

Withdrawal/Redaction Sheet

Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001. schedule	Schedule for Hillary Rodham Clinton [partial] (2 pages)	05/04/1999	b(6)
002. memo	Jodi Sakol to Sarah Rosen re: Potential Victims for Consumer Protection Event (8 pages)	n.d.	b(6)

COLLECTION:

Clinton Presidential Records
Domestic Policy Council
Ann O'Leary
OA/Box Number: 19577

FOLDER TITLE:

Consumer Financial Literacy

2013-0436-S

rc1244

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

- P1 National Security Classified Information [(a)(1) of the PRA]
- P2 Relating to the appointment to Federal office [(a)(2) of the PRA]
- P3 Release would violate a Federal statute [(a)(3) of the PRA]
- P4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
- P5 Release would disclose confidential advice between the President and his advisors, or between such advisors [(a)(5) of the PRA]
- P6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

C. Closed in accordance with restrictions contained in donor's deed of gift.

PRM. Personal record misfile defined in accordance with 44 U.S.C. 2201(3).

RR. Document will be reviewed upon request.

Freedom of Information Act - [5 U.S.C. 552(b)]

- b(1) National security classified information [(b)(1) of the FOIA]
- b(2) Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
- b(3) Release would violate a Federal statute [(b)(3) of the FOIA]
- b(4) Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]
- b(6) Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]
- b(7) Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
- b(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
- b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

Ann -

this is my file
on financial
privacy. The first
10 - page document is
the one I suggest

Sherry w/ Neena
along w/ whatever
Greg Baer is
preparing (and this
prepared remark
which she kept
feel free to copy or
anything & return pls
Thanks! N

THE CLINTON-GORE PLAN FOR FINANCIAL PRIVACY AND CONSUMER PROTECTION IN THE 21st CENTURY <i>May 04, 1999</i> DETAILED PROPOSAL SUMMARY
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INTRODUCTION

Technology and competition in financial services give Americans more complex choices than ever before. Innovations in the financial marketplace offer millions of consumers new, ever increasing choices for investing their savings and obtaining credit. But new products have brought new risks and new abusive practices. We must update our consumer protection laws to give consumers the power, information and protection they need to profit from our 21st Century financial system.

Members of Congress, including Ranking Members Sarbanes and LaFalce, have sponsored important legislation to modernize our consumer financial protection laws. We applaud their leadership and look forward to working with Congress on a consumer protection agenda.

Set forth below is a series of actions that the Clinton Administration believes should be part of this agenda. The list is not exhaustive, and we will continue to look for constructive ideas in these and other areas. Among the issues deserving further scrutiny are lending practices such as “pay day” loans (short-term loans which can carry interest rates of 400%) and bank check processing practices that may be designed to maximize bounced check fees. We will work with the states and the FTC wherever possible. Secretary Cuomo is making important efforts to address abusive mortgage lending practices.

PROTECT FINANCIAL PRIVACY

Require institutions to inform consumers of plans to share or sell their financial information, and give the consumer the power to stop it. Although consumers put great value on the privacy of their financial records, our laws have not caught up to technological developments that make it possible and potentially profitable for companies to share financial data in new ways. Current law does provide some privacy protections: for example, the Fair Credit Reporting Act (FCRA) requires a form of notice and opt-out before certain information about consumers (e.g., information provided on an account application) can be shared. But there are no limits on the sharing of information about consumers’ transactions (e.g., account balances, who they write checks to) within a financial conglomerate, or even on the sale of that information to a third party. We support legislation to give consumers control over the use and sharing of all their financial information.

Impose special restrictions on any sharing of medical information within a financial conglomerate. One of our greatest privacy concerns involve medical information. Yet, cross-industry mergers and consolidation have given banks unprecedented access to consumers’ medical records. We support legislation requiring that medical information, such as that

gathered from life insurance records, not be shared within financial services conglomerates (e.g., between banking and insurance affiliates) or with third parties, except for narrowly defined purposes. Consumers who undergo physical exams to obtain insurance, for example, should not have to fear that the information will be used to lower their credit card limits or deny them mortgages.

Give bank regulators the authority they need to ensure compliance with existing privacy protections. Currently, bank regulators may not examine for compliance with existing privacy protections, but must wait for a consumer complaint. Congress should give regulators broader authority to monitor compliance.

Publicize best practices in the privacy area. Even in the absence of legislation, many responsible banks have begun posting their privacy practices on the Internet and otherwise informing customers about how their data is handled. The Office of Thrift Supervision has issued guidance in this area. Today, the Office of the Comptroller of the Currency is publishing best practices in this area, so that additional institutions can be encouraged to inform their customers and do so in the most effective way possible.

Coordinate privacy policy in the financial and other sectors. We must ensure that a proper balance is struck between information flows and personal privacy, for financial services and more broadly. To coordinate the Administration's privacy policy, we have created the new position of Chief Counselor for Privacy, in the Office of Management and Budget.

EXPANDING THE CONSUMER'S RIGHT TO KNOW

Credit Card Disclosures

Prevent Misleading Credit Card Marketing of "Teaser" Rates. Consumers frequently complain that they did not understand marketing materials on credit card interest rates and are shocked when rates skyrocket, whether because a "teaser" rate expired or they had a minor late payment. Some consumers are misled by mailings that promote a "low 3.9% initial rate" but fail to disclose as prominently that the rate doubles or triples in six months or with a single late payment. We support legislation requiring "teaser" rates for credit cards to be accompanied by equally prominent disclosure of the expiration date of the initial rate and the eventual APR.

Require Credit Card Minimum Payment Disclosures. In recent years, credit cards lenders have lowered minimum payments. Many consumers still assume, however, that, as with a monthly mortgage payment, repeated payment will eventually retire the debt. In reality, low minimum payment requirements and high interest rates often means that borrowers make little, if any, headway. We support legislation requiring clear and conspicuous notice of how long and how costly repayment would be if a consumer makes only the minimum payment.

Disclosure of Late Payment Fees. It can be hard to tell from a credit statement whether and when a late payment fee (in addition to interest on the unpaid balance) will be assessed. We support legislation requiring monthly statements to display prominently the date that payment is due, together with any late payment fee.

Disclosure of Security Interests. Increasingly, creditors take security interests in goods purchased on credit. While consumers should expect to lose such goods if they fail to repay, they ought to know if they are granting a lien. For goods with little resale value, such liens may be taken as a collection technique or to encourage reaffirmation of the debt if the consumer goes into bankruptcy. We support legislation requiring effective notice of liens taken.

Disclosure of Interest Rates and Fees on Credit Advances Through Third-Party Checks. Credit cards offer some card holders “convenience” checks that allow them to write checks against their credit account in places where credit cards are not honored. But card holders may not understand that rates and charges are typically higher than for their credit card. Currently, these charges are explained only in initial disclosures but not at the time that the checks are sent to the consumer. That law should be changed.

Apply Disclosure Rules to Internet Credit Card Solicitations. More and more, credit cards are marketed to consumers on the Internet, but current law does not specifically address the use of the Internet as it does for direct mail solicitations. We support legislation clarifying that all Internet credit card solicitations must include clear and conspicuous disclosure of the card’s terms and conditions, updated regularly to reflect current terms and costs, consistent with direct mail disclosures.

Bank Disclosures

Provide Enforcement “Teeth” for Rules on Bank Sale of Non-Deposit Products. Increasingly, consumers buy securities, mutual funds, annuities, insurance on bank premises. Although none of these non-bank products are FDIC-insured, studies have shown that many customers believe that these products are FDIC-insured or that the bank would protect them from loss. Under current bank regulator guidelines, banks that sell non-deposit products must disclose that those products are not federally insured and limit their practices to avoid such confusion, for example by selling these products at a space physically separate from where banking transactions occur. However, a violation of these guidelines brings no penalties. We call on the banking regulators to adopt regulations that will be fully enforceable by civil money penalties and other sanctions.

Rent-to-Own Companies

Require Disclosure and Other Protection for Rent-to-Own (RTO). The attraction of obtaining a TV, refrigerator, or living room furniture with little down has spurred the rapid growth of firms offering to rent products with an option to buy. But an RTO firm can sell a

customer a used product that looks new, and the consumer can pay many times the value of the product. The FTC is nearing completion of a study of the RTO industry. We look forward to its recommendations, and expect to support a legislative response. Adequate consumer protections, including disclosure so consumers can compare the cost of RTO to other alternatives, should be required. In addition, we will work with states to ensure that any federal rules do not interfere with or preempt state consumer protection efforts, including regulation of RTO under state credit sales and usury laws.

ATMs

Require ATMs to provide clear and conspicuous disclosures of surcharges on the machine and terminal screen. When customers use an ATM, the operator of the machine may impose a sizeable surcharge. Accordingly, most consumers shop around to avoid ATM fees or pay less. A conspicuous posting of the amount of any surcharge allows customers to walk past higher priced machines, or at least to begin the transaction with their eyes open. While ATM networks generally require members to post fee notices on the machine, a recent survey shows that nearly 25 percent of machines had either no posting or an inaccurate one. We support legislation requiring ATM owners to post a clear and conspicuous notice on the machine as well as on-screen, and subjecting ATM owners to sanctions for failure to make the mandated disclosures.

Mortgages

Require Enhanced Disclosure for Mortgage and Settlement Services and Stem Abusive Practices. In July 1998, the Federal Reserve Board and the Department of Housing and Urban Development released a Congressionally mandated study of how best to streamline the statutory disclosure requirements for mortgage loans and settlement services, with the goal of simplifying and improving the quality of information provided to consumers to enhance their ability to shop and increase competition. The report calls for a series of statutory reforms to the Real Estate Settlement Procedures Act and the Truth in Lending Act to make the information provided to consumers more reliable, more timely, and more helpful in comparison shopping for all the services required to finance a home. Congress should adopt the report's recommendations. For example, the required annual percentage rate disclosure should include all costs the consumer is required to pay in order to receive credit, instead of the patchwork of costs currently disclosed. Creditors should be required to provide firm and reliable rate, fee, and closing cost information, and disclosures should be made early in the application process, before creditors impose substantial fees. It also is important to make sure that information provided to consumers is readily understandable.

Other Disclosures

Expand Truth in Lending Act (TILA) coverage for consumer loans and leases. TILA protections enacted in 1968 currently apply to all credit transactions secured by home equity and to other non-business consumer loans under \$25,000; the same cap was imposed on lease

transactions in 1976. Originally, the \$25,000 limit was sufficiently high to ensure that most automobile, credit card, and personal loan transactions would come under TILA protections. Thirty years later, however, this is not the case, particularly for automobile loans. The limit should be raised to \$50,000 to cover most cars and other consumer loans.

Require Effective Disclosure of Exchange Rate and Fees for International Money

Transfers. Consumers wiring money abroad often are confused or misled about fees and exchange rates. To prevent this confusion, we would amend the Electronic Fund Transfer Act to require additional disclosures relating to exchange rates for international transfers. Financial institutions or other businesses that initiate international money transfers on behalf of consumers would have to disclose, in both English and the language principally used by the business: (1) the exchange rate used in the transaction; (2) the prevailing exchange rate; and (3) all commissions and fees charged in connection with such transactions. Current law does not require such disclosure.

PREVENT FRAUD AND ABUSIVE PRACTICES

Devote Law Enforcement and Agency Resources to Financial Fraud.

“Identity Theft” Enforcement Initiative. Identify theft is the use of another’s individual identifying information to commit an offense -- for example, using another’s social security number to apply for a credit card.) Once, one had to forge or steal documents to impersonate another, but now one can easily use your identifiers to impersonate you over the phone or Internet. This type of crime is growing rapidly. Last year, Congress enacted new laws barring the use of another’s identifying information. The Secret Service, in coordination with the Justice Department and regulatory agencies, will launch a vigorous identity theft enforcement and prevention strategy that includes referral of cases among federal, state and local law enforcement; developing a public-private partnership to educate consumers on how to protect themselves; and proposing sentencing enhancements. They will cooperate with the American Bankers Association and others in the banking industry that have worked to combat this problem.

Combat Internet Securities Risk and Fraud with Investor Education and Enforcement.

More and more Americans are investing in the stock market; 5.6 million are now trading on-line. The technology opens up great opportunity, but the rewards are not without risks. Complaints to the SEC were up 330% in one year, and new securities fraud schemes are uncovered each day. SEC Chairman Levitt is launching a stepped-up SEC effort to arm investors with the information they need to understand and manage the risks and protect themselves against fraud. In addition, President Clinton’s budget provided \$11 million in new funds for SEC enforcement; however, the rate of growth in Internet trading and abuse has exceeded expectations. To meet this need, President Clinton will work with Congress and Chairman Levitt to provide an additional \$5.5 million for SEC enforcement, beyond what was requested in the FY 2000 balanced budget. These funds will help the SEC better investigate and prosecute Internet securities fraud. It will specifically help the Commission increase Internet surveillance, enhance the SEC’s Enforcement

Complaint Center, augment training for law enforcement on how to recognize and prosecute Internet securities fraud and continue its efforts to educate investors about the risk and rewards of investing over the Internet.

Internet Fraud Initiative: Federal, state and local law enforcement officials and regulatory agencies are receiving a growing number of complaints from consumers about Internet fraud. Many of the same features of the Internet that make it a powerful tool for legitimate e-commerce (global reach, instant and often anonymous communications, ability to reach millions of consumers) -- also make it attractive for fraud schemes. The Internet Fraud Initiative will crack down on Internet fraud by, for example, stepping up training for federal, state, and local prosecutors and agents; developing information on the nature and scope of Internet fraud; and keeping the public better informed about current fraud schemes and how to handle them. The initiative will also help coordinate the efforts of federal (Department of Justice, the FBI, the U.S. Secret Service, the Postal Inspection Service, the Federal Trade Commission, and the Securities and Exchange Commission), state and local law enforcement agencies.

Criminalize "Pretext Calling." There are widespread reports of private investigators and data brokers tricking financial institutions into providing confidential customer information. We support legislation that would criminalize this practice and protect the privacy and security of consumer financial information.

Fully Implement FTC-HELP and Consumer Sentinel. The Year 2000 will be the first full year of operation for FTC's toll-free consumer hotline, part of the Commission's Consumer Response Center. The hotline will give consumers fast and easy access to information they need to protect themselves -- from tips about credit and debt collection to advice on how to avoid becoming a victim of fraud. Complaints to the hotline become part of the Consumer Sentinel, the FTC's fraud database, which is shared only with other law enforcers in the U.S. and Canada. By 2000, the Consumer Sentinel database is expected to be a primary tool in the fight against consumer fraud. The President's FY2000 budget funds Consumer Sentinel.

Improve Consumer Protections Against Fraudulent or Abusive Practices.

Expand Disclosures for High LTV Mortgages. Consumers with high credit card debts are frequently offered second mortgages to consolidate their debts, extend the time for repayment, and reduce the interest rate. These mortgages can result in debt levels of 125% to 150% of the home's value. Consumers may not understand the consequences of these refinancings -- especially that the failure to repay these consumer debts could lead to losing their home -- and recent studies show that many such homeowners promptly incur new consumer credit debts. We support legislation requiring lenders on high loan-to-value second mortgages to disclose that: (1) interest payments may not be fully deductible; (2) the consumer may be unable to resell the house unless the loan amount is significantly repaid; and (3) default can result in foreclosure.

Increase Civil Liability Limits for the Truth in Lending Act (TILA) Violations. TILA provides an individual right of action for violations under which a consumer can recover actual damages, additional statutory damages, and court costs. The amount of damages, however, is limited to a range of not less than \$100 nor greater than \$1,000 for non-mortgage loans or leases, and to a range of \$200 to \$2000 for mortgage loans. These damage limits may be too low to deter TILA violations, particularly at unregulated institutions not subject to systematic and regular examinations. We support raising the statutory cap to a level sufficient to deter violations.

Improved Reporting on Race, Income and Other Data. Financial institutions are required under the Home Mortgage Disclosure Act (HMDA) to report the race, income and other data about home mortgage borrowers, but a separate Federal Reserve regulation prohibits them from collecting such information for non-mortgage borrowers. Experience suggests that publicizing such data helps to reduce discrimination, increase access for minority borrowers, and foster innovation, and the current prohibition inhibits self-testing under the fair lending laws and makes fair lending enforcement more difficult. The Treasury Department has asked the Federal Reserve to amend the regulation to allow increased reporting.

Clear Reporting. HMDA regulations do not require financial institutions to report separately on sub-prime loans, such as for manufactured housing. If these loans were identified separately, banking regulators and enforcement agencies could better analyze the data for potential fair lending problems. In addition, financial institutions should be required to report on the reasons for loan denials. The Treasury Department has asked the Federal Reserve to determine if these regulatory changes can be made.

Limitations on HMDA. Institutions, other than banks and thrifts, do not have to report under HMDA if fewer than 10% of their loans are made for home purchase. The effect of this rule is to exclude from reporting some of the largest and fastest growing mortgage providers in the country, whose consumer loan portfolio is also large. We are asking the Federal Reserve to bring such providers under HMDA coverage.

End Coercive Sales of Insurance Products. Borrowers buy credit insurance to ensure repayment of their mortgages in the event of death, injury or job loss. However, the economic value to the consumer of these products is dubious. Moreover, credit insurance is frequently marketed in a way that is either explicitly or implicitly coercive -- that is, consumers are told or left with the impression that their chances of getting the loan or getting it more quickly would improve if they purchased the insurance. Some creditors collect up-front lump-sum insurance premiums for the policy term, so consumers cannot cancel. Required disclosures appear to be ineffective at deterring these practices. We support legislation barring the advance collection of lump-sum insurance premiums, so that consumers can pay for the insurance one month at a time, and so loan termination automatically cancels both coverage and liability for insurance payments. In addition, Congress should bar the solicitation of credit life insurance until the lender has approved the loan application and communicated approval to the borrower.

Limit Consumer Liability for Non-PIN Protected Debit Cards. “Off-line debit cards” allow consumers to pay for products through an electronic transfer at the point of sale. These “check cards” differ from “on-line” ATM cards because there is no PIN or other security feature (other than a signature) to authenticate the transaction. Although credit cards also carry no PIN protection, the consumer is generally only liable for no more than \$50 of unauthorized charges. But with debit cards losses can be much higher unless the customer quickly notices and reports the loss. Thus, consumers can get the worst of both worlds: higher exposure to loss without security protections. Consumer liability for these cards should be limited as it is currently limited for credit cards -- a step that VISA and Mastercard have already taken voluntarily.

Prohibit Unsolicited Mailing of Loan Checks. Loan checks are credit products for which the consumer need only sign and cash the check to obtain a loan. Because these unsolicited checks are “live,” however, the consumer is also at risk for fraudulent endorsement of the check. For the same reasons that Federal law prohibits unsolicited mailing of credit cards -- protecting consumers from the hassle of contesting liability for stolen card purchases -- we support legislation prohibiting unsolicited mailing of loan checks. Consumers should not feel they have to shred their daily mail.

Reform Accounting Rules for Consumer Installment Loans. We support legislation to eliminate the use of the “rule of 78,” an outmoded accounting rule that disadvantages borrowers, for all consumer credit transactions. In 1992, Congress barred the rule’s use in loans with terms over 61 months; our proposal would finish the task. Creditors would have to use an accounting method at least as favorable to the consumer as the actuarial method.

Take Action Against “Sub-prime” Lending Abuses.

Expand Protections in the Home Equity Market. The Fed/HUD Report on RESPA and TILA documented continued problems with abusive practices in some segments of the mortgage market, including evasions of the Home Ownership Equity Protection Act (HOEPA), which provides protections for borrowers with high-cost loans. The study recommended targeting abusive practices. For example: to reduce the occurrence of loan flipping -- recurrent refinancings that may make it difficult for a home owner to pay off a loan or to sell her home -- financing fees in high cost loans covered by HOEPA should be regulated; prepayment penalties and balloon payments should be further restricted; and the HOEPA threshold should be lowered. Creditors should be required to provide additional data on HOEPA loans. All amounts paid by a borrower should be counted under the HOEPA trigger. Creditors should be required to inform high-cost-loan applicants of available home counseling programs prior to closing. We will work with Congress to increase protections in this area.

Expand Enforcement Tools Against Abusive Practices. Congress should eliminate the requirement for a showing of “pattern or practice” of asset-based lending to establish HOEPA violations. The definition of “creditor” should be expanded to include individuals that control the lending practices of a company to deal with the problem of small, thinly capitalized sub-

prime lenders who escape HOEPA liability by dissolution or bankruptcy. Finally, Congress should expand enforcement of RESPA by providing authority to HUD, state attorneys general, and state financial regulators for all RESPA violations; expanding HUD's civil remedies; strengthening the current criminal sanctions for violations of anti-kickback provisions; providing for private causes of action to enforce certain RESPA violations; and standardizing statutes of limitations.

