerging or potential compliance problems or new industry practices.

The frequency of examinations is a function of an institution's size and prior supervisory ratings. Institutions with less than satisfactory compliance or CRA ratings, regardless of their size, are typically examined every twelve months. Institutions with assets greater than \$250 million and satisfactory or better ratings are examined every twenty-four months. Small banks (those with assets of less than \$250 million) with satisfactory or better ratings are typically examined every forty-eight to sixty months. The Federal Reserve Banks also monitor institutions between examinations looking for indicators that could have implications for their compliance efforts and bear on the need for more frequent supervisory intervention. For example, we analyze consumer complaints and consider any changes in supervisory ratings, financial condition, corporate structure, or the institutions' management.

Where Federal Reserve examiners observe weaknesses or compliance failures by supervised institutions, examiners document them in a report to bank management. The required corrective actions are stated in the examination report. We find that in the overwhelming majority of cases, management voluntarily addresses any violations or weaknesses that we have identified without the need for formal enforcement actions. In those rare instances where the bank is not willing to address the problem, we have a full range of enforcement tools at our disposal and use them to compel appropriate corrective action.

We also recognize that cooperation and coordination among the financial institution supervisory agencies are essential to ensuring consistent and effective supervision. Financial institution regulators share information and coordinate activities, such as the development of uniform examination procedures and policies, through the Federal Financial Institutions Examination Council (FFIEC) and other channels. Recently, the CSBS joined the FFIEC, but we have, for many years, coordinated supervisory efforts through the CSBS State and Federal Working Group.

### ***Enforcing the prohibition against unfair or deceptive practices***

This Committee has specifically asked the agencies to discuss their ability to pursue unfair or deceptive practices by depository institutions. The prohibition on unfair or deceptive acts or practices in section 5 of the FTC Act applies to all banks, thrifts, and credit unions as a matter of law, and may be enforced by each of the federal banking agencies using their supervisory powers under the Federal

Deposit Insurance Act. This authority is independent from, and in addition to, the banking agencies' authority to enforce any specific regulations the Board may promulgate.<sup>1</sup> The Board, the OCC, and the Federal Deposit Insurance Corporation (FDIC) have all issued written guidance confirming this view of the agencies' broad authority to enforce the FTC Act. In fact, the Board, OCC, and FDIC have each exercised their supervisory authority in recent years to address the activities of particular banks that the agencies deemed unfair or deceptive.

The lack of rules under the FTC Act does not appear to be an impediment to the agencies' enforcement efforts because a finding of unfairness or deception depends heavily on the facts and circumstances, and must be determined on a case-by-case basis. Rules seeking to define all the circumstances when a particular practice is unacceptable can be too narrow or too broad and, as a result, they may be ineffective or have unintended consequences. In our view, enforcement of the FTC Act on a case-by-case basis, reinforced by agency guidance that establishes standards and recommended practices, is a more effective way to address these concerns.

The Board will, however, continue to assess whether there are unfair or deceptive practices that are appropriately addressed by adopting rules of general applicability under the FTC Act or other consumer protection laws. We will continue to consult with the OCC and FDIC on these matters. We encourage our fellow bank regulators to bring to our attention particular practices that they believe are unfair or deceptive that can best be addressed by rules of general applicability rather than through the supervisory process.

### ***Supervisory guidance***

The Federal Reserve and other financial institution regulators also use more informal means to protect consumers and promote safe and sound practices by financial institutions. This includes issuing principles-based guidance, which sometimes includes "best practices" that institutions should adopt in following the recommendations contained in the guidance. Principles-based guidance can often be a more flexible tool than rules for accomplishing regulators' goals. This flexibility allows supervisory agencies to adapt the guidance to different situations.