Improve HMDA Reporting. There is a current imbalance in reporting requirements and enforcement under HMDA as between regulated depository institutions and other mortgage lenders. Some unregulated lenders face no sanctions if they fail to report when required. We support legislation providing HUD with enforcement authority to assure compliance by all lenders with HMDA reporting, unless banking regulators are already enforcing HMDA with respect to such lenders. These legislative changes will help level the playing field on reporting and compliance between regulated and unregulated financial institutions, and will improve disclosure in a growing segment of the mortgage lending market.

The Banking Regulators Should Continue to Improve Guidance on Sub-prime Lending. The Federal Financial Institutions Examination Council is improving guidance on fair lending compliance. The FFIEC issued fair lending examination procedures for banking regulators in January 1999 and focused particular attention on the problem of "steering" loan applicants on a prohibited basis to a sub-prime lender within a financial institution's organization. In March, the FFIEC released additional guidance focused on safety and soundness issues and fair lending problems. The OCC recently issued guidance warning of the risks in this area. Today, the President is directing the Office of the Comptroller of the Currency and the Office of Thrift Supervision, in consultation with HUD, the FTC, the Justice Department, and the other banking regulators, to study whether further actions are necessary to halt abusive practices in the sub-prime area.

EXPAND ACCESS TO FINANCIAL SERVICES

Provide Low-Cost Banking Services to All Americans. Too many Americans cannot afford, or do not have access to, basic banking services. The Administration will increase and strengthen its efforts -- working with banks and consumer groups -- to increase access to low-cost banking services to all Americans. The Treasury Department will pay set-up costs to encourage private banks to offer low-fee banking accounts for those who receive federal benefits like Social Security.

Provide Individual Development Accounts (IDAs) To Make It Easier for Low-Income Families to Save. IDAs allow low-income households to save not just for retirement but also for education, emergencies, home ownership, or business investment. Individual contributions can be matched to encourage more savings. (The FY 2000 budget doubles funding for IDAs.)

Bolster the Community Development Financial Institutions (CDFI) Fund. Treasury's CDFI Fund provides grants, loans, and equity investments to locally-based, specialized financial institutions and mainstream banks and thrifts serving low and moderate income communities. The CDFI Fund is helping to expand the reach of these institutions to under served communities. The Administration is seeking \$125 million for the Fund in FY 2000 and Fund reauthorization.

IMPROVE CONSUMER FINANCIAL EDUCATION

Launch a Campaign to Promote Education on Credit, Savings, and Investment. One of the best protections for consumers is education. Yet evidence suggests that consumers often find credit and investment opportunities confusing, and are carrying greater levels of debt, filing bankruptcy more often, not saving as much as they would like for retirement, and investing without full comprehension of the risks involved. The President today directed his National Economic Council to convene a high level interagency task force to present him with a plan to raise financial literacy levels, and to expand the Administration's commitment to public and private consumer financial education programs. Elements of this plan will include:

Identify and Publicize Successful 'Best Practices' for High School and Other Financial Education Programs. Nonprofit groups, such as the National Council on Economic Education and JumpStart, as well as government agencies including the Department of Agriculture and the Department of Defense, have developed educational modules and course materials that not only improve students' understanding of complex financial topics but also have been shown to improve their long-term financial status. Working with the interagency task force, the Department of Education will help publicize proven educational programs, to make it easier for teachers, professors, and other educators to adopt financial education programs that work.

Promote Effective Financial Planning. Studies show that families who are able to develop and follow a financial plan are much more successful in achieving major financial goals, such as saving adequately for retirement, their children's education, or a new business venture. A growing number of public, nonprofit, and corporate initiatives have begun to educate Americans about effective financial planning, such as the campaigns sponsored by the American Savings Education Council, the Securities and Exchange Commission, and the Department of Labor. The Administration will participate in joint initiatives with these and other groups to highlight the benefits of personal financial planning and the steps that all Americans can take to make financial planning easier.

As prepared

FIRST LADY HILLARY RODHAM CLINTON
FINANCIAL PRIVACY AND CONSUMER PROTECTION EVENT
THE WHITE HOUSE
MAY 4, 1999

Yet these new opportunities and choices have brought with them rising concerns about whether consumers have all the protection and information they need to navigate these often complex financial services and opportunities effectively -- and to make sound financial choices.

Think for a moment about the fact that 4 billion unsolicited credit cards are offered to Americans every year. This is a great opportunity for some – but it presents new challenges for others. Now as you know, the President and I do have our mail screened. But we know from our friends that credit cards are being sent to our college-aged children – yet only a fraction of them receive any education about personal financial management, and planning. Not surprisingly, an increasing number of college students – and young households – are defaulting on their credit card debts – at a stage in their lives when developing a bad credit record may have serious long term consequences.

Our senior citizens are also vulnerable. Attractive sounding credit card offers -- or appealingly low interest rates – too often lead them into financial trouble. According to the AARP, seniors are particularly likely to agree to home equity loans or loan consolidations that include substantial fees – or unfavorable interest rates.

And citizens of all ages are confused about the loans and offers they receive. We've all heard story after story of confusion about low "teaser rates" which turn out to be just that – a tease with significant negative consequences. And many consumers don't understand that when they pay only the minimum balance on their bills – it may take years to pay them off – and dramatically increase the cost of their original purchase. Consumer debt levels have been rising sharply in recent years, and an increasing number of households are borrowing more heavily against their homes, sometimes incurring debt levels in excess of their home's value.

Without effective planning tools to help them achieve financial security, many Americans are finding bankruptcy their best option. Bankruptcy reform is in order. Debtors who have the genuine capacity to repay some of their debt should be required to do so. But responsible reform should make sure that people who take on debt know what they're doing, and are protected from abusive creditor practices.

To use their opportunities effectively, and to avoid overwhelming debt in the first place -- consumers need the tools for interpreting financial information and understanding their financial rights.

We know that those who have financial planning programs in the workplace – for example – save more than twice as much as those who do not. And Americans who had financial training in high school accumulate more over the long haul -- a full year's worth of earnings – than those who do not have that education.

Today, we are taking some important steps to give American consumers more of those benefits and protections. Building on the work of many Congressional leaders, the President will unveil an important set of initiatives that will provide consumers the protection and the information they need to survive – and thrive – in this complex economy. These initiatives will go a long way to protect citizens' privacy; educate us all about financial opportunities; and stem fraud and abuse.

We all have a stake in those initiatives succeeding, because we all have a stake in families understanding their financial opportunities and meeting their financial obligations. When families have the tools to manage their own finances successfully, they are in a better position to support their children; expand their business; and save for college tuition – or their own retirement.

We are particularly fortunate to have a Treasury Secretary who understands the critical need to support the financial sector in its efforts to expand access to credit and keep our economy thriving – but who also understands that we must protect and educate consumers in this fast paced financial world. It's a pleasure to introduce Secretary Bob Rubin.

Withdrawal/Redaction Marker

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Domestic Policy Council
Ann O'Leary
OA/Box Number: 19577

FOLDER TITLE:

Consumer Financial Literacy

2013-0436-S

rc1244

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**SCHEDULE FOR HILLARY RODHAM CLINTON
TUESDAY, MAY 4, 1999**

FINAL

WASHINGTON, DC

DRAPER ELEMENTARY

**LEAD ADVANCE: MICHELE KREISS
 301/384-7118 PHONE**

PRESS ADVANCE: TBD

**SCHEDULER: EVAN RYAN
 202/456-6751 PHONE
 202/456-5340 FAX
 202/483-0383 HOME
 WHCA PAGER #4223**

PREV RON The White House

11:05 am- **DROP-BY** with University of Florida Student
11:10 am Athletes
 South Portico
 CLOSED PRESS/WH PHOTO

PARTICIPANTS: 64 guests

CONTACT: Douglas Band 202/456-5113

11:10 am **DEPART** South Portico
 EN ROUTE Draper Elementary School
 [drive time: 20 minutes]

MOTORCADE MANIFEST

LIMO: THE FIRST LADY

STAFF VAN: ABEDIN, BERRY, JEFFERS, SHAMIR, TANDEN, WH PHOTO

11:30 am **ARRIVE** Draper Elementary School

GREETERS:

Dr. Sandra Coates, Principal
Nikita Johnson, Parent

(b)(6) student

00017

**SCHEDULE FOR HILLARY RODHAM CLINTON
TUESDAY, MAY 4, 1999**

-Eloise Brooks, Deputy Superintendent of D.C. Schools, makes brief remarks and introduces Dr. Robert Miles, President of American College of Allergy, Asthma, and Immunology.

-Dr. Miles makes brief remarks and introduces Dr. Talal Ensouli, Allergist.

-Dr. Ensouli makes brief remarks and introduces Environmental Protection Agency Administrator Carol Browner.

-Administrator Browner makes remarks and introduces Nikita Johnson, parent.

-Nikita Johnson makes remarks and introduces the First Lady.

-The First Lady makes remarks.

-The First Lady departs.

PARTICIPANTS: 200 guests

CONTACT: Neera Tanden 202/456-6275

12:35 pm **DEPART** Draper Elementary School
 EN ROUTE The White House
 [drive time: 20 minutes]

MOTORCADE MANIFEST

LIMO: THE FIRST LADY

STAFF VAN: ABEDIN, BERRY, JEFFERS, SHAMIR, TANDEN, WH PHOTO

12:55 pm **ARRIVE** South Portico

1:00 pm- **VIDEOS**

1:30 pm Room 459
 Old Executive Office Building
 CLOSED PRESS/WH PHOTO

TAPING:

-Launch of the World Health Organization's 1999 Report

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-The American Society of Colon and Rectal Surgeons Conference
-Save the Children

(b)(6)

**SCHEDULE FOR HILLARY RODHAM CLINTON
TUESDAY, MAY 4, 1999**

11:35 am- **HALLWAY PHOTOS**
11:40 am Hallway
Draper Elementary School
908 Wahler Place, SE
Hold: First room on right
Phone: 202/645-4255
Fax: 202/645-3315
CLOSED PRESS/WH PHOTO

PARTICIPANTS: 6 people (see briefing book)

11:40 am- **ASTHMA SCREENING**
11:55 am Room 145
Draper Elementary School
908 Wahler Place, SE
Hold: First room on right
Phone: 202/645-4255
Fax: 202/645-3315
POOL PRESS/WH PHOTO

-The First Lady visits briefly with students waiting to be screened who are coloring.

-The First Lady observes as a student is being screened.

-The First Lady sits with a student who is talking to a doctor.

PARTICIPANTS: 15 children/5 doctors

12:00 pm- **ASTHMA EVENT**
12:30 pm Auditorium
Draper Elementary School
908 Wahler Place, SE
Hold: First room on right
Phone: 202/645-4255
Fax: 202/645-3315
OPEN PRESS

FORMAT:

-Sandra Coates, Principal, announces the First Lady into the room.

-The First Lady proceeds onto stage.

-Dr. Coates introduces Eloise Brooks.

**SCHEDULE FOR HILLARY RODHAM CLINTON
TUESDAY, MAY 4, 1999**

CONTACT: Brenda Anders 202/456-5654

2:00 pm- **BRIEFING**
2:20 pm Oval Office
CLOSED PRESS/WH PHOTO

PARTICIPANTS:
The President
The First Lady
Gene Sperling

2:20 pm **PROCEED** to Old Executive Office Building

2:25 pm- **MEET & GREET**
2:30 pm Hallway
Outside Presidential Hall
Old Executive Office Building
CLOSED PRESS/WH PHOTO

PARTICIPANTS: TBD

2:30 pm- **CONSUMER FINANCIAL RIGHT TO KNOW EVENT**
3:10 pm Presidential Hall
Old Executive Office Building
OPEN PRESS

FORMAT:

- The First Lady makes brief remarks and introduces Secretary Robert Rubin.
- Secretary Robert Rubin makes brief remarks and introduces Mari Frank.
- Mari Frank makes brief remarks and introduces the President.

PARTICIPANTS: 100 guests expected.

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4:00 pm- **BRIEFING**
4:10 pm Map Room
CLOSED PRESS/WH PHOTO

PARTICIPANTS:

**SCHEDULE FOR HILLARY RODHAM CLINTON
TUESDAY, MAY 4, 1999**

The First Lady
Capricia Marshall
Shirley Sagawa

4:10 pm- **MEET & GREET**
4:20 pm Diplomatic Reception Room
CLOSED PRESS/WH PHOTO

PARTICIPANTS: 23 guests

4:25 pm **PROCEED** to the Pavilion

4:30 pm- **SACAJAWEA COIN UNVEILING**
5:00 pm Pavilion
OPEN PRESS

FORMAT:

-The First Lady is announced into the pavilion and proceeds to stage accompanied by event participants.

-The Tribal Color Guard presents the colors accompanied by dancers and a flag song by Eyabay.

-Zelda Tillman says the opening prayer.

-The First Lady makes welcoming remarks and introduces LaDonna Harris.

-LaDonna Harris makes remarks.

-The First Lady introduces Kevin Gover, Assistant Secretary of the Bureau of Indian Affairs.

-Kevin Gover makes remarks.

-The First Lady introduces Secretary Robert Rubin.

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-Secretary Robert Rubin makes remarks and presents the coin, asking the Director of the Mint, the U.S. Treasurer, and the artists to join he and the First Lady for the unveiling.

-The First Lady introduces Joanne Shenandoah.

-Joanne Shenandoah sings a song.

SCHEDULE FOR HILLARY RODHAM CLINTON
TUESDAY, MAY 4, 1999

-The First Lady makes closing remarks.

-The Tribal Color Guard lead the First Lady and event participants to the entry tent.

5:00 pm-
6:00 pm

ENTERTAINMENT BOOK INTERVIEW

Map Room

CLOSED PRESS/WH PHOTO

PARTICIPANTS:

The First Lady

Cheryl Merse

Capricia Marshall

Shirley Sagawa

CONTACT: Mary Ellen McGuire 202/456-2016

RON

The White House

WEATHER FORECAST FOR WASHINGTON, DC: Partly cloudy. Winds northeast at 5 to 10 knots. Low 51F. High 66F.

draft 5/3 3:30 pm; 3 minutes <with a new conclusion, introducing Mari Frank>
Remarks Prepared for Delivery
Financial Security/Consumer Protection event
Secretary Robert E. Rubin
May 4, 1999

It is a pleasure to join you all today to discuss the opportunities and challenges presented by the rapid changes that are occurring in our nation's financial services industry.

Advances in technology and increased competition have together produced nothing short of a revolution in financial services. These innovations have helped make our financial services industry the world's most competitive. For many citizens, these changes have brought significant benefits. Consumers have greater access to credit, can comparison shop for mortgage rates on the Internet, and invest on-line for a range of financial products.

But with these new opportunities have come new risks. New products and new sale methods have confronted consumers with a vast and complex array of investment choices about which they need information. The new financial marketplace and the technology behind it also creates new avenues for invasion of privacy -- an area that the Vice President has been focused on and will address. And every day seems to produce a new way to defraud consumers -- a growing threat that the Secret Service is taking steps to reduce. All of these challenges underscore the need to update our consumer protection laws and adapt them to a changing marketplace.

One other item bears special mention. Even with the new financial services

I have discussed there are still far too many Americans -- especially in distressed economic areas such as the inner cities -- who do not have access to convenient or affordable financial services. This is an issue that is important to all of us, no matter where we live or what our incomes may be. Addressing this problem is essential because bringing more Americans into the mainstream economy will have an enormously positive effect on the economy and society.

It is now my pleasure to introduce a woman who has first hand experience with the risks our financial system sometimes pose. Mari Frank from Laguna Niguel, California will describe how credit card fraud has impacted her life. Ms. Frank...

Draft

Technology and competition in financial services give Americans more complex choices than ever before. Innovations in the financial marketplace offer millions of consumers new, ever increasing choices for investing their savings and obtaining credit. But new products have brought new risks and new abusive practices. We must update our consumer protection laws to give consumers the power, information and protection they need to profit from our 21st Century financial system.

THE CLINTON-GORE PLAN

Today, President Clinton unveiled legislative proposals and executive actions to protect consumers and their privacy in the new economy, based on five principles; (1) protect financial privacy; (2) expand the consumer's right to know; (3) prevent fraud and abusive practices; (4) expand access to financial services; and (5) educate consumers. We will continue to work with consumer protection leaders in Congress, including Senator Sarbanes and Representative LaFalce, to address these and other consumer issues.

PROTECT FINANCIAL PRIVACY

Cross-industry mergers and consolidation have given banks unprecedented access to consumers' financial and medical records at just the time when new technologies have made it possible -- and potentially profitable -- for banks to mine such data. Current law treats much of this information as the property of the institution -- not the consumer. We believe that consumers deserve notice and choice about the use of their personal information. Consumers who undergo physical exams to obtain insurance, for example, should not have to fear that the information could be used to lower their credit card limits or deny them mortgages.

Vice President Gore has led the Administration's efforts to protect consumers' financial and medical privacy in the new financial marketplace. We will work with Congress to improve the privacy protections available to our citizens. We will work to:

- **Require institutions to inform consumers of plans to share or sell their financial information, and give the consumer the power to stop it.**
- **Impose special restrictions on any sharing of medical information within a financial conglomerate.**
- **Give the FTC, bank regulators, and HUD the authority they need to ensure compliance with existing privacy protections, and publicize best practices in the privacy area.**

EXPAND THE CONSUMER'S RIGHT TO KNOW

Consumers face a bewildering array of choices in today's financial marketplace and often do not have sufficient information to make wise decisions. Aggressive marketing tactics can obscure the truth about the choices a customer is being asked to make: for example, consumers are often surprised when low introductory credit card rates expire and interest rates spike. The Administration will work with Congress to enact legislation that will:

- * **Require credit card companies to improve disclosure of the terms of such items as low introductory interest rates, minimum payments, and checks written against credit cards.**
- **Improve disclosure rules for Internet credit card solicitations.**

- * **Require ATMs to provide clear and conspicuous disclosures of surcharges on the the machine and the terminal screen.**
- **Require enhanced disclosures for other financial products such as rent-to-own arrangements, mortgage products, and international money transfers.**

PREVENT FRAUD AND ABUSIVE PRACTICES

More and more Americans are using the Internet to invest in the stock market and conduct other financial transactions. New fraud schemes -- including stock manipulation -- are uncovered each day. Off-line, old fraudulent practices continue, and new ones -- such as identity theft -- continue to arise. Low-income borrowers must often turn to unregulated, high-cost lenders whose terms are sometimes abusive. We will crack down on financial fraud and attack other abuses:

- **Launch a vigorous identity theft enforcement and prevention strategy that includes better referral of cases among federal, state and local law enforcement; developing a public-private partnership to educate consumers on how to protect themselves; and proposing sentencing enhancements.**
- **Provide new funds in the President's budget to establish a national center for tracking Internet fraud schemes; step up prosecutions; and train federal, state and local law enforcement officers on how to recognize and prosecute these schemes.**
- **Work with Congress to criminalize "pretext calling," where persons gain access to financial information by tricking bank employees; prohibit coercive sales of insurance products; and prohibit unsolicited mailing of loan checks.**
- **Warn consumers of the risks of debt consolidation loans where borrowers put their homes at risk, and expand the number of auto and other consumer loans that receive disclosure statements under the Truth in Lending Act.**
- **In the sub-prime area, improve reporting of high-cost loans and give the FTC and HUD adequate authority to stop the worst abuses.**

EXPAND ACCESS TO FINANCIAL SERVICES

Too many Americans cannot afford, or do not have access to, basic banking services. The Administration will increase and strengthen its efforts -- working with banks and consumer groups -- to increase access to low-cost banking services to all Americans. As part of this effort, Treasury is finalizing a program to pay set-up costs for low-fee basic banking accounts for federal benefit recipients.

EDUCATE CONSUMERS AND IMPROVE FINANCIAL LITERACY

The daunting complexity of financial products and choices increases the importance of consumer financial education. President Clinton today directed the National Economic Council to convene a high-level interagency group to prepare a plan to raise financial literacy and expand the Administration's commitment to consumer financial education.

Draft 10 page

INTRODUCTION

A revolution in technology and increased competition in financial services has given Americans more numerous and complex financial choices than ever before, and consumers should have the tools to profit from these new opportunities. Certainly, many consumers already benefit from this financial revolution -- they have greater access to credit, can comparison shop for mortgage rates on the Internet, and use credit cards to earn frequent flyer miles. But not all Americans have access to convenient or affordable financial services. Moreover, for all Americans, new products have brought new complexities and new opportunities for abusive practices and invasions of privacy. We must update our consumer protection laws to adapt to this rapidly changing marketplace.

Members of Congress, including Ranking Members Sarbanes and LaFalce, have sponsored important legislation to modernize our consumer financial protection laws. We applaud their leadership and look forward to working with Congress on a consumer protection agenda.

Set forth below is a series of actions that the Clinton Administration believes should be part of this agenda. The list is not exhaustive, and we will continue to look for constructive ideas in these and other areas. Among the issues deserving further scrutiny are lending practices such as “pay day” loans (short-term loans which can carry interest rates of 400%) and bank check processing practices that may be designed to maximize bounced check fees. We will work with the states and the FTC to address these issues. Secretary Cuomo is also making important efforts to address abusive mortgage lending practices.

PROTECTING FINANCIAL PRIVACY

Ensure consumers have meaningful notice and an opportunity for informed choice if their financial information is shared. Although consumers put great value on the privacy of their financial records, our laws have not caught up to technological developments that make it possible and profitable for companies to share financial data in new ways. Current law does provide some important privacy protections: for example, the Fair Credit Reporting Act (FCRA) requires a form of notice and opt-out before sharing certain information about consumers (e.g., information provided on an account application). But there are no limits on the sharing of information about consumers’ transactions (e.g., account balances, who they write checks to) within a financial conglomerate, or even on the sale of that information to a third party. We support legislation to give consumers control over the use and sharing of all their financial information.

Prevent use of medical information for credit decisions or other unanticipated purposes.

Our greatest privacy concerns involve medical information. Yet, with a growing number of mergers between insurance companies and other financial services firms, lenders and brokers potentially have access to private medical records. We support legislation requiring that medical information, such as that gathered from life insurance records, not be shared within financial services conglomerates (e.g., between banking and insurance affiliates), except for narrowly

defined purposes. Consumers who undergo physical exams to obtain insurance, for example, should not have to fear that the information will be used to lower their credit card limits or deny them mortgages.

Monitor Bank Compliance with FCRA. Currently, bank regulators may not examine for compliance with existing privacy protections, but must wait for a consumer complaint. Congress should give regulators broader authority to monitor compliance.

[Best Practices. Even in the absence of legislation, many responsible banks have begun posting their privacy practices on the Internet and otherwise informing customers about how their data is handled. The Office of the Comptroller of the Currency is today publishing best practices in this area, so that additional institutions can be encouraged to inform their customers and do so in the most effect way possible.]

EXPANDING DISCLOSURE

Credit Card Disclosures

Prevent Misleading Credit Card Marketing of “Teaser” Rates. Consumers frequently complain that they did not understand marketing materials on credit card interest rates and are shocked when rates skyrocket, whether because a “teaser” rate expired or they had a minor late payment. Some consumers are misled by mailings that promote a “low 3.9% initial rate” but fail to disclose as prominently that the rate doubles or triples in six months or with a single late payment. We support legislation requiring “teaser” rates for credit cards to be accompanied by equally prominent disclosure of the expiration date of the initial rate and the eventual APR. 

Require Credit Card Minimum Payment Disclosures. In recent years, credit cards lenders have lowered minimum payments. Many consumers still assume, however, that, as with a monthly mortgage payment, repeated payment will eventually retire the debt. In reality, low minimum payment requirements and high interest rates often means that borrowers make little, if any, headway. We support legislation requiring clear and conspicuous notice of how long and how costly repayment would be if a consumer makes only the minimum payment.

Disclosure of Late Payment Fees. It can be hard to tell from a credit statement whether and when a late payment fee (in addition to interest on the unpaid balance) will be assessed. We support legislation requiring monthly statements to display prominently the date that payment is due, together with any late payment fee.

Disclosure of Security Interests. Increasingly, creditors take security interests in goods purchased on credit. While consumers expect that they can lose their car or their home, they may not realize that they are granting a lien when they use a credit card. Liens may be taken in goods with little resale value as a collection technique or to encourage reaffirmation of the debt if the consumer goes into bankruptcy. We support legislation requiring effective notice of liens taken.

Disclosure of Interest Rates and Fees on Credit Advances Through Third-Party Checks.

Credit cards offer some card holders "convenience" checks that allow them to write checks against their credit account in places where credit cards are not honored. But card holders may not understand that rates and charges are typically higher than for their credit card. Currently, these charges are explained only in initial disclosures but not at the time that the checks are sent to the consumer. That law should be changed.

Apply Disclosure Rules to Internet Credit Card Solicitations. More and more, credit cards are offered to consumers on the Internet, but current law does not require the same complete disclosures as apply to direct mail solicitations. We support legislation requiring that all Internet credit card solicitations include clear and conspicuous disclosure of the card's terms and conditions, updated regularly to reflect current terms and costs.

Bank Disclosures**Provide Enforcement "Teeth" for Rules on Bank Sale of Non-Deposit Products.**

Increasingly, consumers can buy securities, mutual funds, annuities, insurance on bank premises. Although none of these non-bank products are insured, studies have shown that many customers believe that these products are FDIC-insured or that the bank would protect them from loss. Under current bank regulator guidelines, banks that sell non-deposit products must disclose that those products are not federally insured and limit their practices to avoid such confusion, for example by selling these products at a space physically separate from where banking transactions occur. However, a violation of these guidelines brings no penalties. We call on the banking regulators to adopt regulations that will be fully enforceable by civil money penalties and other sanctions.

Rent-to-Own Companies

Disclosures and Other Requirements for Rent-to-Own (RTO). The attraction of obtaining a TV, refrigerator, or living room furniture with little down has spurred the rapid growth of firms offering to rent products with an option to buy. But an RTO firm can sell a customer a used product that looks new, and the consumer can pay many times the value of the product. The FTC is nearing completion of a study of the RTO industry. We look forward to their recommendations, and expect to support a legislative response. Adequate consumer protections, including disclosure so consumers can compare the cost of RTO to other alternatives, should be required. In addition, we will work with states to ensure that any federal rules do not interfere with or preempt state consumer protection efforts, including regulation of RTO under state credit sales and usury laws.

ATMs

Mandate Clear and Conspicuous ATM Surcharge Disclosures. When customers use an ATM, the operator of the machine may impose a sizeable surcharge. Accordingly, most consumers shop around to avoid ATM fees or pay less. A conspicuous posting of the amount of

any surcharge allows customers to easily avoid higher priced machine, or at least to begin the transaction with their eyes open. While ATM networks generally require members to post fee notices on the machine, a recent survey shows that nearly 25 percent of machines had either no posting or an inaccurate one. We support legislation requiring ATM owners to post a clear and conspicuous notice on the machine as well as on-screen, and subjecting ATM owners to sanctions for failure to make the mandated disclosures.

Mortgages

[Truth-in-Lending Act (TILA) and the Real Estate Settlement Procedures Act (RESPA) Reforms to Enhance Comparison Shopping for Mortgage and Settlement Services and to Stem Abusive Practices. In July 1998, the Federal Reserve Board and the Department of Housing and Urban Development released a Congressionally mandated study of how best to streamline the statutory disclosure requirements for mortgage loans and settlement services, with the goal of simplifying and improving the quality of information provided to consumers to enhance their ability to shop and increase competition. The report calls for a series of statutory reforms to RESPA and TILA to make the information provided to consumers more reliable, more timely, and more helpful in comparison shopping for all the services required to finance a home. Congress should adopt the report's recommendations. For example, the required annual percentage rate disclosure should include all costs the consumer is required to pay in order to receive credit, instead of the patchwork of costs currently disclosed. Creditors should be required to provide firm and reliable closing cost informations, and disclosures should be made early in the application process, before creditors impose substantial fees.]

Other Disclosures

Expand Truth in Lending Act (TILA) coverage for consumer loans and leases. TILA protections currently apply to all credit transactions secured by home equity and to other non-business consumer loans under \$25,000. When TILA was passed in 1968, the \$25,000 limit was sufficiently high to ensure that most automobile, credit card, and personal loan transactions would come under TILA protections. Thirty years later, this is not the case, particularly for automobile loans. The same \$25,000 limitation was imposed in 1976 in the Consumer Leasing Act sections of TILA. The limit should be raised to \$50,000 to cover most cars and other consumer loans.

Require Effective Disclosure of Exchange Rate and Fees for International Money Transfers. Consumers wiring money abroad often are confused or misled about fees and exchange rates. To prevent this confusion, we would amend the Electronic Funds Transfer Act to require additional disclosures relating to exchange rates for international transfers. Financial institutions or other businesses that initiate international money transfers on behalf of consumers would have to disclose, in both English and the language principally used by the business: (1) the exchange rate used in the transaction; (2) the prevailing exchange rate; and (3) all commissions and fees charged in connection with such transactions. Current law does not require such disclosure.

COMBAT FRAUD AND ABUSIVE PRACTICES

Devote Law Enforcement and Agency Resources to Financial Fraud.

“Identity Theft” Enforcement Initiative. Identity theft is the use of another’s individual identifying information to commit an offense -- for example, using another’s social security number to apply for a credit card.) Once, one had to forge or steal documents to impersonate another, but now one can easily use your identifiers to impersonate you over the phone or Internet. This type of crime is growing rapidly [insert numbers]. Last year, Congress enacted new laws barring the use of another’s identifying information. The Secret Service, in coordination with the Justice Department and regulatory agencies, will undertake a vigorous prevention and enforcement strategy to combat identity theft. They will work cooperatively with the American Bankers Association and others in the banking industry who have worked to combat this problem.

Combat Internet Securities Risk and Fraud with Investor Education and Enforcement. More and more Americans are investing in the stock market; 5.6 million are now trading on-line. The technology opens up great opportunity, but the rewards are not without their risks. Complaints to the SEC were up 330% in one year, and new securities fraud schemes are uncovered each day. SEC Chairman Levitt is launching a stepped-up SEC effort to arm investors with the information they need to understand and manage the risks and protect themselves against fraud. In addition, President Clinton’s budget provides \$11 million in new funds for SEC enforcement that will allow for a substantial increase in resources to tackle Internet fraud.

Internet Fraud Enforcement Initiative. Federal, state and local law enforcement officials and regulatory agencies are receiving a growing number of complaints from consumers about Internet fraud. Many of the same features of the Internet that make it a powerful tool for legitimate e-commerce (global reach, instant and often anonymous communications, ability to reach millions of consumers) also make it an attractive vehicle for fraud schemes. The Internet Fraud Initiative will crack down on Internet fraud by, for example, stepping up training for federal, state, and local prosecutors and agents; developing information on the nature and scope of Internet fraud; and keeping the public better informed about current fraud schemes and how to handle them. The initiative will also help coordinate the efforts of federal (Department of Justice, Secret Service, FBI, Postal Inspection Service, FTC, and SEC), state and local law enforcement agencies.

Ban “Pretext Calling.” We are alarmed by widespread reports of private investigators and data brokers tricking financial institutions into providing confidential customer information. Along with the banking industry, we support legislation that would end this practice, ensure that institutions protect the privacy and security of consumer financial information, and punish wrongdoers.

Fully Implement FTC-HELP and Consumer Sentinel. The Year 2000 will be the first year of operation for FTC's toll-free consumer hotline, part of the Commission's Consumer Response Center. The hotline will give consumers fast and easy access to information they need to protect themselves -- from tips about credit and debt collection to advice on how to avoid becoming a victim of fraud. Complaints to the hotline become part of the Consumer Sentinel, the FTC's fraud database, which is shared only with other law enforcers in the U.S. and Canada. By 2000, the Consumer Sentinel database is expected to be a primary tool in the fight against consumer fraud. The President's FY2000 budget funds Consumer Sentinel. [TO BE AMENDED ONCE 2001 BUDGET ISSUES WORK OUT]

Improve Consumer Protections Against Fraudulent or Abusive Practices.

Expand Disclosures for High LTV Mortgages. Consumers with high credit card debts are frequently offered second mortgages to consolidate their debts, extend the time for repayment, and reduce the interest rate. These mortgages can result in debt levels of 125% to 150% of the home's value. Consumers may not understand the consequences of these refinancings, especially that the failure to repay these consumer debts could lead to losing their home, and recent studies show that many such homeowners promptly incur new consumer credit debts. We support legislation requiring lenders on high loan-to-value second mortgages to disclose that: (1) interest payments may not be fully deductible; (2) the consumer may be unable to resell the house unless the entire loan amount is repaid; and (3) default can result in foreclosure.

Increase Civil Liability Limits for TILA Violations. TILA provides an individual right of action for violations under which a consumer can recover actual damages, additional statutory damages, and court costs, TILA permit statutory damages, in credit transactions, of twice the amount of any finance charge, and in lease transactions, of 25 percent of the total amount of monthly payments under the lease. The amount of these damages is limited to a range of not less than \$100 nor greater than \$1,000 for non-mortgage loans or leases, and to a range of \$200 to \$2000 for mortgage loans. These damage limits may be too low to deter TILA violations, particularly at unregulated institutions not subject to systematic and regular examinations. We support raising the statutory cap to a level sufficient to deter violations.

Take Action Against Abuses in "Sub-prime" lending. Sub-prime loans are generally made to lower income Americans, and include some of the most abusive practices in the financial services sector. [Bracketed items being vetted; will eventually be shortened.]

[Curb Abusive Practices in the Home Equity Market. The Fed/HUD Report documented continued problems with abusive practices in some segments of the mortgage market, including problems associated with loans outside the reach of the Home Ownership Equity Protection Act (HOEPA), which provides additional protections for purchasers of high-cost loans. These uncovered practices include "loan flipping" -- recurrent refinancings that may make it difficult for a home owner to pay off a loan or to sell her home. The study recommended that substantive consumer protections to target

abusive practices: for example: to reduce the occurrence of loan flipping, creditors should be restricted from charging financing fees in high cost loans covered by HOEPA; provisions restricting prepayment penalties should be expanded and simplified, and the HOEPA threshold should be lowered. In addition, creditors should be required to provide additional data to the Federal Trade Commission on HOEPA loans. We will work with Congress to enact the report's recommendations.

The FTC will take enforcement action to ensure that creditors do not evade HOEPA through misuse of open-ended home equity loans. Creditors should also be required to inform HOEPA applicants of available home counseling programs prior to closing. Congress should eliminate the requirement for a showing of "pattern or practice" of asset-based (foreclosure) lending to establish HOEPA violations, and provide for civil penalties for HOEPA violations. Moreover, all amounts paid by a borrower, including credit insurance, should be counted toward the HOEPA trigger. The definition of "creditor" should be expanded to include individuals that control the lending practices of a company to deal with the problem of small, thinly capitalized sub-prime lenders who escape HOEPA liability by dissolution or bankruptcy. Finally, Congress should expand enforcement of RESPA by providing injunctive authority to HUD, state attorneys general and state financial regulators; expanding HUD's civil remedies; strengthening the current criminal sanctions for violations of anti-kickback provisions, providing for private causes of action to enforce RESPA violations; and standardizing statutes of limitations.]

[The Banking Regulators Should Continue to Improve Guidance on Sub-prime Lending. The Federal Financial Institutions Examination Council is improving guidance to regulated financial institutions on fair lending compliance. The FFIEC issued fair lending examination procedures for banking regulators in January 1999 and focused particular attention on the problem of "steering" loan applicants on a prohibited basis to a sub-prime lender within a financial institution's organization. In March, the FFIEC released additional guidance focused on safety and soundness issues and fair lending problems. The OCC recently issued guidance warning of the risks in this area.

Today, the President is directing the Office of the Comptroller of the Currency and the Office of Thrift Supervision, in consultation with HUD, the FTC, the Justice Department, and the other banking regulators, to study whether further actions are necessary to halt abusive practices in the sub-prime area.]

[Improve Reporting on High-Cost Loans. There is a current imbalance in reporting requirements and enforcement under HMDA as between regulated depository institutions and other mortgage lenders. Some unregulated lenders do not have to report all their loans, and face no sanctions if they fail to report when required. We support legislation providing HUD with enforcement authority to assure compliance by all lenders with HMDA reporting, unless the lenders are already covered by existing enforcement authority of the banking regulators. These legislative changes will help level the playing field on reporting and compliance between regulated and unregulated financial

institutions, and will improve disclosure in a growing segment of the mortgage lending market.]

[Improved Reporting on Race, Income and Other Data. Financial institutions are required under the Home Mortgage Disclosure Act (HMDA) to report the race, income and other data about home mortgage borrowers, but a Federal Reserve regulation implementing the Equal Credit Opportunity Act (ECOA) prohibits them from collecting such information for non-mortgage borrowers. Experience suggests that the data collection on home mortgage borrowers has helped to reduce discrimination and increase access for minority borrowers in that market, and the current prohibition has inhibited self-testing under the fair lending laws, reduced the ability of financial institutions to develop and market innovative products to reach new markets, and reduced the reliability and effectiveness of fair lending enforcement. The Treasury Department will work with the Federal Reserve to determine whether the regulation can be amended to allow increased reporting.

Clear Reporting. HMDA regulations do not require financial institutions to report separately on sub-prime loans; these loans are lumped together with traditional loans, which may distort the data, for example, with respect to denial rates. If these loans were reported separately, banking regulators and enforcement agencies could better analyze the data for potential fair lending problems. The Treasury Department will work with the Federal Reserve on ways to require financial institutions to report the reasons for any denial.

Evasions of HMDA. An institution does not have to report under HMDA if fewer than 10% of its loans are made for home purchase. The effect of the rule is to exclude from reporting some of the largest and fastest growing mortgage providers in the country, whose consumer loan portfolio is also large. The Board should consider reissuing the rule to bring such providers under HMDA coverage.

Ban Coercive Sales of Insurance Products. Credit insurance is designed to ensure repayment of the mortgage in the event of the borrower's death or injury or job loss. However, the economic value to the consumer of these products is dubious. Moreover, credit insurance is frequently marketed in a way that is either explicitly or implicitly coercive -- that is, consumers are told or left with the impression that their chances of getting the loan or getting it more quickly would improve if they purchased the insurance. Some creditors collect up-front lump-sum insurance premiums for the policy term, so consumers cannot cancel. Required disclosures appear to be ineffective at deterring these practices. We support legislation barring the advance collection of lump-sum insurance premiums, so that consumers can pay for the insurance one month at a time, and so loan termination automatically cancels both coverage and liability for insurance payments. *In addition, Congress should bar the solicitation of credit life insurance until the lender has approved the loan application and communicated approval to the borrower.*[check?][Fed points out that allowing consumer to cancel at any time screws up pricing, as lender has priced loan assuming that the insurance is there; if insurance can be

cancelled at any time, the lender will charge the consumer a higher price assuming that the consumer will cancel. Do we have an answer?]

Limit Consumer Liability for Non-PIN Protected Debit Cards. “Off-line debit cards” allow consumers to pay for products through an electronic transfer at the point of sale. These “check cards” differ from on-line debit cards (i.e., ATM cards) because there is no PIN or other security feature (other than a signature) to authenticate the transaction. Although credit cards also carry no PIN protection, the consumer is generally only liable for no more than \$50 of unauthorized charges. But with debit cards losses can be much higher unless the customer quickly notices and reports the loss. Thus, consumers can get the worst of both worlds: higher exposure to loss without security protections. Consumer liability for these cards should be limited as it is currently limited for credit cards -- a step that VISA and Mastercard have already taken voluntarily.

Prohibit Unsolicited Mailing of Loan Checks. Loan checks are credit products for which the consumer need only sign and cash the check to obtain a loan. Because these unsolicited checks are “live,” however, the consumer is also at risk for fraudulent endorsement of the check. For the same reasons that Federal law prohibits unsolicited mailing of credit cards -- protecting consumers from the hassle of contesting liability for stolen card purchases -- we support legislation prohibiting unsolicited mailing of loan checks. Consumers should not feel they have to shred their daily mail.

Reform Accounting Rules for Consumer Installment Loans. We support legislation to eliminate the use of the “rule of 78,” an outmoded accounting rule that disadvantages borrowers, for all consumer credit transactions. In 1992, Congress barred the rule’s use in loans with terms over 61 months; our proposal would finish the task. Creditors would have to use an accounting method “at least as favorable to the consumer as the actuarial method.”

EXPAND ACCESS TO FINANCIAL SERVICES

Provide Low-Cost Banking Services to All Americans. Too many Americans cannot afford, or do not have access to, basic banking services. The Administration will increase and strengthen its efforts -- working with banks and consumer groups -- to increase access to low-cost banking services to all Americans. As part of this effort, Treasury is finalizing a program to pay set-up costs for low-fee basic banking accounts for federal benefit recipients.