Principles-based guidance is particularly useful when dealing with practices that may be inappropriate in some circumstances but appropriate in others. An example of this is the guidance concerning unfair and deceptive acts or practices ("UDAPs") issued jointly by the Board and FDIC in 2004. The UDAP guidance outlines the legal standards the Board and FDIC use in carrying out their responsibilities for enforcing the FTC Act's prohibition of unfair or deceptive acts or practices. These standards are consistent with those articulated by the OCC and with long-established standards articulated by the FTC in enforcing the FTC Act for non-bank entities. The UDAP guidance outlines strategies for banks to use to avoid engaging in unfair or deceptive acts or practices, to minimize their own risks and to protect consumers. The guidance also lists "best practices" to address some matters seen as having the greatest potential for unfair or deceptive acts or practices: advertising and solicitations; servicing and collections; and the management and monitoring of employees and third-party service providers.

Through the issuance of principles-based guidance, backed-up with regular examinations, the federal depository institution regulators are able to have a significant impact on institutions' practices. Although the supervisory guidance issued by the banking and thrift agencies only applies to depository institutions and their affiliates, state regulators can and sometimes do adopt the federal regulators' guidance for independent nonbank providers of financial services. This was the case with the interagency guidance on nontraditional mortgage products that was issued in 2006. We expect similar action by state regulators for the interagency guidance on subprime mortgage lending that was proposed in March 2007. The agencies are finishing their review of the comment letters received and will work expeditiously to take final action on the proposed statement, including coordinating with the CSBS.

---

<sup>1</sup> Section 18 of the FTC Act authorizes the Federal Reserve Board to issue regulations prohibiting specific practices by banks that it finds to be unfair or deceptive. The Office of Thrift Supervision and the National Credit Union Administration have the same authority for thrifts and credit unions respectively.

## **Consumer complaints**

In 1976, the Federal Reserve established a system-wide program for receiving and handling consumer complaints. Through this program, the Board addresses complaints about the banks under its supervision (state-chartered banks that are members of the Federal Reserve System and certain foreign banking organizations) and refers complaints regarding other financial services firms to the appropriate federal or state agency, including the FTC. The Board has established uniform policies and procedures for investigating and responding to consumer complaints, which are implemented by staff of the twelve Federal Reserve Banks who have been specially trained for that purpose. In each of the last two years, the Board has received about 1,900 complaints concerning state-member banks, which number about 900. The Board maintains a database that enables us to track the complaints filed for each institution and how they are resolved.

The Federal Reserve has consistently and promptly referred the consumer complaints we receive to the appropriate state or federal regulator when they do not involve a bank under our supervision. We also immediately notify consumers of the agency to which their complaint has been referred. Since January 2002, the Federal Reserve System has received over 25,000 consumer complaints. Of these, about 12,000 involved entities other than banks under our supervision and were referred to other agencies. In virtually all of these cases (about 99 percent), the Federal Reserve referred the complaints to the proper agencies and notified the complainants in an average of two business days. Similarly, virtually all of the consumer complaints we received against state member banks and their subsidiaries were promptly acknowledged.

We understand that consumers may face challenges in sorting out where to go for help with questions about financial transactions and in determining where to send complaints. As indicated, we facilitate the process for consumers by ensuring that the complaints we receive are routed quickly and accurately to the right agency for handling. To further enhance our consumer complaint handling process, we recently launched a new online consumer complaint system that creates a single Internet web site for submitting complaints and inquiries to the Federal Reserve. Complaints submitted through the web site are routed automatically to the appropriate Reserve Bank or other supervisory agency.

One feature of the new online system that we plan to activate in the near future is a customer satisfaction questionnaire that will provide us with feedback about consumers' experiences with the Federal Reserve's processing of their complaints. This questionnaire will be an improved version of the one we used for many years. The Board is also establishing a central location for the administrative handling of complaints, which will establish a single mailing address and toll-free telephone number that the public can use. These enhancements underscore our commitment to ensuring the public has an effective and efficient means for resolving complaints. Our goal is to make a consumer's submission of a complaint as easy and seamless as possible regardless of the entity involved.

To enhance interagency cooperation and coordination in processing consumer complaints, the federal banking agencies held a conference in April 2006 to share information about complaint trends and issues, and learn about best practices in investigating and analyzing complaints. The agency staffs also discussed ways to improve customer service and the potential ways complaint data might be used to aid in the development of consumer education materials. Another interagency conference is scheduled for later this year. In addition to these conferences, the agencies' staffs meet periodically to share complaint data and to discuss emerging issues identified through the complaint process.