Provide Individual Development Accounts (IDAs) To Make It Easier for Low-Income Families to Save. IDAs allow low-income households to save not just for retirement but also for education, emergencies, home ownership, or business investment. Individual contributions can be matched to encourage more savings. (The FY 2000 budget doubles funding for IDAs.)

Bolster the Community Development Financial Institutions (CDFI) Fund. Treasury's CDFI Fund provides grants, loans, and equity investments to locally-based, specialized financial institutions and mainstream banks and thrifts serving low and moderate income communities.

The CDFI Fund is helping to expand the reach of these institutions to under served communities. The Administration is seeking \$125 million for the Fund in FY 2000 and Fund reauthorization.

IMPROVE CONSUMER FINANCIAL EDUCATION

Launch a Campaign to Promote Education on Credit, Savings, and Investment.

One of the best protections for consumers is education. Yet evidence suggests that consumers often find credit and investment opportunities confusing, and are carrying greater levels of debt, filing bankruptcy more often, not saving as much as they would like for retirement, and investing without full comprehension of the risks involved. The President today directed his National Economic Council to convene a high level interagency task force to present him with a plan to raise financial literacy levels, and to expand the Administration's commitment to public and private consumer financial education programs. Elements of this plan will include:

Identify and publicize successful "best practices" for high school and other financial education programs. Nonprofit groups such as the National Council on Economic Education and Jump\$tart, as well as government agencies including the Department of Agriculture and the Department of Defense, have developed educational modules and course materials that not only improve students' understanding of complex financial topics but also have been shown to improve their long-term financial status. Working with the interagency task force, the Department of Education will help publicize these proven educational programs, to make it easier for teachers, professors, and other educators to adopt financial education programs that work.

Promote effective financial planning. Studies show that families who are able to develop and follow a financial plan are much more successful in achieving major financial goals, such as saving adequately for retirement, their children's education, or a new business venture. A growing number of public, nonprofit, and corporate initiatives have begun to educate Americans about effective financial planning, such as the campaigns sponsored by the American Savings Education Council, the Securities and Exchange Commission, and the Department of Labor. The Administration will participate in joint initiatives with these and other groups to highlight the benefits of personal financial planning and the steps that all Americans can take to make financial planning easier.



Sarah Rosen Wartell
05/03/99 01:41:50 PM

Record Type: Record

To: Nicole R. Rabner/WHO/EOP@EOP

cc:

Subject: draft -- financial privacy and consumer protection

----- Forwarded by Sarah Rosen Wartell/OPD/EOP on 05/03/99 01:41 PM -----



Lowell A. Weiss
05/03/99 12:22:21 PM

Record Type: Record

To: See the distribution list at the bottom of this message

cc:

Subject: draft -- financial privacy and consumer protection

Draft 5/3/99 12:30pm

Lowell Weiss

**PRESIDENT WILLIAM J. CLINTON
REMARKS ON FINANCIAL PRIVACY AND CONSUMER PROTECTION
THE WHITE HOUSE**

May 4, 1999

Acknowledge: introducer Mari Frank; Sec. Rubin; SEC Chairman Arthur Levitt; FTC Chairman Robert Pitofsky and Commissioner Mozelle Thompson, two true champions of America's consumers; I also want to thank Sen. Sarbanes and Rep. LaFalce for their outstanding leadership on this issue.

Like today, the dawn of the 20th Century was a time of great prosperity and ingenuity. Powered by remarkable new technologies, our industries could barely meet the demand for high-quality products made in the USA. But for those who labored in our factories and lived in the tenements of our rapidly growing cities, America's industrial gains often came at a steep price. In the words of Supreme Court Justice Louis Brandeis, the laws "built up under simpler conditions of living," could not handle "the complex relations of the modern" industrial world.

Justice Brandeis and the other leaders of the Progressive Movement recognized that while our laws were out of date, our oldest values were not. That is why Justice Brandeis

fought throughout his career to bring ever greater democracy to America's factory floors ... to expand freedom of speech and assembly ... to uphold the right to privacy, which he called "the right most valued by civilized men." In the new industrial age, when men and women feared becoming small cogs in a giant machine, America's oldest values were, if anything, more relevant than ever before.

A century later, in the midst of a new era of vast economic and technological transformation, we are once again apply our oldest values to the challenge of change -- from building a system of lifelong learning ... to connecting every child to the wonders of the Internet ... to putting a human face on the complex and often-impersonal global economy. Today, we must take on a new challenge. To prepare for the 21st Century economy, we must update our privacy and consumer protection laws for our rapidly changing financial marketplace.

Over the past few years, new technology and increased competition have truly revolutionized the financial services industry. By and large, these changes have been very good for consumers. But, as you have just heard, they have also created new challenges. Many people don't have the knowledge to properly evaluate the dizzying array of financial options. Some are falling victim to new abusive practices or outright fraud. Others, particularly those in inner-city and rural areas, are being left out of the new financial marketplace altogether.

So today, I am proud to announce our new Financial Privacy and Consumer Protection Initiative -- to give all Americans the tools and confidence they need to participate in our thriving but highly complex 21st Century economy. This initiative is based on five key principles. And it draws on several important proposals developed by the Members of Congress who are here today.

The first principle is that we must do more to protect every American's financial privacy. The Vice President has led this Administration's efforts to identify areas where privacy is at risk -- and financial transactions are one area of great concern. The technological revolution is now making it easier than every before for financial institutions to mine your private financial data for profit. While some of your private financial information is protected under existing federal law, your bank or broker or insurance company can still share with affiliated firms information on what you buy with checks and credit cards -- or sell this information to the highest bidder. This law is outdated. We must change it ... to give you the right to control your financial information ...to require your bank to let you decide whether they can share your private information with anyone. I look forward to working with members in the House and Senate on this critical issue.

To enhance your financial privacy, we must also protect the sanctity of medical records. With the growing number of mergers between insurance companies and banks, lenders potentially can gain access to the private medical information contained in your insurance forms. So the Vice President and I propose to outlaw the sharing of medical information within financial services conglomerates. You should not have to worry that the

results of your latest physical exam will be used to deny you a home mortgage or a credit card.

Second, we must require greater public disclosure and enhance every consumer's right to know. Last year, consumers received nearly 4 billion credit card solicitations. Some of these offers contain new traps for the unwary. For example, sometimes credit card companies advertise low interest rates -- known as "teaser rates" -- to reel in consumers and then surprise them with unexpected interest rate hikes. Working with Congress, we will insist that any marketing of "teaser" rates for credit cards include equally prominent notice of their expiration date, their eventual annual percentage rate, and any penalties that apply.

Millions of consumers also have found out the hard way that making only minimum payments rarely helps retire a debt and almost always results in very large interest payments. So we will require clear notice of how long and how costly repayment would be if the consumer makes only the minimum payment.

And consumers are rightly frustrated with ATM surcharges. This is what we propose: If an ATM is going to charge you a fee on top of any fee you pay to your own bank, it must say so clearly -- not only on the computer screen once you initiate the transaction but in a clear sign on the outside of the machine. You should have the opportunity to comparison shop for ATMs -- and the opportunity to reject those that charge too much.

Third, we must do more to combat consumer fraud. Once, stealing another's identity required fraudulent documents. But today, as Mari Frank discovered the hard way, simply stealing a PIN can be sufficient to allow a person to take out huge loans, run up enormous credit card debts, and tap into bank accounts. Last October, Congress passed and I signed the Identity Theft and Assumption Deterrence Act. This is a good law, but now we need to give it sharp teeth. So today, I am instructing the Treasury and Justice Departments to give higher priority to cases involving identity theft, particularly those involving organized crime groups, with the goal of increasing the number of prosecutions both at the state and federal level. And Treasury will convene a national summit on identity theft and work with the private sector to make it much harder to steal someone else's identity in the first place.

We will also crack down on fraud committed over the Internet. If we want to seize the Internet's full potential, we must stay ahead of those who would use this open medium to manipulate stock prices, commit fraud in online auctions, or perpetuate any other type of financial scam. That is why I have asked the Justice Department to step up prosecutions ... to develop a national center for tracking Internet fraud schemes ... to train state, local, and federal law enforcement officers how to recognize and root out these schemes ... and to use new technologies to reduce the incidence of fraud. SEC Chairman Levitt is also launching an expanded effort to arm investors with the information they need to protect themselves against online securities fraud. And given that complaints of Internet fraud have tripled over the past six months alone, I will work with Congress and Chairman Levitt to provide additional resources for the SEC for enforcement, beyond what I requested in my balanced budget.

Fourth, we must provide financial services for those who have been denied access to

credit and basic banking services for far too long. Today, I am proud to announce that the Treasury Department will soon make available through private banks low-fee banking accounts for those who receive federal benefits like Social Security. Unfortunately, some in Congress would have us effectively limit -- rather than expanding -- access to financial services in underserved communities. As the Senate debates this issue this week, I want to make clear that we will oppose any effort to weaken or undermine the Community Reinvestment Act.

Finally, we must increase Americans' financial literacy. Today, it's no longer enough to know how to balance a checkbook. Even those who are fortunate enough to have the help of accountants sometimes have a hard time understanding all the ins and outs of investing in an IRA, paying off credit card debt, or refinancing a mortgage.

So today, I am directing my National Economic Council to work with our agencies and develop a plan to help all Americans improve their financial literacy. School is the best place to start learning about personal finance. The Department of Education will help all interested schools find effective lesson plans and other tools to integrate financial literacy into the basic curriculum.

Protecting privacy. Enhancing disclosure. Combating fraud. Expanding access. Increasing education. These are all familiar principles. They are the exact principles that Louis Brandeis and his disciples used to harness the power and benefits of the Industrial Revolution. And they are just as vital today as they were a century ago. Let's use them once again to seize the enormous potential of the Information Revolution. If we work together, we can use these principles to help all families lock in the benefits of new choices and new technologies. We can help all our people thrive in our 21st Century economy.

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Message Sent To:

Melissa G. Green/OPD/EOP@EOP
Sarah Rosen Wartell/OPD/EOP@EOP
Sally Katzen/OPD/EOP@EOP
Linda Ricci/OMB/EOP@EOP
Joshua S. Gottheimer/WHO/EOP@EOP



Lucy.Huffman@do.treas.gov

05/03/99 02:24:37 PM

Record Type: Record

To: Nicole R. Rabner/WHO/EOP

cc:

Subject: Thanks for your offer to fax the background memo - - my fax is

Date: 05/03/1999 02:12 pm (Monday)

From: Lucy Huffman

To: ex.mail("Nicole_R._Rabner@who.eop.gov")

Subject: Thanks for your offer to fax the background memo - - my fax
is 456-2878, or -Reply

I'll fax this too as no doubt that will be faster than an email.

A. Policy Background

The economic well-being of American families depends on their being integrated safely and fully into an increasingly rich and complex system of financial services. An Administration initiative to support the financial literacy of Americans and assist them in using financial services more effectively would help achieve this goal, is relatively inexpensive, and is likely to have broad support.

More Americans now enjoy a much broader range of financial services than at any time in the past. The share of the population with credit cards, home equity loans, personal retirement accounts, and market investments has increased substantially over the past decade to all-time highs.

With these greater opportunities have come rising concerns about whether consumers have all the knowledge they need to use these often complex financial services effectively. Consumer debt levels relative to income have been rising sharply since the early 1990's and are now at a level well above the average over the past 25 years. Many consumers appear to be ill-prepared for such adverse economic events as job losses or a major illness. Many college students have substantial credit card debts. Many households do not have retirement savings adequate to sustain their standard of living in old age. Without effective financial planning tools to help them obtain financial security, many Americans find that bankruptcy and income assistance programs are their best options.

Much empirical evidence concludes that a range of financial education and information programs can have a significant and, often, lasting effect on consumer financial planning, saving, and credit use. But few students or adults have had any formal or informal exposure to

such programs.

To use their opportunities effectively, consumers need tools for interpreting financial information and understanding their financial rights. Yet many Americans do not have these tools:

Eighteen year-olds today receive many solicitations for credit cards and other types of credit, and must make decisions with enormous and growing financial consequences * about educational loans, purchases on credit, and putting aside savings for other important life events like home purchases or increasingly costly medical treatments. Yet only a small fraction of high school students receive any education about personal financial management and planning * a life skill that they now need as soon as they graduate.

The need for additional skills to take advantage of financial opportunities extends to adult Americans. Consumer Federation surveys indicate that nearly 70% are confused at some time about what they read and hear about financial opportunities, and only a third of Americans feel *confident* about managing their financial resources effectively.

Ineffective financial planning, along with the increasing complexity of our financial system, often leads to problems. More than one in six households with credit cards -- many with only moderate incomes -- carry balances larger than several thousand dollars. Personal bankruptcy rates are at an all-time high despite our expansive economy, and many consumers appear to be ill-prepared for such adverse economic events as job losses or a major illness. Over half of Americans report they are behind in meeting their financial goals.

Providing more Americans with the tools they need to develop a financial plan would address these problems. Individuals who have completed financial planning programs in the workplace (covering basic principles of borrowing and saving, the key components of a financial plan, etc.) save more than twice as much as those who have not. Americans who had financial training in high school accumulate greater wealth * a full year's worth of earnings * than those who did not. Developing long-range financial planning skills appears to have other benefits, such as greater work productivity (more willing to invest in skill development, better ability to plan complex tasks).

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Presidential Records Act - [44 U.S.C. 2204(a)]

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- P2 Relating to the appointment to Federal office [(a)(2) of the PRA]
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- b(3) Release would violate a Federal statute [(b)(3) of the FOIA]
- b(4) Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]
- b(6) Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]
- b(7) Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
- b(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
- b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

A retired Air Force colonel and his wife from Maryland had their identities stolen. Armed with Social Security numbers alone, the thieves opened over 33 accounts in their names, charging over \$100,000 in goods and services. Even though they closed these accounts and cancelled the credit cards, they continue to be harassed by collection agencies.

A man from Brooklyn, NY received a promotional credit card solicitation with a teaser rate of interest of 3.9 percent. It was only after he transferred his balance to the new card that he found out that the card came with a transaction fee of 3 percent interest payable immediately.

A woman from Maine had her interest rate jump from 4.9 percent to 20 percent. Because the credit card company was late in mailing her statement, she was late in paying them. And, the bank now continues to charge her a 20 percent interest rate rather than the low rate she was promised. Story after story of these "teaser rates" that jump up immediately after one late payment – or sometimes at random.

An elderly woman from Maine took advantage of a credit card offer to purchase Christmas presents for her grandchildren. She lives on Social Security and the credit granted was only \$250. She charged up to her limit and was making \$25 payments each month. She was paying late as her Social Security check arrived near her due date. While she sent in \$25 each month, she was being assessed a \$20 late fee and a \$20 over the limit fee and soon her balance was over \$400.

I recommend using the hypothetical story in HRC's column – the time it would take to pay off a debt with paying only the minimum payment.

10/21/98

mah.mcclellan@treas.spn.dhs.com

Mark McClellan, Sub Com Chair 6220563 ph
2833 fax***DRAFT* Administration Initiative on Consumer Credit Education *DRAFT*****Background on Consumer Credit Concerns**

Concern about the burden of consumer debt is rising. Despite more than five years of economic expansion and record-low unemployment rates, consumer debt – including credit card debt and other personal unsecured loans – has increased, particularly for lower-income and middle-class households. Other types of debt have also increased.

- In 1995 (the most recent year for which reliable data are available), almost 60% of households with incomes between \$25,000 and \$75,000 carried a balance on their credit cards, around one-third carried balances over \$1000, around 9% carried balances over \$5000, and more than 5% carried balances over \$10,000. The share of households in each of these credit card debt categories had increased substantially since 1989, even after adjusting for inflation.
- An increasing share of households are also borrowing more heavily against their homes, sometimes incurring debt levels in excess of the home value. According to Fed data, almost one-fifth (18%) of homeowners with incomes between \$25,000 and \$75,000 who were over 35 held loans against their homes with loan-to-value (LTV) ratios of greater than 80% – up from around 10% with high LTV mortgages in 1989.

This debt burden may interfere with other Administration policy goals, as well as the ability of households to make it through rainy days. Increasing availability of credit has made it easier for consumers finance many needed purchases. But greater availability of credit has a down side.

- Households that cannot easily pay off their purchases face interest payments that leave them with fewer resources for supporting children, growing a business, or saving for education or retirement. Differences in household decisions about spending and credit use appear to be a major contributor to the enormous inequality in asset accumulation across households, differences that recent research shows to exist even among households with similar incomes.
- High debt burdens may also make it difficult for households to endure financial stresses – the loss of a job, an unexpected illness, or a downturn in the economy. Compared to those that pay off balances every month, households that carry at least \$1000 in credit-card debt are far less likely [percentage to be added] to have saved even one month's income, and are also much less likely [pctage to be added] to contribute regularly to a retirement savings account.

High debt burdens are one factor contributing to the high levels of bankruptcy and credit card default today. Over 1.4 million households will declare bankruptcy this year, and

some studies suggest that more than one in 10 households would benefit from doing so.

- The Administration has sought reforms in bankruptcy law that discourage both abusive practices by both debtors and creditors. But even these “needs-based” bankruptcy reforms will affect perhaps 10% of households filing for bankruptcy. They do not directly affect the practices of creditors and debtors that lead to high debt burdens and make bankruptcy an attractive option for so many households.
- The Administration has considered many proposals to regulate extensions of credit more tightly, for example to restrict the issuance of credit cards to households with high debt burdens relative to income. In most cases, we were unable to conclude that these proposals had benefits – prohibiting access to additional credit for households that would use it unwisely – that clearly outweighed their costs – reducing availability of credit for households that need it, and slowing the rapid pace of innovation in electronic credit and commerce.
- However, the Administration has identified many opportunities to help make consumers better informed about credit practices that may appear attractive but are potentially unwise. 

A recurrent theme in Administration initiatives on financial services is the need for better consumer education and information. Considerable evidence suggests that consumers may not understand fully the implications of incurring new debt.

- Some consumers appear to underestimate seriously the time it will take to pay off a credit card debt if they make the minimum payment.
- An increasing number of college students and young households are defaulting on credit card debt, at a stage in their lives when developing a bad credit record may have serious long-term consequences.
- According to AARP, senior citizens are particularly likely to agree to home equity loans or loan consolidations that include substantial fees and unfavorable interest rates. ✓
- An increasing number of retailers are using credit cards that, in fine print, give the creditor a secured interest in all goods purchased. Secured debt has important consequences in bankruptcy and collection proceedings that are not widely understood by consumers. ✓
- As new kinds of consumer credit have become more readily available, credit has become more complex, increasing opportunities for misrepresentation and fraud.

Executive Departments and agencies are largely unified in their support for educational and

informational initiatives to help address these problems.

Timeliness of a Consumer Credit Education Initiative

An Administration initiative on consumer credit education would complement a range of existing Administration initiatives and policy goals. A consumer credit education initiative would support all of the following initiatives:

- programs to encourage savings, such as tax incentives to encourage retirement savings, and the expansion of Individual Development Accounts to help lower-income households invest for their future)
- programs to encourage all households to participate in electronic commerce (e.g., Treasury's EFT99 initiative)
- pending proposals to amend the Truth in Lending Act to give consumers more information about the consequences of incurring and sustaining debts
- initiatives to support the privacy of sensitive consumer financial information and discourage fraud

The initiative would also help fill the important gap in consumer education efforts resulting from the elimination of the Office of Consumer Affairs by Congress in 1995.

An Administration initiative on consumer credit education would have relatively low cost, and would benefit from synergies with a broad range of public and private initiatives. Input from these potential collaborators is reflected in the proposal that follows.

- The Federal Trade Commission is coordinating a broad range of public and private events to educate consumers about credit fraud during National Consumer Week in February 1999. The FTC and other organizers would welcome the opportunity to make these events part of a Presidential initiative on consumer education, including a proclamation and a public forum on consumer credit. They are enthusiastic about working closely with the Administration to assure that their activities complement our initiatives effectively.
- Many other public agencies and private organizations have developed credit education resources or are developing them now, and are enthusiastic about collaborating in the initiative. These organizations include the consumer offices of the Federal Reserve and the USDA, the Consumer Federation of America, the National Coalition for Consumer Education, the Jumpstart Coalition, the American Bankers Association, the National Foundation for Consumer Credit, the Corporation for Enterprise Development,

Associated Credit Bureaus, and ASEC. The Administration initiative could build on foundations already developed by these groups. For example, CFA and NationsBank have recently launched a financial planning education initiative, "From Here to Security," that includes self-help worksheets, educational newsletters, and multi-city financial workshops.

- Many Executive Departments will also contribute to the initiative. For example, the Treasury Department hopes to expand its EFT99 program to inform low-income consumers about credit management as well as electronic commerce. The Department of Agriculture will build on its Agricultural Extension outreach programs, many of which support MONEY2000, a program to encourage savings in low-income households. The Department of Education can build on experiences with effective curriculum development.

The Administration initiative will provide timely leverage on a visible issue, through an approach that has strong support inside and outside the Administration, that builds on diverse initiatives with evidence of success, and that can be executed at relatively low additional cost.

Major Components of Consumer Credit Initiative

The proposed initiative has three parts: a study, a public forum, and policy initiatives to educate consumers about effective credit practices.

1) Administration Study of Consumer Credit Issues

This study will review previous research, and develop new evidence, on the following questions:

- *How do Americans use consumer credit?* We will examine the factors associated with variations in use of credit and debt, the prevalence of both beneficial credit practices (e.g., short-term small loans, "tiding over" through periods of low income or high consumption) and concerning credit practices (e.g., high long-term credit card debts and other debt burdens), trends in these practices, and whether the concerning practices appear to result from barriers to information, lack of knowledge, or other causes.
- *What resources are currently available to assist Americans with credit-related concerns?* We will develop a databank of existing public and private resources that provide credit and financial counseling, support for consumer education, and other types of financial assistance for Americans.
- *What are the key features of successful credit education initiatives?* We will review previous studies of educational initiatives to identify the topics and delivery techniques that are most effective in informing consumers about effective credit management, and

modifying concerning credit practices.

Treasury and the Federal Reserve will probably have primary responsibility for the study. The report will include an Executive Summary reviewing the major findings and presenting policy recommendations for credit education initiatives.

Cost: \$30,000 for printing and distribution. An internal study of consumer credit is underway.

2) Public Forum

The goal of the forum is to highlight consumer credit problems and opportunities, and the public-private initiatives on consumer credit supported by the Administration. The likely format is a conference or roundtable sponsored by Treasury and other executive agencies in February (possibly during Consumer Credit Week), in conjunction with the release of the Administration study and FTC-led events on credit fraud. The President, the First Lady, the Secretary of the Treasury, and/or other senior Administration officials would deliver an address or participate in some of the conference events. The forum will be designed to increase public awareness on the following issues:

- problems of consumer credit
- “best practices” for financial planning
- successful programs to assist consumers
- announcements of further Administration policy initiatives on consumer credit, based on the findings of the study and conference (these policy recommendations would be developed and reviewed prior to the conference)

Cost: \$20,000-\$150,000, depending on size of event and whether regional events are held in conjunction with the main conference. Regional events have been a successful component of recent Administration education and outreach initiatives, including EFT99 and MONEY2000.

3) Administration Policy Initiatives and Budget Proposals on Consumer Credit Education and Personal Financial Management

Building on existing private and government efforts to provide credit education, and using the “bully pulpit” to provide opinion leadership, is likely to be the most cost-effective approach for a new Administration initiative. In addition, there may be a role for seed grants to spur new initiatives, and funding for evaluation of existing public and private programs. Finally, continuing and visible public support of wise credit use by the White House and other opinion leaders can enhance the impact of educational initiatives. Possible initiatives are summarized in the Table on the next page.

Potential Consumer Credit Education Initiatives

Consumer Segment	Credit Education Problem			Initiatives
	Getting Credit	Using Credit	Credit Difficulties	
High School/ Youth	understanding basic principles of how to find credit offers on favorable terms	understanding basic principles of credit financing	understanding basic principles of credit reports and dealing with credit difficulties	(1) Curriculum development, clearinghouse
College Students	understanding credit card solicitations, finding favorable terms	understanding principles of credit use and implications of new debt; budgeting; understanding impact of credit history on future credit availability	understanding repercussions of negative credit reports; awareness of counseling resources on campus and elsewhere	(1) Curriculum development, clearinghouse (2) Outreach (4) New TILA disclosures
Young Adults	understanding credit card solicitations, finding favorable terms	understanding implications of new debt; budgeting; basic principles of credit use; understanding risks of credit fraud	lack of knowledge of training/ counseling resources; understanding repercussions of negative credit reports; understanding major issues in bankruptcy	(1) Curriculum development, clearinghouse (2) Outreach (4) New TILA disclosures
Low-Income Adults	obtaining credit, finding favorable terms	understanding principles of financing, implications of new debt; budgeting and asset accumulation; understanding risks of credit fraud	lack of knowledge of training/ counseling resources; understanding credit reports; understanding major issues in bankruptcy	(1) Curriculum development (2) Outreach (3) Expansion of targeted financial ed. programs
All Adults	understanding credit solicitations, finding favorable terms	understanding principles of credit use; risks of credit fraud	lack of knowledge of counseling resources; understanding credit reports; understanding major issues in bankruptcy decisions	(2) Outreach (4) New TILA disclosures
Fixed-Income Elderly	understanding credit solicitations, especially understanding terms of home equity loans to repay debt	understanding principles of home equity and other credit use; risks of credit fraud	lack of knowledge of counseling resources; understanding major issues in bankruptcy	(1) Curriculum development, clearinghouse (2) Outreach

(1) Curriculum development, clearinghouse: highlight successful curricula and modules for courses, and make it easier for interested educators to obtain them.

- **National clearinghouse for curricula and modules on credit education at Dept. of Education and/or elsewhere**

Existing resources for high school students. Many high schools offer courses, or more often modules, on financial education that include an introduction to the basics of getting and using consumer credit. The National Endowment for Financial Education (NEFE) sponsors a High School Financial Planning Program, which includes a module on credit education, and also sponsors materials for a “merit badge” in financial planning for Scouting programs. The National Institute for Consumer Education (NICE) provides lesson plans and teaching resources for school and community educators. The National Coalition for Consumer Education (NCCE) sponsors a Life Smarts program, which includes a segment on credit education. The Jump\$tart Coalition has also developed course materials for young people on credit and other aspects of financial literacy. In addition, trade groups such as ABA provide educational materials and local speakers on budgeting and saving skills.

Existing resources for adults. Many community colleges and vocational schools offer classes and courses on financial management, which include credit education components. Some adult-ed courses use brochures and fact sheets developed by the FTC and the Federal Reserve as part of their curricula. Many social service agencies include financial management courses as part of their initiatives for clients, particularly in welfare-to-work initiatives. A cooperative project involving the Consumer Federation of America and American Express has developed an educator’s guide on how to reduce burdensome debt. The USDA Cooperative Extension Service has developed written curricula on credit education. The Department of Defense has developed modules on credit education for recruits, as part of basic training. For example, the USMC sponsors a Financial Fitness program. The National Institute for Consumer Education (NICE) provides a clearinghouse for some of these curriculum resources. Virginia Tech provides a website for workplace financial education efforts.

The national clearinghouse would provide referrals or course materials on these and other credit education curricula to interested school officials, employers, and other group leaders, and could help publicize their availability.

- **Seed grants for promising curriculum development targeted both to classroom and to adult community education efforts. Support for evaluations of credit education programs.**

While many apparently successful programs exist, they could benefit from additional financial support, perhaps as matching grants to ongoing private initiatives. The announcement of Federal grants to support curriculum development would also help highlight the importance of financial literacy. We are not aware of any modules targeted to college students; this might be a particularly effective focus of some curriculum development grants.

(2) **Outreach:** increase awareness of resources to help with credit-related concerns and problems

Many nonprofit and industry groups support a broad range of outreach activities.

- **Support for public service announcements and publicity through other media**

Existing resources. Many groups have developed advertisements suitable for newsletters and magazines, and radio and TV spots. Content ranges from tips about credit use and personal finances, to announcements that highlight “warning signs” of credit trouble, to self-administered quizzes on financial health, or poster contests.

The publicity campaign could rely on some of the messages generally viewed as effective, or could build on these resources in a new publicity campaign. For example, the EFT99 effort incorporated a media-relations component, at a national and regional level, featuring a call-in number for reporters, a series of articles in newspapers, magazines and print media, and video news releases of activities, radio and TV PSAs in English and Spanish, billboards and transit signs.

- **Support for a web site, 800 number, or private clearinghouses for information on effective credit use.**

Existing resources. One example is the FTC’s Office of Consumer and Business Education (OCBE), in the Bureau of Consumer Protection, which maintains the consumer.gov web site. *Consumer.gov* is a “one-stop” link to a broad range of federal information resources available online. New information and federal agencies are added to the site on regular basis. The National Foundation for Consumer Credit (a national umbrella group for local non-profit credit counseling agencies) maintains an 800 number that links the caller to a local NFCC credit counseling agency who will work directly with the consumer. The Debt Counselors of America and Money Management Institute work with consumers over the Internet, by telephone or through mail.

Consumer.gov could be a useful part of the Administration’s effort on consumer credit education to disseminate appropriate information to consumers. If consumer.gov is used, OCBE will assist in linking to information on other sites. The Administration could also support the informational resources maintained by NFCC and other groups.

- **Grants to expand successful educational initiatives**

Seed grants might occur through private-public partnerships. As an example, AT&T funded a program of grants to community based organizations to develop credit education initiatives to reach hard-to-reach audiences, including low income adults, disabled, and non-English speaking audiences such as immigrants. Another example is Jump\$tart Coalition, a broad range of consumer, governmental, and private sector partners formed in 1995 to increase the financial literacy of youth. It disseminates research findings, new program offerings, educational material for use by teachers, and serves as a clearing house for information on events. Both efforts could benefit from some Federal

funding. Another initiative with considerable Congressional support is the provision of credit counseling and financial management training programs for debtors considering bankruptcy. This program could be implemented as a demonstration project, to explore how to make it work most effectively, before a nationwide program is adopted.

(3) Expansion of Federal Financial Education Programs for Targeted Groups

- **Support for an enhanced credit management component in Agriculture Extension programs on savings and financial management**

The Cooperative Extension Service of USDA, in conjunction with land grant colleges and county government offices, supports an extensive network of financial education programs, including credit education. They make available written materials on credit and financial management, and hold workshops, and seminars in financial education. Examples of credit initiatives include "PowerPay", a computer program and counseling program to help consumers manage and pay down debt, and "Money2000", a multi state initiative, incorporating worksheets, newsletters and group meetings, in which families commit to reducing debt and increasing saving. The land grant colleges have ongoing evaluations of the success of these programs.

- **Continuing support for EFT99 programs on financial education for low-income households.**

Treasury's EFT99 campaign is intended to increase the use of direct deposit transfers by beneficiaries of government programs. The campaign includes of an intensive program of communication to educate "unbanked" benefits recipients in how to choose and use banking services, help them become aware of options, and encourage them to choose the direct deposit transfer. The campaign also includes educational modules on basic financial management. Due to the diverse nature of the target audience -- seniors, African Americans, Latinos, Asian Americans -- the campaign featured a broad regional delivery of the information, using regional coordinators of local subcontractors, principally community based and consumer organizations, to deliver the education message and using Financial Management staff as liaison with the regional coordinators and financial institutions and trade organizations. The effort is supported by national and regional publicity campaigns. Budget after FY99 is not clear.

- **Enhanced Military and Federal employee programs**

Every branch of the military has a "Family Support Center" on base, which includes financial education and some credit education and one-on-one counseling programs. Some financial and credit education sessions are included in basic training. Providing some additional funding for these Federal programs or for evaluations could help highlight the goals of the credit education initiative.

(4) Coordination with Administration Initiatives on TILA and Other Financial Disclosures

Ongoing NEC processes on new TILA disclosure requirements and on new disclosures of bank fees overlap with the proposed initiatives in two ways.

Similar goals of informed decisionmaking about credit. The proposed TILA disclosures have included: required monthly disclosure of the amortization period of credit card debt if minimum payments are made, and the total principal plus interest payments involved; “worksheets” and statements about the importance of each consumer’s assessing the costs and benefits of undertaking new credit; and disclosures about the special implications in bankruptcy of credit cards that take secured interests in purchases. Informing consumers about all of these issues is among the goals of the credit initiative.

Similar organizations may be involved in the initiatives, allowing for economies in funding. For example, the local contractors for the EFT99 program initiative are often the same consumer groups that can most easily collect information on local bank fees.

(5) Presidential Council on Financial Fitness

Establishment of such a Council would help reinforce the “bully pulpit” features of this initiative; could serve as overseer and coordinator of general public service announcements and campaigns, programs by individual agencies, resources clearinghouses; and, in addition, could administer a grants and evaluation program. The President’s Council on Physical Fitness is an example of the public communications function (but does not have a grants program). The Physical Fitness Council consists of 20 Council members, chosen by the President to give public visibility to the activities and programs of the Council, and 10 staff to administer the programs. The Council sponsors programs of public communications (via PSAs in various media, and speeches and appearances by Council members), individual sports awards, and school-based awards programs. Current FY appropriations for the Council are \$1 million.

May 3, 1999

FINANCIAL PRIVACY AND CONSUMER PROTECTION EVENT

DATE: May 4, 1999
TIME: 2:30 – 3:15 p.m.
LOCATION: Room 450
FROM: Gene Sperling

I. PURPOSE

Over the past few years, new technology and increased competition have truly revolutionized the financial services industry. By and large, these changes have been very good for consumers. But technology and increased competition have also created new challenges. To prepare for the 21st Century economy, we must update our privacy and consumer protection laws for our rapidly changing financial marketplace. At this event, you will outline the administrative steps we are taking, and the legislative proposals we support to give all Americans the tools and confidence they need to participate in our thriving but highly complex 21st Century economy.

The initiative contains both administrative and legislative proposals in five areas: (1) financial privacy; (2) disclosure/right-to-know (in credit card, banking, and other services); (3) protection against fraud; (4) expanding access to financial services; and (5) consumer financial education.

II. BACKGROUND

There is little prospect that a package of consumer financial protection initiatives will move as a whole in this Congress. However, pieces of the package could be considered in the context of other financial legislation. This week financial modernization is on the floor of the Senate and Bankruptcy is on the floor of the House. Too often in the past, the Administration has found itself unable to support the amendments of Democrats seeking to balance these bills with consumer provisions. This package will give Democrats numerous consumer protection proposals that they can advance that will earn enthusiastic Administration support.

Some Republicans will argue that you are signaling your desire to kill bankruptcy and financial modernization legislation by offering proposals that would be unacceptable to those bills' proponents. However, in financial modernization, the Administration has indicated strong support for the bipartisan bill reported out of the House Banking Committee and the Democratic bill offered in the Senate. Both those bills contained only modest privacy proposals, far less aggressive than those that we support here today. In bankruptcy, last year we supported the Senate-passed bill that contained credit card, minimum payment disclosure requirements, but only a small fraction of the proposals that we support here today. **In both bills, the key for your Administration has been balance.** We do not insist on a wish list -- just that the bills provide some appropriate consumer protections.

III. PARTICIPANTS

Brief Participants

John Podesta
Secretary Rubin
Gene Sperling
Larry Stein

Event Participants

The President
Secretary Rubin
Mari Frank
Senator Sarbanes (seated on podium – not speaking)
Representative LaFalce (seated on podium – not speaking)

IV. SEQUENCE OF EVENTS

- YOU will be briefed by your advisors in the Oval Office from _____.
- At _____, YOU proceed to Room 450
- Secretary Rubin will make brief remarks and introduce Ms. Mari Frank
- Ms. Frank will make brief comments about her experience with identify theft and the importance of financial privacy and introduce YOU
- YOU will make your speech

Senator Sarbanes and Representative LaFalce (the ranking members on the Senate and House Banking Committees) will be seated on the podium with you, but they will not make remarks. Other members who have supported pending bills on these topics in Congress will be in the audience.

I. PRESS COVERAGE

Open Press

II. REMARKS

To be provided by speechwriting.

III. ATTACHEMENTS

- 2-page press background paper
- 10-page detailed summary of proposals

April 30, 1999

MEMORANDUM FOR HILLARY RODHAM CLINTON

FROM: NICOLE RABNER

CC: MELANNE VERVEER
PATTI SOLIS DOYLE

SUBJECT: CONSUMER FINANCIAL PROTECTION
AND PRIVACY EVENT

On Tuesday, May 4, the President is scheduled to host an event to unveil a package of consumer financial “right to know” and privacy proposals. For example, the package will include a proposal to require credit card companies to disclose on monthly billing statements the amount of time it would take a consumer to repay the debt balance if he were only to make “minimum monthly payments” (as you’ll recall, you pressed for this disclosure requirement in a column on bankruptcy last fall). These proposals have strong public support.

I recommend that you consider joining the President for this event because of its relevance to the bankruptcy reform debate. As you know, one of the large failings of the current bankruptcy bills is their lack of balance - - that is, they ask for more responsibility of debtors but not of creditors. While the Administration would not make the inclusion of any *specific* consumer protection proposal a precondition for our support of a bankruptcy bill, we have said that some balance is necessary. And, though it is unlikely that the President will speak directly to his position on the pending bankruptcy legislation, his announcement of this initiative will be seen as meaningful to his commitment to improving that legislation. In fact, this event may serve as our last chance to raise the bar on these issues and thereby influence the fast-moving and bleak-looking bankruptcy reform momentum.

The event will be Tuesday afternoon in Presidential Hall (450 OEOB); the speaking program will consist of Secretary Rubin, a “real person” with a compelling story of identity theft and fraud, and the President. If you were to join the event, you would open the program and discuss the importance of access to credit but the need for greater consumer financial information (particularly with respect to credit cards), Secretary Rubin would talk about the need for greater protection of consumer privacy, and the President would make the policy announcements. We expect significant congressional attendance.

Please advise.

● Janelle E. Erickson

05/03/99 06:36:24 PM

Record Type: Record

To: See the distribution list at the bottom of this message

CC:

Subject: Members Attending Financial Privacy Event

EVENT: Consumer Financial and Privacy Protection Initiative
DATE: Tuesday, May 4, 1999
TIME: 2:30 PM - 3:10 PM
LOCATION: Presidential Hall, OEOB 450
PARTICIPANTS: The President
Real Person
The First Lady
Secretary Rubin

ATTENDING (10):

Sen. Richard Bryan (D-NV)
Rep. Ken Bentsen (D-TX)
Rep. Charlie Gonzalez (D-TX)
Rep. Jay Inslee (D-WA)
Rep. Paul Kanjorski (D-PA)
Rep. John LaFalce (D-NY)
Rep. Bill Luther (D-MN)
Rep. Carolyn Maloney (D-NY)
Rep. Edward Markey (D-MA)
Rep. Frank Mascara (D-PA)

PENDING (76):

Sen. Evan Bayh
Sen. Christopher Dodd
Sen. Byron Dorgan
Sen. Richard Durbin
Sen. John Edwards
Sen. Russell Feingold
Sen. Dianne Feinstein
Sen. Fritz Hollings
Sen. Daniel Inouye
Sen. Tim Johnson
Sen. John Kerry
Sen. Herb Kohl
Sen. Patrick Leahy
Sen. Jack Reed
Sen. John Rockefeller
Sen. Charles Schumer
Sen. Ron Wyden

Rep. David Bonior
Rep. Gary Ackerman
Rep. Howard Berman
Rep. Rick Boucher
Rep. Robert Brady
Rep. Sherrod Brown
Rep. Lois Capps
Rep. Michael Capuano
Rep. Julia Carson
Rep. John Conyers
Rep. Elijah Cummings
Rep. Diana DeGette
Rep. Bill Delahunt
Rep. Rosa DeLauro
Rep. Peter Deutsch
Rep. Mike Doyle
Rep. Elliot Engel
Rep. Anna Eshoo
Rep. Eni Faleomavaega
Rep. Sam Farr
Rep. Chaka Fattah
Rep. Barney Frank
Rep. Virgil Goode
Rep. Bart Gordon
Rep. Gene Green
Rep. Luis Gutierrez
Rep. Maurice Hinchey
Rep. Darlene Hooley
Rep. Sheila Jackson-Lee
Rep. Eddie Bernice Johnson
Rep. Marcy Kaptur
Rep. Ron Klink
Rep. Dennis Kucinich
Rep. Barbara Lee
Rep. Jim Maloney
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Rep. Marty Meehan
Rep. John Olver
Rep. Frank Pallone
Rep. Earl Pomeroy
Rep. Lynn Rivers
Rep. Lucille Roybal-Allard
Rep. Bobby Rush
Rep. Bernie Sanders
Rep. Jan Schakowsky
Rep. Robert Scott
Rep. Brad Sherman
Rep. Debbie Stabenow
Rep. Bart Stupak
Rep. Edolphus Towns
Rep. Stephanie Tubbs Jones
Rep. Nydia Velazquez
Rep. Bruce Vento
Rep. Maxine Waters

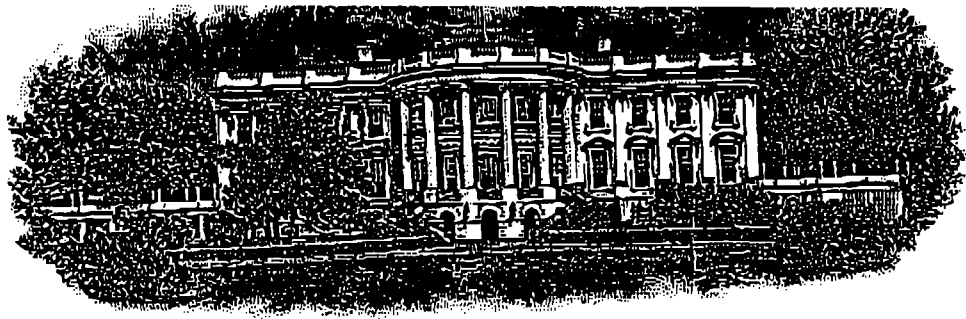
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Rep. Anthony Weiner
Rep. Robert Wexler
Rep. Bob Weygand
Rep. Albert Wynn

REGRETS:

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Sen. Joseph Biden
Sen. John Breaux
Sen. Max Cleland
Sen. Edward Kennedy
Sen. Paul Sarbanes
Sen. Robert Torricelli

Rep. Dick Gephardt
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Rep. Thomas Barrett
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Rep. John Dingell
Rep. Ralph Hall
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Rep. Steven Rothman
Rep. Max Sandlin
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Rep. Ted Strickland
Rep. Henry Waxman

Message Sent To: _____



THE WHITE HOUSE

SARAH ROSEN
SENIOR ADVISOR
NATIONAL ECONOMIC COUNCIL
(202) 456-2223 (Fax)

TO: See Distribution List

PHONE: _____

FAX: _____

DATE: 11-17-98

PAGES TO FOLLOW: 12

COMMENTS: Bank ground info for
2:00 pm Consumer Fin. mtg. today
in Room 239. DEOB. Thanks.