## **Consumer education and research**

The Federal Reserve is actively engaged in educating consumers about financial transactions so they can better understand their options when shopping for various products. The education materials we produce are based on surveys, consumer testing, and other research about consumer behavior. For example, the Board has published brochures to assist consumers when they are shopping for credit cards, mortgages or leasing a vehicle. We have also issued brochures to help consumers understand their checking accounts and overdraft protection programs, and to educate consumers about the effects of having their payments processed electronically. These publications are also available on the Board's web site.

Recently the Board has focused on helping consumers understand nontraditional mortgage products and ARMs. For example, the Board recently published a consumer education brochure (Interest-Only Mortgage Payments and Payment – Option ARMs – Are They for You?) on interest-only mortgages

and payment-option ARMs. This brochure describes the loan terms and risks inherent in such products and alerts borrowers to possible future payment increases. The Board's revised Consumer Handbook on Adjustable Rate Mortgages, which creditors must provide with every ARM application, also seeks to educate consumers about the features and risks of nontraditional mortgage products.

### **The Federal Reserve's Community Affairs Program**

The Federal Reserve's Community Affairs Program supports the Board's objective of promoting community development and fair and impartial access to credit by focusing on low- and moderate-income consumers. We develop programs and build partnerships with organizations to help bring consumers into the financial and economic mainstream. The Community Affairs function within the Board and the Reserve Banks complements other regulatory and compliance activities with programs that educate and equip low- and moderate-income consumers with the tools they need to make better choices in establishing credit and building assets.

The Reserve Banks' Community Affairs programs are specifically focused on improving understanding about low- and moderate-income consumers' needs for and access to financial services. Toward this end, the Reserve Banks engage in research that explores issues relating to consumers' use of financial services products and services. In addition, the Community Affairs Offices convene a research conference every two years dedicated to generating and presenting research that explores current trends in financial services and the implications for lower-income consumers. For example, the most recent conference held this past March in Washington, D.C., offered research on predatory lending and payday lending.

The Federal Reserve Banks also collaborate with local and regional partners to explore opportunities to create awareness of and solutions to address concerns about financial services issues as they relate to lower-income consumers and communities. Several Reserve Banks have spearheaded initiatives to respond to concerns about rising mortgage defaults and delinquencies, with the San Francisco Federal Reserve Bank holding forums in six cities to discuss community responses. Others Federal Reserve Banks have worked with nonprofit organizations and local governments to develop strategies to improve lower-income consumers' wealth-building opportunities, such as initiatives promoting savings and accessing tax credits.

All twelve Community Affairs Offices have initiatives to promote and support consumer financial education. The Federal Reserve Banks have partnered with financial institutions, nonprofit organizations, local governments, and community institutions to help improve consumers' access to financial education materials and programs. Currently, the Board and the Philadelphia Reserve Bank are conducting long-term research projects to better understand what makes particular consumer counseling and education programs successful.

### **Conclusion**

The Federal Reserve is committed to being proactive in addressing issues that affect consumers in their financial services transactions. We seek to promote the availability of consumer credit while ensuring that consumers receive the information they need to understand their options. Consumers who do not have accurate information and an understanding of what that information means will have difficulty choosing among competing products. Because information is critical to more competitive, and thus more efficient markets, more effective disclosure also has the capacity to weed out some abuses.

By using consumer testing systematically, the Federal Reserve is taking an innovative approach to revising its regulations and improving the effectiveness of disclosures. At the same time, we will continue our cooperation with educational and community organizations around the country to help inform and support consumer education efforts. We recognize, however, that disclosures and financial education may not always be sufficient to combat abusive practices. Because some bad lending practices may require additional measures, the Federal Reserve will seriously consider how we might use our rulemaking authority to address abusive practices without restricting consumers' access to beneficial financing options and responsible subprime credit. We will, along with the other supervisory agencies, also continue to actively use our other tools – such as supervisory guidance, the examination process, and our enforcement powers – to address specific practices that are abusive or otherwise inappropriate.