If this fax is incomplete or you need to give clearance information for a meeting,
please call Sonyia Matthews at 456-5351. Thank you.

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David Medine	326-2558	FTC
Julie Williams	874-4950	OCC
Chris Lewis	874-4950	OCC
Amy Friend	874-5374	OCC
Pam Gilbert	301-504-0121	CPSC- Cons. Prod. Safty Comm.

MEMORANDUM FOR SARAH ROSEN

FROM: Gregory A. Baer
Deputy Assistant Secretary
Office of Financial Institutions Policy

SUBJECT: Options for ATM and other Bank Fee Disclosures

The Subcommittee on ATM and Other Bank Fee Disclosures has had several meetings to discuss options for gathering and disclosing information on such fees. This memorandum sets forth several options currently under consideration, including their pros and cons.

Option 1: Establish a Repository of Bank Fee Data.

All depository institutions are currently required by the Truth in Savings Act to maintain a schedule of the fees they charge, and present it to any person who asks for it. Conceivably, the Act could be amended to require banks to send the same information electronically to the Fed or any other central data repository, where it could be widely accessed via the Internet. Rough estimates of the cost of setting up such a website, assuming data could be obtained and accessed electronically, range from about \$40,000 for a basic listing of banks and their fees to about \$150,000 for a more useful interactive site. Consumer education in the use of the website and its information would be an additional cost.

We have spoken to the Fed, which did not deny the feasibility of this option, but did question its utility. Although banks must maintain a schedule of fees, different banks use different terms to describe the fees (bounced check fee v. insufficient funds fee) and list them in different order. Thus, ease of comparison would not be great.

Pros:

- This option would provide a reasonably comprehensive look at every consumer account in the banking system.
- Consumer groups, academics, and others could analyze the data and make recommendations to consumers.

Cons:

- *Since banks would be providing data on fees charged to their own customers, this option would not inform consumers about ATM surcharges,*

which are assessed against non-customers. Even if a bank was required to list the surcharge it charged non-customers, this information would be of little utility to customers who do not pay the fee. (Ironically, consumers may rationally wish to choose a bank with *high* surcharges and many ATMs in the area, thereby gaining access to the maximum number of ATMs at the minimum cost.) Moreover, many surcharges are assessed by non-bank ATM owners.

- A website would be directly useful only to those who are technically equipped and sophisticated in accessing and manipulating data.
- Data would often be out of date, unless updated frequently at the institutions' and/or collecting entity's expense, and it may not be compared easily across institutions because of differences in definitions of various account terms and conditions.
- Institutions may object to providing data on identical accounts that have different fee schedules in distinct market areas, such as different states.

Option 2: Encourage Voluntary Posting of Bank Fee Data.

Under this option banks would be encouraged to post voluntarily their fees for various accounts, with an emphasis on low-cost, basic banking and ATM-fee accounts. The bank fee information could be collected and distributed electronically via a centralized database as in Option 1, or it might be collected and distributed in local markets via local entities, either electronically or in hard copy. For example, in Missouri, we gather that the state publishes a list of low-cost banking accounts and relies on the banks to provide the information voluntarily. Approximately 60 percent of banks do so.

We discussed this idea with representatives of the ABA, whose reactions ranged from indifference to hostility to suspicion. They promised to check on the Missouri experiment, but have not gotten back to us.

Pros:

- This option would create opportunities for "partnerships" between industry and consumer groups.
- Since institutions would be providing information on only a subset of their consumer accounts, the resulting database would not be as voluminous as in Option 1, and therefore could be made available to a broader range of consumers in paper form.

- Institutions with low or moderate ATM surcharges may be more willing to make this information available to consumers with voluntary posting than would be the case under comprehensive reporting as in Option 1.
- Institutions voluntarily providing account information to a central site for easy distribution to consumers would almost certainly view it as a marketing opportunity. This would better guarantee the accuracy and utility of the information provided, and it could pressure underperforming institutions to actively market competitive products.

Cons:

- Voluntary posting of bank fees would not provide the comprehensive database and analytical opportunities available under Option 1.
- Although voluntary posting of bank fee data would reward those institutions charging low fees, it would not directly highlight and punish those institutions charging the highest fees.
- Voluntary posting of account information may allow some institutions to undermine the utility of that information to consumers by posting accounts subject to inordinately unique conditions, terms, and definitions.

Option 3: Support ATM Surcharge Disclosure Legislation.

Under this option, legislation would be proposed to require the posting of ATM surcharge fees *both* at the terminal by signage and on the screen of the terminal before a transaction is irrevocably made. Currently, only one or the other is required.

Pros:

- Disclosure is consistent with the goal of relying on private market mechanisms to maximize consumer choice and convenience.
- *Ex-ante* disclosure of ATM surcharges would permit consumers to better understand and assess the costs of using ATMs not owned by their own bank.
- Improved disclosure of ATM surcharges may encourage consumers to "vote with their feet" by migrating to the use of ATMs owned and operated by no-surcharge alliances of institutions.
- Congress is already considering disclosure legislation of this type.

- The ABA's best argument against this option was concern about unjustified liability in the event that a strong wind or vandals removed the signage.

Cons:

- This may be viewed by consumers and consumer groups as a relatively minor federal response, since the major ATM networks already have moved to incorporate written and screen-based disclosures of surcharges.

MEMORANDUM FOR SARAH ROSEN

FROM: Gregory A. Baer
Deputy Assistant Secretary for Financial Institutions Policy

SUBJECT: Consumer Protection Options.

This memorandum sets forth several legislative and regulatory proposals the NEC may want to consider with respect to consumer protection in the financial services area.

1. CREDIT CARD DISCLOSURES AND OPTIONS

This section describes several ways to increase disclosure to consumers regarding credit card issues. These issues also were discussed in the context of bankruptcy legislation.

Option 1: (1) Require the disclosures set forth in the Senate bankruptcy bill, including the amount of time it would take to pay back the debt balance if only the minimum amount were paid each month; the number of months it would take to pay the entire balance if the consumer pays only the required minimum and if no further advances are made; and the total cost to the consumer. (2) Require a credit worksheet.

Pros:

- Would inform consumers of the full impact of only making minimum payments.
- The Administration has supported these requirements.

Cons:

- The proposal would add cost and regulatory burden if the requirement applied for all cardholders.
- Simply supplying a credit worksheet with no additional help may fall short of the intended benefits. A simple worksheet would not educate the consumer fully, and it is difficult to assure the consumer will pay attention. This effort would be better undertaken as part of a complete credit education initiative.

Option 2: Support the reduced requirement in the House-Senate conference bill, requiring disclosure of: (1) a statement on minimum payments; (2) an example, based on minimum payments and APRs, of how long it would take to repay a

\$500 balance if the consumer made only the minimum payment and if no further advances were made, to be disclosed to the customer annually; and (3) a worksheet to assist the consumer in determining his or her debt obligations and income. Also require the Fed to conduct a study to determine adequacy of information, and to issue regulations requiring additional disclosures if it finds they are needed.

Pros:

- Using a hypothetical imposes less regulatory burden, but may still assist consumers in understanding minimum payments. Requiring a study by the Board and Board regulations based on its study would identify a true need for regulations.

Con:

- Board rulemaking will take years.
- The Administration has already supported the disclosures in the Senate bill.

2. DISCLOSURE OF MUTUAL FUND COSTS

In a widely reported May 15, 1998, speech to the Investment Company Institute, SEC Chairman Levitt criticized the investment company industry for not doing enough to educate individual investors who are pouring money into the funds. Less than half the investors know that fund expenses are deducted on an ongoing basis, according to the SEC. Only 8 percent say they completely understand the expenses that their funds charge.

The SEC staff recently sent the Investment Company Institute (the mutual fund industry's trade group) a letter warning them that they need to carefully consider, and sometimes more explicitly disclose, fees that investors ultimately bear when they hold funds that participate in the supermarket programs offered by Charles Schwab Corp., Fidelity Investments, and other financial firms. The letter says the SEC "will closely scrutinize any increases in a fund's investment advisory fee that appears to be for the purpose of compensating the fund's investment advisor for paying the fund's supermarket fee."

Option: Encourage the SEC's efforts to improve disclosure to mutual fund investors and question fees that may not be appropriate.

Pros:

- Should increase competition and protect investors.

- Disclosure empowers investors to avoid funds with questionable fees, thus pressuring those funds to change their fee structure.

Cons:

- Increases regulatory burden on the fund industry.
- Many investors do not read the disclosures they currently receive. Adding more could unnecessarily burden the fund industry and invite litigation without really helping investors.
- Evidence of problems is unclear -- the mutual fund industry may call on the administration to provide examples.
- Could be viewed as duplicative of the SEC's initiative without adding much additional value.

3. RENT-TO-OWN TRANSACTIONS ISSUES AND OPTIONS

In a rent-to-own transaction, the consumer rents an item with the understanding that after a specified number of rental payments, he or she becomes the owner of the item. Until that time, however, the consumer can return the item and walk away with no further obligation. Because rent-to-own transactions do not qualify as credit sales under the Truth in Lending Act (TILA), the consumer has none of the protections of federal consumer protection statutes.

Rent-to-own can be an accessible means of acquiring household items, but survey data and consumer complaints show abuses. For example, a 1997 survey by U.S. PIRG found that rent-to-own stores charged an average effective APR of 100% -- five times the prevailing credit card rate of 20%. The U.S. PIRG survey found that only 50% of labels disclosed the total actual cost to own in small print and that none disclosed an APR. Evidence also suggests that some in the industry have used abusive repossession techniques.

The FTC expects to complete a study on the rent-to-own industry practices in the Spring of 1999. One focus of the study is whether most customers are simply renting (in which case disclosures would be less important) or are truly renting to own. If the statute was amended, FTC would prefer that the Fed write the regulations, since it writes all related regs.

Option: Propose authorizing the Fed to write appropriate disclosure requirements for rent-to-own transactions. Pending release of the FTC study, we would not

wish to be too specific in stating what those disclosures are, but two are fairly obvious: whether the item is new or used, and the total cost of purchasing the item. (Calculating the implicit interest rate gets a little complicated, and needs further study.)

Pro: This is a simple way to give consumers the protection provided by federal consumer protection statutes for extensions of credit.

Con: Rent-to-own bills introduced in 1997, 1994, and 1993 failed in the face of strong industry opposition.

4. DEBIT CARD ISSUES AND OPTIONS

Over the past couple of years, card issuers have been marketing "offline" debit cards aggressively, encouraging consumers to use them in place of writing checks. Like credit cards, but unlike ATMs, these offline debit cards do not carry a security feature, such as a PIN, to protect against fraudulent use. Moreover, many institutions have automatically replaced their customers' existing ATM cards, previously usable only with PINs, with cards that can be used with a PIN at ATMs and electronic POS terminals, but *without* a PIN in the "offline" mode.

The problem here is that, by law, credit cards (without security features) carry legal protections against consumer loss (e.g., maximum liability of \$50 if issuer is notified within 3 days), whereas offline debit cards do not. Thus, these cards carry neither the security protections of an ATM card nor the legal protections of a credit card -- yet because they are the same size and same plastic, and customers might not understand the difference.

In response to concerns about customer confusion and liability, VISA and MasterCard have entered into voluntary agreements with their member financial institutions that go beyond the consumer protections required under the Fed's Regulation E.

Option: Support the Schumer-Gonzalez Bill, which would have: (1) limited a consumer's liability to \$50 for a debit card that is not PIN-protected and does not use some other unique identifier (a signature is deemed not unique); (2) required card issuers, as a condition of imposing any liability on consumers, to disclose the importance of promptly reporting loss or theft of the card; and (3) prohibited issuing a debit card that can function without a PIN or other unique identifier unless the card is not activated when sent, certain disclosures accompany the card, and the card is activated only upon the consumer's request and after verification of the consumer's identity.

Pro: The bill would make the industry's voluntary reforms a legal (and therefore permanent) requirement and ensure that they would apply to all issuers.

Cons: The proposal requires less protection than Visa and Mastercard voluntarily provide (for example, the proposal applies only to non-PIN-protected cards). It may be unnecessary in light of industry reforms, such as limited liability, provisional recrediting, and customer-requested activation. Fed staff has told us that the Board has not changed its September 1997 position that the voluntary industry actions appear adequate.

5. UNSOLICITED MAILINGS OF LOAN CHECKS

Loan checks are credit products for which the consumer need only sign and cash or deposit the check to obtain the loan. They also are referred to as "loans by mail" and "live checks." The amount of these loan checks is not limited by TILA or regulation Z and may be thousands of dollars. Federal law does not prohibit creditors from mailing unsolicited loan checks. TILA does mandate that full disclosure of credit terms, such as the annual percentage rate and the payment schedule, be included with any mailing so that consumers can make informed decisions about whether to accept the loan. Thus, our primary concern is not disclosure, but rather (1) the potential for theft and fraud and the consumer inconvenience of refuting a claim of liability, and (2) a paternalistic concern that consumers could indebt themselves too easily (though generally only the wealthier consumers are sent loan checks).

Note: in the closest parallel, unsolicited mailings of credit cards has long been prohibited, for the reasons set forth above.

An August 1998 GAO report, Live Loan Checks: Information on Unsolicited Consumer Loans for Preapproved Borrowers, said there had been little evidence of fraud, the American Financial Services Association has adopted voluntary standards including disclosure and no liability for theft or fraud, but possible problems were the burden of unwinding fraud and potential increases in defaults or bankruptcy. Fleet Bank reported that between 1995 and 1997 it experienced 68 cases of fraud, based on 4.35 million live loan checks mailed and approximately 155,000 borrowers cashing the checks.

The Fed has said it is mindful of the appearance that consumers are exposed to risks they have not voluntarily assumed, but as of 1997 it did not favor an outright prohibition against sending these checks. The issuance of unsolicited loan checks is not as prevalent as the issuance of unsolicited credit cards in the late 1960s that led to the TILA prohibition.

Option: Support the Hinchey-Gonzalez bill, which would have prohibited the unsolicited mailing of loan checks or other negotiable instruments. The bill also would have provided that if a check or other negotiable instrument is sent unsolicited, a consumer would not be liable for the debt unless the creditor could prove that the consumer received and negotiated the instrument. Whether or not the intended recipient received it, the creditor could not report any liability resulting from the unsolicited instrument to a consumer reporting agency.

Pros:

- Protects consumers from theft and fraud and the burden of unwinding forged transactions.

- Consistent with other relevant law.

Cons:

- May be addressing a problem that doesn't exist.

6. DISCLOSURE OF CUSTOMER COSTS OF ACQUIRING FINANCIAL PRODUCTS

The financial modernization bill approved by the House of Representatives (H.R. 10) contained a Dingell/LaFalce amendment that would have required the federal banking agencies, the SEC, CFTC, and their self-regulatory organizations to adopt rules improving disclosure of customer costs of acquiring financial products.

Option: Support standalone enactment of Dingell/LaFalce or some other disclosure scheme that runs across all industries

Pro:

- Makes intuitive sense: disclosures need to be more simple, and disclosure practices should really be the same regardless of whether the product is being purchased from a commercial bank or an investment bank.
- As financial services become more integrated, it becomes increasingly difficult for consumers to sort out the costs of acquiring financial products. This provision helps consumers better understand these costs and to comparison shop for better deals.
- Makes markets more competitive by alleviating confusion and better informing customers.

Cons:

- Exceedingly complicated to prescribe in statute; delegating rulemaking authority would postpone action for years and perhaps lead to little change.
- According to Senate Banking Committee staff, the banking industry strongly objected to the provision on the basis of regulatory burden, arguing that their fees changed so often that it would be difficult to continually update the disclosure. The bond marketing industry argued that markups are embedded, not consumer costs. The insurance industry agreed to allow the provision to be

dropped, and the Senate Banking Committee left it out of the bill that would have gone to the Senate floor.

7. NASD OVERSIGHT OF INVESTMENT ADVISERS

NASD staff has recently cited an increasing trend, whereby securities brokers (AKA registered representatives) are increasingly giving up their licenses and becoming registered investment advisors (RIAs). A recent Wall Street Journal article quoted a plaintiffs' lawyer as asserting that investment advisers are "the last refuge of scoundrels" and "an accident waiting to happen." Basically, becoming an RIA means giving up sales loads, but still allows one to recommend specific mutual funds to clients, accept custody of client funds, have customer trades executed through an affiliated broker, etc. Yet the RIA would no longer be subject to firm-wide supervision, reporting of customer complaints, standards for advertising and sales materials, training and qualification requirements, suitability rules, and other consumer protections. This trend is being facilitated by the exponential growth in mutual funds, by which the ability of a broker to execute trades on an exchange becomes less significant.

In response, NASD recently has expressed interest in regulating investment advisers. At a brokers' convention last September, Frank Zarb, the NASD's chairman, said he was talking with the SEC, which regulates investment advisers under the Investment Advisers Act of 1940, about whether the NASD should become a self-regulatory organization for investment advisers, as it is currently for broker-dealers.

OPTION: We are not ready to make a recommendation here, but do plan to meet with the head of NASD in the coming weeks to see whether she would be receptive to an Administration initiative. We would also need to run any proposal past the SEC.

Pros:

- Protects investors and promotes competition.

Cons:

- Industry would complain about increased regulatory burden.
- Congress has considered creating an SRO in the past, but the investment adviser reform legislation enacted two years ago did not include it.

Greg Babin, Subcom Chair 622 2610 2027 Greg. Bear...

Summary of Work of NEC Consumer Task Force Subcommittee on TILA Disclosure Issues

This memorandum summarizes the issues that were discussed at our meeting in late August --- rent-to-own, credit card disclosures, and debit card disclosures --- and attaches draft papers on some of the issues. End-of-Congress legislative business slowed further efforts, but we expect to revisit these issues shortly.

RENT-TO-OWN TRANSACTIONS ISSUES AND OPTIONS

In a rent-to-own transaction, the consumer takes possession of an item in exchange for periodic payments, after which the consumer becomes the owner of the item. If the consumer stops paying (or decides to give up the item), the consumer returns the item to the store without further obligation on either side. Because rent-to-own transactions do not qualify as credit sales under the Truth in Lending Act, the consumer has none of the protections of federal consumer protection statutes such as: (1) TILA, which requires disclosure of the annual percentage rate (APR), total payments, amount financed, and the finance charge; (2) the Fair Debt Collection Practices Act (FDCPA), which prohibits abusive, deceptive, and unfair debt collection practices; and (3) the Fair Credit Reporting Act (FCRA), which requires those who collect and report on consumers' information do so in a fair and accurate manner.

Rent-to-own can be an accessible means of acquiring household items, but survey data and consumer complaints show abuses. For example, a 1997 survey by U.S. PIRG found that rent-to-own stores charged an average effective APR of 100% -- five times the prevailing credit card rate of 20%. The U.S. PIRG survey found that only 50% of labels disclosed the total actual cost to own in small print and that none disclosed an APR. Evidence also suggests that some in the industry have used abusive repossession techniques.

Representative Kennedy introduced a rent-to-own bill (HR 3060) in 1997 that would apply the Equal Credit Opportunity Act (ECOA), TILA, FDCPA, and FCRA; require disclosure of: (a) the price if the consumer paid cash; (b) the APR; (c) the total number of periodic payments; (d) whether the item is new or used; and prohibit a rent-to-own seller from unreasonably disclosing information to third parties regarding amounts owed by the consumer.

Options:

- Classify rent-to-own transactions as credit sales, thereby applying federal consumer protection laws described to rent-to-own transactions without modifying any other part of these statutes.

Pro: This is a simple way to give consumers the protection provided by federal consumer protection statutes for extensions of credit.

Con: Modifying the definition of credit sale without changing other parts of the statute would not require rent-to-own businesses to disclose total actual cost and whether the item is new or used (as these items are not required by the current statute).

- Subject rent-to-own transactions to applicable consumer protection statutes by adding separate categories for rent-to-own transactions to applicable consumer protection statutes. TILA's definition of credit sale would not be changed.

Pros: Each statute could be tailored to the unique aspects of rent-to-own transactions. For example, TILA could be amended to include disclosures for total actual cost and whether the item is new or used.

Cons: HR 3060 (and similar rent-to-own bills introduced in 1993 and 1994) failed in the face of strong industry opposition.

Next Steps:

- Meet with staff at the FTC and the Fed who handle these issues.
- Determine the players (e.g., the trade groups for rent-to-own industry), what their interests are, and what their positions on various proposals.
- Research background of HR 3060 (and other legislative proposals such as recent proposed amendments to reg burden reduction bill).

CREDIT CARD ISSUES AND OPTIONS

We discussed several ways to increase disclosure to consumers regarding credit card issues. These have also been discussed in the bankruptcy context.

1. Require disclosure of the amount of time it would take to pay back the debt balance if only the minimum amount were paid each month. In the context of bankruptcy reform, the Administration has supported requiring such disclosure. It is clear that banks and thrifts would consider this a costly and burdensome requirement, if it had to be done for all card holders. The attached memorandum from the OCC sets forth some cost estimates.

There was also discussion about a work sheet that Senator Durbin is considering to help

consumers determine how much they can handle.

Next Steps:

- Determine how this fits into any bankruptcy initiative for next Congress.
- Talk to the Fed and ask them to consider using a focus group to see review sample credit statements.

2. *Restrict unsolicited issuance of cards that have inactive credit cards and unsolicited mailings of loan checks.* The attached paper entitled "Credit Card Issues" describes some of the problems with unsolicited cards and legislation

Next Steps:

- Discuss the paper at our next meeting.
- Ask the FTC to send someone to the next meeting and to discuss what they are doing in this area.

DEBIT CARD ISSUES AND OPTIONS

Off-line debit cards are raising concerns because they (unlike on-line debit cards) do not require a PIN and yet if some one forges the customer's signature the customer's account is automatically debited.¹ Unauthorized transactions in off-line debit card also raise the issue of timely customer reimbursement. Currently, Regulation E provides that claims of unauthorized use must be resolved within 10 business days; alternatively, the disputed amount must be recredited within 10 business days if an investigation cannot be completed within that time, and the investigation must then be completed within 45 days. For POS and foreign transactions, Regulation E doubles these time periods.

The attached paper on "Debit Card Issues" provides more information on the issue.

Next Step:

- Discuss the attached paper at the next meeting and add to the pros and cons for each option given.

¹ VISA and MasterCard have entered into a voluntary agreement with their member financial institutions that goes beyond the consumer protection required under Reg.E. It applies only to off-line products such as VISA checks and Master Money.

Credit Card Issues

Current consumer protection concerns about credit cards relate to unsolicited card issuances and mailing of loan checks. Current law already requires certain disclosures to be made in a so-called Schumer Box,¹ which is summarized in the Appendix.

ISSUE #1

Unsolicited Issuances of Credit Cards. The Truth in Lending Act (TILA) prohibits the issuance of credit cards except in response to a request or application. Recently, firms have been issuing unsolicited cards -- such as debit and other non-credit cards -- that have inactive credit features. The status of such cards under TILA is unclear and creates concerns about customer confusion over their rights and liabilities.

The Federal Reserve, the organization responsible for the regulations that implement TILA, requires cards to have some substantive purpose other than obtaining credit in order to qualify for the exception to the prohibition against issuance of unsolicited credit cards. However, the Fed has not defined what substantive purposes qualify for the exception, though it has said informally that a stored value phone card with an inactive credit feature would qualify. Nevertheless, there is much confusion on the part of issuers as to which non-credit purposes are valid. Some card issuers, particularly First USA, have pushed the envelope on this issue.

Option 1: Clarify the Law and Enhance Disclosure

Legislation could clarify the exception to the prohibition against issuance of unsolicited credit cards by specifying what non-credit purposes qualify (or directing the Fed to define such purposes). Disclosure could be required to inform customers of the card's status under TILA and the Electronic Funds Transfer Act (EFTA), the consequences of such status (liability for unauthorized transactions, etc.), and what options the customer has, if any, to block activation of the card and any credit feature.

Pros: Clarifies legal status for issuers and consumers. Applies TILA's (or EFTA's) protections where appropriate. Reduces customer confusion.

Cons: A narrow interpretation of the exceptions could create unnecessary regulatory burden.

Option 2: Explore Administrative Options with the Fed

¹ The Fair Credit and Charge Card Disclosure Act of 1988 required that certain information be disclosed in a tabular format prescribed by the Federal reserve and placed in a conspicuous and prominent location on or with any written application, solicitation, or other written document requiring such disclosure.

Administrative options could be explored with the Board before considering a legislative proposal. Consider legislation only if the Board does not have sufficient authority to address the issue or if the Board or the card industry resists administrative action.

Pros: Avoids legislative overkill.

Cons: Uncertain how anxious the Board is to act.

ISSUE #2

Unsolicited Mailing of Loan Checks. Loan checks are credit products where a consumer need only sign and cash or deposit the check to obtain the loan. They also are referred to as "loans by mail" and "live checks." The amount of these loan checks is not limited by TILA or Regulation Z and may be thousands of dollars.

Federal law does not prohibit creditors from mailing unsolicited loan checks. TILA does mandate that full disclosure of credit terms, such as the annual percentage rate and the payment schedule, be included with any mailing so that consumers can make informed decisions about whether to accept the loan. Thus, our primary concern is not disclosure, but rather the potential for theft and fraud and the consumer inconvenience of refuting a claim of liability.² Although the consumer would not ultimately be liable for a forged loan check under TILA, the consumer is nevertheless exposed to a risk and inconvenience that was not anticipated or requested.

Option: Support the Hinchey-Gonzalez Bill

In 1997, Congressmen Hinchey and Gonzalez introduced H.R. 2053, which would prohibit the unsolicited mailing of loan checks or other negotiable instruments. The bill also would provide that if a check or other negotiable instrument were sent unsolicited, a consumer would not be liable for the debt unless the creditor could prove that the consumer received and negotiated the instrument. Whether or not the intended recipient received it, the creditor could not report any liability resulting from the unsolicited instrument to a consumer reporting agency. (We have not yet determined who supports or opposes this legislation).

Pros: Protects consumers from theft and fraud and the burden of unwinding forged transactions.

Cons: May be unnecessary to prohibit unsolicited mailings of loan checks if the burden to the consumer of proving forgery and unwinding fraudulent transactions can be adequately addressed by the bill's provision limiting

² Testimony of Governor Meyer before the House Banking Committee, Subcommittee on Financial Institutions and Consumer Credit, Sept. 24, 1997.

liability unless the creditor proves the consumer received and negotiated the check. Limited evidence of problems to date.

The Fed has said it is mindful of the appearance that consumers are exposed to risks they have not voluntarily assumed, but as of 1997 it did not favor an outright prohibition against sending these checks.³ Absent some evidence of a significant problem, the Board was inclined to let the market work without the intervention of new legislation. Moreover, some consumers may appreciate the convenience of obtaining "instant credit" without having to make a formal application.

Sources:

Testimony of Federal Reserve Governor Meyer before the House Banking Committee, Financial Institutions Subcommittee, Sept. 24, 1997.

Jane Ahrens, Senior Attorney, Division of Consumer and Community Affairs (452-2412)

³ Testimony of Governor Meyer before the House Banking Committee, Subcommittee on Financial Institutions and Consumer Credit, Sept. 24, 1997.

Debit Card Issues

Background

Current Law

The Electronic Funds Transfer Act (EFTA), which the Federal Reserve implements through Regulation E, applies to the transfer of funds, other than by check, that is initiated electronically, including through an ATM machine, POS terminal, etc., to instruct a financial institution to debit or credit an account. The EFTA applies to the use of so-called "debit cards," which debit customer accounts but, unlike credit and charge cards, do not create credit for the customer. Cards that have both debit and credit features are subject to both the EFTA and the Truth in Lending Act.

Disclosure Requirements. The EFTA requires a number of specific disclosures, in readily understandable language, at the time the customer contracts for an electronic funds transfer (EFT) service.⁷ Reg. E closely follows the EFTA's disclosure requirements, which are described in the attached appendix.⁸

Customer Liability. Reg. E limits the customer's liability for unauthorized transfers to the lesser of \$50 or the amount of unauthorized transfers that occur before notifying the financial institution, provided the consumer notifies the institution within two business days after learning of the loss or theft of the access device (otherwise the maximum liability is \$500).

Current Issues

One of the major issues concerning debit cards relates to offline debit cards.

Offline Debit Cards. "Offline debit cards" differ from online, PIN-protected debit cards by allowing the consumer to sign a charge slip with a merchant. This creates a greater risk of unauthorized transactions through forged signatures.

Offline transactions are processed much like credit card transactions, allowing up to five days to settle (by comparison, PIN transactions settle almost immediately). Because it takes up to five days for offline transactions to settle, there is greater risk that funds will not be there at the time of settlement.

Unauthorized transactions in offline debit cards also raise the issue of timely customer reimbursement. Currently, the EFTA provides that claims of unauthorized use must be resolved

⁷ Section 1693c

⁸ 12 CFR 205.4 and 205.7

within 10 business days; alternatively, the disputed amount must be reccredited within 10 business days if an investigation cannot be completed within that time, and the investigation must then be completed within 45 days. For POS and foreign transactions, Reg. E doubles the time periods.

Over the past couple of years, card issuers have been marketing offline debit cards aggressively, encouraging consumers to use them in place of writing checks. Besides just making them available, many institutions have automatically replaced their customers' existing ATM cards, previously usable only with PINs, with cards that can be used with a PIN at ATMs and electronic POS terminals, and without a PIN in the "offline" mode. This development has raised concerns about the potentially greater consumer exposure to losses in the absence of PIN protection.

VISA and MasterCard have entered into a voluntary agreement with their member financial institutions that goes beyond the consumer protections required under Reg. E. It applies only to offline products such as VISA Checks and Master Money. Federal Reserve staff have not seen a copy of the agreement but understand that it includes a provision that the customer is not liable for *any* unauthorized transfers if proper notice is given. It is not clear whether the agreement provides different notice requirements than under Reg. E.

Regulation of offline debit cards was the subject of 1997 legislation introduced by Congressmen Schumer and Gonzalez (H.R. 2234) and by Rep. Barrett (H.R. 2319), discussed below under "Options."

Options -- Offline Debit Cards

1. Wait and See How Well the Industry's Reforms are Working

Pros: Avoids unnecessary intervention. Given the positive steps being taken by the industry to deal with consumer concerns on a voluntary basis, the Fed has said it is inclined to see how things work before recommending new laws. However, the Board also said the industry should be on notice that it is in everyone's best interest to assure that the public understands the new risks inherent in transactions that are not PIN-protected, and that individual consumers can make an informed choice about whether to assume that risk.⁹ (We can follow up with testimony from other groups if necessary).

⁹ Testimony of Governor Meyer before the House Banking Committee, Financial Institutions Subcommittee, Sept. 24, 1997.

Cons: Do not know the specifics of the VISA-MasterCard agreement, whether other card plans offer debit-related products (Federal Reserve staff do not believe any do), or, if they do, whether they have adopted voluntary consumer protections.

2. Encourage Board Rulemaking

Pros: Can adapt better than legislation to the industry's needs and voluntary reforms.

Cons: The Board may not have authority under the EFTA (we have not yet researched this).

3. Support the Schumer-Gonzalez Bill

The *Schumer-Gonzalez bill* addresses liability, disclosures, and issuance. It limits a consumer's liability to \$50 for a debit card that is not PIN-protected and does not use some other unique identifier (a signature is deemed not unique). It requires card issuers, as a condition of imposing any liability on consumers, to disclose the importance of promptly reporting loss or theft of the card (the EFTA makes this disclosure optional). The bill also prohibits issuing a debit card that can function without a PIN unless: (1) the card is not activated when sent, (2) certain disclosures accompany the card, and (3) the card is activated only upon the consumer's request and after verification of the consumer's identity (these rules currently govern unsolicited initial issuances, but not replacement cards).

Pros: Is more targeted than the Barrett bill (discussed below) in that it limits liability only for debit cards that are not PIN-protected, gives consumers the option of rejecting such cards in favor of PIN-protected cards, or requires the issuer to provisionally reimburse consumers for claims of unauthorized use.

Cons: Protects consumers less than the Barrett bill. May be unnecessary in light of the industry's voluntary reforms.

4. Support the Barrett Bill

The *Barrett bill* would limit consumer liability to \$50 or less for *all* unauthorized debit card transactions, including those that require a PIN. The bill also calls for a warning notice for debit cards that can be used without a PIN, and would give consumers the option to reject such cards in favor of PIN-protected cards. Each periodic statement would have to include a detailed notice of the procedures for notifying the card issuer of the loss or theft of the debit card, or of unauthorized transactions. For cards without PIN protection, the *Barrett bill* also would require the card issuer to provisionally reimburse consumers for claims of unauthorized use within three business days.

Pros: Provides more consumer protection than the Schumer-Gonzalez bill.

Cons: May overreach the problem. May be unnecessary in light of industry reforms. The Fed is aware that VISA has been changing its rules to provide for recrediting within five business days, and this suggests that technological improvements in payment systems may permit these consumer claims to be investigated more quickly. The Board intended to reexamine its rule in light of these developments, but it has not the results of that reexamination.

Sources:

Testimony of Federal Reserve Governor Meyer before the House Banking Committee, Financial Institutions Subcommittee, Sept. 24, 1997.

Jane Gell, Senior Attorney, the Federal Reserve's Division of Consumer and Community Affairs (452-2084).

Appendix -- Summary of Disclosures Required by Regulation E

Financial institutions must make the following written, clear, and readily understandable disclosures at the time a customer contracts for an EFT service or before the first EFT transfer (12 CFR 205.4 and 205.7):

- *Liability of consumer* -- a summary of the consumer's liability, under the EFTA or state or other applicable law or agreement, for unauthorized transfers;
- *Telephone number and address* -- the telephone number or address of the person to notify of an unauthorized transfer;
- *Business days* -- the financial institution's business days;
- *Types of transfers; limitations* -- the types of transfers the consumer may make and any limitations on frequency and dollar amount;
- *Fees* -- any fees the financial institution imposes for transfers or the right to make transfers.
- *Documentation* -- a summary of the consumer's right to receipts and periodic statements and notices regarding preauthorized transfers (205.10(a), 205.10(d));
- *Stop payment* -- a summary of the consumer's right to stop payment of a preauthorized transfer and the procedure for placing a stop payment order (205.10(c));
- *Liability of institution* -- a summary of the financial institution's liability to the consumer for failure to make or stop certain transfers (EFTA section 910);
- *Confidentiality* -- the circumstances under which the financial institution may provide information concerning the consumer's account to third parties;
- *Error resolution* -- a notice that is substantially similar to Model Form A-3 (Appendix A).



MEMORANDUM

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

To: Gregory A. Baer, Deputy Assistant Secretary, Financial Institutions Policy

From: Michael S. Bylsma, ^{MSB}Director, Community & Consumer Law Division, OCC

Date: August 21, 1998

Subject: Minimum Payment Disclosures -- Cost Estimates

This responds to your recent inquiry concerning the costs to the credit card industry of being required to disclose to consumers the consequences -- in terms of amortization periods and total finance charges -- of making only the minimum required payments on their credit cards. To derive an estimate of these costs, we asked a number of questions of eight national bank examiners, who consulted with the banks they supervise about the costs of such a measure. In one case, the bank in turn consulted with a major third-party credit card processor to which it outsources a number of the relevant functions. In general, our questions asked about the costs of two alternatives: first, an up-front disclosure of these matters (based on a hypothetical balance) in application and solicitation materials; and second, ongoing disclosure (based on the customer's actual balance) in periodic statements. The specific questions posed are listed in the Appendix.

General Information Concerning Costs. The responses from our informal survey provided general information as to the types of costs that would be incurred by mandating these disclosures. The major costs identified were: (1) redesign and reprinting of application, solicitation, and periodic statement materials (as applicable); (2) reprogramming and other data processing costs (for customer-specific periodic statement disclosures); (3) possible increases in mailing and photocopying costs; (4) retraining and auditing expenses; and (5) lost revenues that may result from changes in customer behavior. One bank noted that the major factors in determining cost would be whether the changes would require notification of the entire portfolio (v. only new customers), reprogramming, or the destruction of existing materials, and whether the changes would alter behavior (e.g., whether customers would pay more rapidly, or even close their accounts).¹

¹ In addition to describing the potential cost implications of additional disclosures, some banks believed that this information would be either not useful or potentially confusing to consumers (particularly at the applications stage when no credit limit has yet been assigned), and that the disclosures could harm competition by squeezing out smaller card issuers that lack the operational scale to absorb the incremental costs.

- 2 -

Cost Estimates for Application/Solicitation Disclosures. The banks generally agreed that disclosure at the application/solicitation stage would be less expensive than periodic, customized disclosure, primarily due to the high reprogramming costs necessitated by the latter. (One large institution, however, thought that up-front disclosures would be more expensive than periodic disclosures due to the large number of delivery channels involved.) Cost estimates on this type of disclosure varied, however: one money center bank calculated that it would cost \$63,000 to print a new batch of 2 million applications and 2 million solicitations containing the additional information. A smaller institution, without providing the number of new materials to be printed, estimated the same costs at \$200,000.

Cost Estimates for Periodic Disclosures. Respondents stated that the required reprogramming to institute a change to periodic disclosures would be very complex: a wide range of assumptions would need to be incorporated, and each customer would have different balances and interest rates. Even for one customer, different rates likely would apply to purchases and cash advances, further complicating the necessary calculations. Continuing data storage, retrieval, and processing costs also would increase. Respondents maintained that in light of Y2K and EMU requirements, this would be a particularly bad time to impose new programming and processing costs. Another theme was that this method of disclosure would be expensive because it would involve notification of the entire customer base. As in the case of up-front disclosures, cost estimates for periodic disclosures varied. One midsized institution estimated these costs at a little over \$100,000, while one money center bank stated that costs would be several million dollars. Other estimates fell between these two extremes.

Of course, the costs of periodic disclosures would vary widely depending upon the frequency and type of the required disclosures. Annual or semi-annual inserts would be less expensive than changes that would have to be incorporated into the monthly statements. Similarly, a periodic disclosure based not on the customer's actual situation, but a hypothetical range of balances and rates against which the customer might compare himself, would substantially reduce the costs of the disclosures. (Such hypothetical periodic disclosures, like up-front disclosures, would be less useful to consumers than disclosures based on their current balances and interest rates; unlike up-front disclosures, however, they would reach the entire cardholder base and provide information at a time when consumers are making decisions about how much to pay.) Costs also might be alleviated by providing sufficient lead-time so that existing stocks of application or other materials need not be destroyed.

cc: Julie L. Williams, Acting Comptroller, OCC

Appendix

I. What are the estimated costs -- in terms of reprogramming, staff, training, mailing and printing, supplies, etc., to a financial institution from a requirement that periodic notices on credit card accounts include the following information:

- A. The required minimum monthly payment on the outstanding balance, as a dollar figure and a percentage of the balance.
- B. The annual interest rate that applies to the outstanding balance for the current billing cycle.
- C. The number of months (rounded to the nearest month) it would take to pay the entire amount of the outstanding balance while making only the required minimum monthly payments.
- D. The total cost to the consumer, including interest and principal payments, of paying that balance in full by paying the minimum monthly payment.

How much incremental expense is added by the requirement in "D", assuming that "E" is not required?

- E. The monthly payment needed to pay off the outstanding balance in 1, 5, and 10 years, and the total cost to the consumer, including interest and principal payments, of paying that balance in full in 1, 5, and 10 years.

How much incremental expense is added by the requirement in "E"?

II. What are the estimated costs -- in terms of reprogramming, staff, training, mailing and printing, supplies, etc., to a financial institution from a requirement that the institution disclose -- with applications and solicitations, the following information relating to credit cards:

- A. The minimum monthly payment required, as a dollar figure and a percentage of the balance.
- B. The APR applicable to the card (in effect within 60 days of mailing of the application or solicitation or within 30 days before the printing of an application or solicitation that is made available to the general public);
- C. The number of months it would take, under the terms of the credit card agreement, to pay off:
 - i. The balance, assuming the maximum credit line has been borrowed, by paying only the minimum payment; and
 - ii. A hypothetical \$10,000 balance by paying only the minimum payment.
- D. The total cost to the consumer, including interest and principal payments, of paying the following balances in full by paying only the minimum payment:
 - i. The balance, assuming the maximum credit line has been borrowed; and
 - ii. A hypothetical \$10,000 balance.
- E. The total cost to the consumer, including interest and principal payments, of paying the following balances in full in 1, 5, and 10 years:
 - i. The balance, assuming the maximum credit line has been borrowed; and
 - ii. A hypothetical \$10,000 balance.

Would the costs be decreased significantly if "D" and/or "E" were not required?

Subcommittee on ATM and other Bank Fee Disclosure Issues

We have had several meetings to discuss options for gathering and disclosing information on ATM and other bank fees. Set forth below are options we are considering.

Options

1. Establish a simple repository of bank fee data. If a website were used, it could allow users to screen for certain account attributes and compare selected institutions based on these criteria.

Background: The Truth in Savings Act requires each insured depository institution to "maintain a schedule of fees, charges, interest rates, and terms and conditions accordance with regulations adopted by the Federal Reserve. Pursuant to Fed regs, a depository institution must make the schedule available to any person who asks for it for any account.

The Fed has a pending rulemaking that would allow, but not require banks to make any Fed-mandated disclosure (including this one) electronically, if the customer so chose. Once banks had the schedules in sendable electronic form, having them send it to a consolidated database would appear to be much easier. The rulemaking is not on a fast track, however, and appears to have some problems.

We would need to explore with the Fed (or the industry) whether this information could be provided to some central facility in electronic form. The Treasury has indicated that it does not wish to serve as the repository; we would need to discuss other options.

Costs (these are guesstimates only): Establishing a simple web site would cost about \$40,000, assuming data could be obtained and accessed electronically. An interactive web site would cost about \$120,000-160,000. Consumer education would be an additional cost.

Pro:

- Comprehensive look at every account in the banking system.
- Consumer groups could analyze data and make recommendations to consumers.

Cons:

- Website would be useful only to those who are technically sophisticated.
- Data would frequently be out of date, unless updated frequently (at someone's expense).

2. Allow voluntary posting -- the "Missouri plan."

Background: In Missouri, the state publishes a list of low-cost banking accounts and relies on the banks to provide the information voluntarily. Approximately 60 percent of banks do so. We could encourage banks to submit their lowest cost accounts, including their lowest ATM-fee account, to a central database.

Pros:

- Opportunities for partnership with industry and consumer groups. E.g., the information could conceivably be posted on an ABA web-site, with consumer groups verifying accuracy.
- Information will not be as voluminous as under Option 1, and therefore could be made available to a broader spectrum of consumers in paper form.
- Better guarantee of accuracy and usability, as institutions will view it as a marketing tool.

Cons:

- Not a comprehensive look at fees across the industry.
- Although voluntary submission would reward those institutions charging low fees, there would be no highlighting of those institutions charging the highest fees.

Sen. Bryan - leading

LaFalce Sarbanes
Schumer

FIRST LADY HILLARY RODHAM CLINTON
FINANCIAL PRIVACY AND CONSUMER PROTECTION EVENT
THE WHITE HOUSE
MAY 4, 1999

It is a great pleasure to join the President in welcoming all of you to the White House for this important consumer protection event. I want to recognize Secretary Rubin; SEC Chairman Arthur Levitt; FTC Chairman Robert Pitofsky, and Commissioner Mozelle Thompson. I'm so pleased that ~~Senator Sarbanes~~ and Representative LaFalce could be with us, as well as a host of other Congressional leaders [list to come]. I also want to welcome Mari [Mar-EE] Frank, who will tell us her story today about why we need more consumer protections.

Today, thanks to the strong leadership of many of you here in this room, America is experiencing a time of great prosperity and growth. More families are able to afford to send their children to college; more are owning their own homes; many are starting their own businesses, or expanding existing ones; and personal retirement accounts and market investments are at an all time high.

Yet these new opportunities and choices have ^{brought with them} ~~also come with~~ rising concerns about whether consumers have all the protection and information they need to navigate these often complex financial services and opportunities effectively -- and to make financial choices.

Think for a moment about the fact that 4 billion unsolicited credit cards are offered to Americans every year. That's a great opportunity for some -- but ^{it prevents new challenges} ~~a major burden~~ for others. Now as you know, the President and I do have our mail screened. But we know from our friends that credit cards are being sent to our college-aged children -- yet only a fraction of them receive any education about personal financial management, and planning. Not surprisingly, an increasing number of college students -- and young households -- are defaulting on their credit card debts -- at a stage in their lives when developing a bad credit record may have serious long term consequences.

Our senior citizens are also vulnerable. Attractive ^{financial} sounding credit card offers -- or appealingly low interest rates -- too often lead them into trouble. According to AARP, seniors are particularly likely to agree to home equity loans or loan consolidations that include substantial fees -- or unfavorable interest rates.

And citizens of all ages are confused about the loans and offers they receive. We've all heard story after story of confusion about low "teaser rates" which turn out to be just that -- ~~and~~ a tease with significant negative consequences. And many consumers don't understand that when they pay only the minimum balance on their bills -- it may take years to pay them off -- and dramatically increase the cost of their original purchase. Consumer debt levels have been rising sharply in recent years, and an increasing number of households are borrowing ^{the} more heavily against their homes, sometimes incurring debt levels in excess of their home's value.

~~to acknowledge~~
I want to ~~acknowledge~~ two important leaders in the
Congress on this issue — Senator Sarbanes and
Rep LaFalce, and thank the members of Cong.
with us today (see list). Also, I'd like to particularly
thank Senator Bryen for being with us today &
for his leadership and note that many members
in both Houses were unable to join us, but have
made significant contributions in this area.

Without effective planning tools to help them ^{achieve} obtain financial security, many Americans are finding bankruptcy ~~and income assistance programs~~ their best options. Bankruptcy reform is in order. Debtors who have the genuine capacity to repay some of their debt should be required to so. But responsible reform should make sure that people who take on debt know what they're doing, and are protected from abusive creditor practices. ✓

To use their opportunities effectively, and to avoid bankruptcy and debt in the first place - consumers need the tools for interpreting financial information and understanding their financial rights. We know that those who have financial planning programs in the workplace - for example - save more than twice as much as those who do not. And Americans who had financial training in high school accumulate more over the long haul -- a full year's worth of earnings - than those who do not have ^{not education} those supports. ✓

^{Building on the work of many congressional leaders within today} Today, we are taking some important steps to give American consumers more of those benefits and protections. The President will unveil an important set of initiatives that will provide consumers the protection and the information they need to survive - and thrive - in this complex economy. These initiatives will go a long way to protect citizens' privacy, and educate us all about financial opportunities, and protect us from fraud and abuse. ✓

We all have a stake in those initiatives succeeding, because we all have a stake in families understanding their financial opportunities and meeting their financial obligations. When families have the tools to manage their own finances successfully, they are in a better position to support their children; expand their business; and save for college tuition - or their own retirement.

We are particularly fortunate to have a Treasury Secretary who understands the critical need to support ^{enhance} ~~those in the financial sector and preserve access to credit~~ - to keep our economy thriving - but who also understands we must protect and educate consumers in this fast paced financial world. It's a pleasure to introduce Treasury Secretary Rubin, ^{Bob} ~~who recognizes we need to do both~~. ✓

the financial sector in its efforts to expand access to credit and keep our economy thriving, but who also understands that

Hillary Rodham Clinton

Hillary

S. 625 - Bankruptcy Reform Act of 1999
(Grassley (R) Iowa and eight cosponsors)

The President supports bankruptcy reform that is balanced, would reduce abuses of the bankruptcy system, and would require debtors and creditors alike to act responsibly. He is disappointed that the House failed to produce legislation that he could support. The Senate bill as reported, S. 625, reflects some improvements over H.R. 833. But the Administration continues to have serious reservations about the bill and strongly opposes some of its key provisions, as detailed in the attached letter from OMB Director Jack Lew to Senators Lott and Daschle, dated September __, 1999.

We understand that a series of amendments may be offered and debated on the floor, which, if incorporated and contained in the conference report, would address many of the Administration's major concerns. The Lew letter sets forth our views on those amendments. The Administration remains hopeful that bipartisan cooperation will result in responsible bankruptcy legislation the President can enthusiastically sign.

September __, 1999

Majority Leader Trent Lott
United States Senate
Washington, D.C.

Dear Mr. Majority Leader: (??)

The President supports bankruptcy reform that is balanced, would reduce abuses of the bankruptcy system, and would require debtors and creditors alike to act responsibly. He is disappointed that the House failed to produce legislation that he could support. The Senate bill as reported, S. 625, reflects some improvements over H.R. 833. But the Administration continues to have serious reservations about the bill and strongly opposes some of its key provisions, as detailed below. We understand that a series of amendments may be offered and debated on the floor, which, if incorporated and contained in the conference report, would address many of the Administration's major concerns. The Administration remains hopeful that bipartisan cooperation will result in responsible legislation the President can enthusiastically sign.

Access to Chapter 7. Any means test used in bankruptcy proceedings should deny access to Chapter 7 only to those debtors who genuinely have the capacity to repay a portion of their debts successfully under a Chapter 13 repayment plan. S. 625 in its current form would limit access to Chapter 7 to those debtors who meet a relatively inflexible and arbitrary means test. The Administration strongly opposes this provision. Debtors who may be denied a discharge of their debts must be given a meaningful realistic opportunity to have their specific circumstances considered by bankruptcy courts with appropriate, limited discretion to determine whether they genuinely have the capacity to repay a portion of their debts.

As House Judiciary Committee Chairman Henry Hyde has said, the use of IRS guidelines without flexibility "depriv[es] debtors and their families of the means to pay for their basic needs." **[Confirm quote from NYTs – accurate in context.]** As Chairman Hyde noted on the House floor, "The cost of food in Omaha, Nebraska, or Boise, Idaho, is different than in downtown Manhattan. So what is realistic about an inflexible standard?"

Another example illustrates the arbitrary impact of these formulas, treating similarly situated debtors differently. According to the 1990 Census, the median gross monthly rent in the Census Tract in North Woodhaven, Queens, was \$640, 15 percent larger than the median rent for the county. Applying the housing standards inflexibly could force debtors of this community to move far from their jobs, or forego other necessary expenses. Yet this is not a particularly wealthy community -- its median income was less than the median income of the county as a

whole (\$34,200). By comparison, the median gross rent in the Census Tract just north of Howard Beach is less than the county median, so far fewer filers from this community have to move. Yet their resources are in fact greater--their median income is \$2,000 above the county median income. What is fair or rational about forcing lower income debtors to move from Woodhaven, but not higher income debtors from Howard Beach?

As reported, S.625 would apply rough guidelines, developed by the Internal Revenue Service (IRS) for tax repayment plans, as standards for determining debtors' ability to repay, with exceptions only for expenses that are "reasonable and necessary." While some expense standards should be used to guide the determination of ability to repay, they should be tailored for bankruptcy. The same set of standards simply cannot be used in both bankruptcy and tax collection, which involve very different purposes and systems of judicial review. The Administration believes that the IRS expense formulas can be used as a starting point for developing appropriate bankruptcy guidelines, but that each system would be best served by their own appropriate standards. [We note that findings language in the proposed manager's amendment simply asserting that Treasury has inherent authority to modify the IRS guidelines for bankruptcy purposes is not consistent with Treasury's review of its authority. Stating it does not make it so. **Treasury – advise how to address this issue.**]

Finally, all parties should be able to agree that any means test should be implemented efficiently. Burdensome filing and hearing requirements that lead to little or no additional debt repayment are not in the interest of debtors, creditors, or taxpayers.

The Administration understands that a series of amendments will be offered to improve the fairness of the means test. We support these amendments including: **[list subject to change]**

- An amendment by Senator ____ to incorporate improvements in the means test that were adopted by the House;
- A series of amendment by Senators _____ and ____ to clarify the treatment under the means test of expenses for victims of domestic abuse, adopting a child, displaced or unemployed workers retraining or moving for employment, and caring for a non-dependent parent or relative;
- An amendment by Senator Durbin to reduce unnecessary costs and inefficiency in the reformed bankruptcy system by streamlining application of the means test and reducing costly paperwork collections without impacting debt repayment under the system;
- An amendment by Senator Schumer and Durbin [?] to create an effective safe harbor from application of the means test for debtors with below median incomes;
- An amendment by Senator Durbin [?] to authorize the Treasury Department, in

consultation with the Executive Office of the United States Trustees, to develop customized guidelines for use in the means test based on the I.R.S. guidelines;

- An amendment by Senator Schumer to improve the accuracy of the means test calculation by counting all required expenses (administrative costs, reasonable attorneys fees, and arrearages on other debt) in calculating capacity to repay under the means test.
- An amendment by Senator ____ to adopt policies, which are used by the IRS in applying the IRS guidelines for tax collection, for use in the bankruptcy means test, so as to increase collections and enhance fairness;
- A series of amendments by Senators ____ to clarify that small variations are permitted from the means test housing, food, and transportation expense allowances where reasonably necessary [where reasonable and necessary?] to ensure fairness;
- An amendment by Senator _____ to grant the U.S. trustees authority to consider expected changes in income or expenses in evaluating a debtor's challenge to the presumption that they have the capacity to repay as calculated under the means test.

Consumer Information and Protection: The Administration continues to believe that reform must address the factor that is most strongly correlated with the rise in personal bankruptcy: rising levels of consumer debt. Americans now receive over 3.5 billion credit card solicitations per year, many of which are marketed to encourage consumers to carry high balances and incur large interest charges. The most effective way to reduce the number of bankruptcies in this new financial era is to give consumers the information they need to manage their credit card debts effectively, recognizing the creditors' superior information and bargaining ability. Consumers must be given clear information on the terms of their credit, and the financial implications of not paying off their credit card balances.

The amendment to be offered by Senators Grassley and Torricelli addresses some abusive credit practices, such as failure to disclose "teaser" rates clearly. While this is an improvement over H.R. 833, much more should be done. Under the Grassley-Torrecelli amendment, creditors will provide the necessary information to creditors who call the 800 number on the statement, thus demonstrating that creditors can easily calculate the relevant information. Cost cannot explain the reluctance to provide the information, as it is costly to maintain the 800 number. The amendment creates a system that is unnecessarily burdensome for consumers, who may be reluctant to call their credit card company if they are worried about their finances or are pressed for time. Instead, companies could provide the information more cheaply, reliably, and in a manner that would be easier for consumers to use by including it automatically on credit card statements. Senators [Durbin?] ____ and ____ are expected to an amendment that would do this. The Administration supports these amendments. We also support other amendments that are designed to addresses abuses in credit card solicitation. **[Treasury – where are you on the new Dodd kiddie-credit amendment. Can we expressly say that we support it?]**

Abusive Creditor Practices. Much evidence shows that debtors often reaffirm unsecured debt and low-value secured debts on unfavorable terms even though they do not have the means to meet their own necessary expenses and make more important debt payments, placing such priority debts as child support and alimony obligations at risk. Such reaffirmations frequently are the result of insufficient or misleading information or threats from creditors. S. 625 as reported does little to address these abuses. If we are to provide substantial new opportunities for creditors to challenge debtors' use of the bankruptcy system under Chapter 7 of the Bankruptcy Code, we must limit abusive creditor practices such as coercive reaffirmations and violations of the automatic stay against collection actions. Hence, the Administration supports the amendment of Senators Sessions and Reed, which protects debtors by giving them adequate information for decisions about significant reaffirmations of unsecured and low-value secured debt.

[We also note that the senate bill does not include the provision included in H.R. 833 that would eliminate one of the only viable ways for consumers harmed by creditors' coercive and abusive practices to seek a remedy. We hope and expect that the Senate bill's approach to this issue will be adopted in conference and that, if it were not, the Senate would reject the conference report. **SHOULD WE SAVE THIS FOR A LETTER TO CONFEREES?**]

Cramdowns. S. 625 also changes the lien stripping or "cramdown" provisions in current law governing a Chapter 13 bankruptcy, under which a secured debt becomes nondischargeable only up to the value of the security interest at the time of bankruptcy. The Administration agrees that lien stripping should be limited for loans incurred in the period preceding bankruptcy for automobiles to prevent abuses, but believes that the provisions in the Senate bill are excessive. While the Administration strongly prefers the Senate provisions to the extreme prohibitions in H.R. 833, the five-year prohibition on lien stripping on automobile debts in the current bill will do little to deter bankruptcy abuses than a more reasonable time limit. Instead, the prohibition will significantly reduce repayment of priority, unsecured debts like child support and taxes. The Administration understands that Senator _____ [Kohl? Sessions?] will offer an amendment that provides appropriate but not excessive cramdown relief. The Administration supports this amendment.

Nondischargeable Debts. The Bankruptcy Code makes debts nondischargeable only where there is an overriding public purpose, as with debts for child support and alimony payments, educational loans, tax obligations, or debts incurred by fraud. The Administration strongly prefers the provisions in S. 625, which offer some protection for child support and alimony, to those in H.R. 833. But the Administration remains concerned that additional credit card and other nonpriority debts made nondischargeable by these provisions will compete after bankruptcy with child support, alimony, and other societal priorities like educational loans and taxes. The amendment to be offered by Sen. _____, which the Administration supports, would address this concern by _____.

Loopholes for the Wealthy. The Administration supports changes that would close loopholes in bankruptcy law, such as unlimited homestead exemptions [and the exemptions from repayment requirements for individuals who are able to file for bankruptcy under Chapter 11 – **do we need to mention this issue – isn't it in manager's amendment? Some bankruptcy professionals disagree?**], that allow many wealthy debtors to avoid their responsibility to repay a significant portion of their debt. Bankruptcy reform should not place a greater responsibility for debt repayment on moderate- and low-income debtors than it does on high-income debtors. We understand Sen. _____ will offer an amendment to place a reasonable limit on homestead exemptions. The Administration supports that amendment.

* * * * *

We look forward to working with you and members of the Senate to produce bankruptcy reform legislation that is balanced, would reduce abuses, and would require debtors and creditors alike to act responsibly.

Sincerely,

Jack Lew

Identical Letter to Minority Leader Thomas Daschle

AGENDA

- I. Review of the President's Announcement
- II. Relevance of Financial Literacy to Various Policy Concerns
 - Mounting Bankruptcies
 - Declining Savings
 - Increasing Stock Market Participation
 - Growing Internet Fraud
 - Asset Building Strategies for Community Development
 - Other?
- III. Outreach Plan
 - A. Meeting with Umbrella Organizations
 - B. Meeting with Private Companies and Trade Groups
 - C. Meeting with Consumer, Education and Community Development Groups
 - D. Meeting with Congressional Staff
- IV. Review List of Invitees – Who is Missing?
- V. Central Issues for Developing the Plan
 - A. Objectives? What Measures of Success?
 - B. Targets? How Best to Reach? Different Strategies for Different Groups?
 - C. How to Work with Other Efforts? What Role for Gov't? What Structure?
 - D. What Can Agencies Contribute?
- VI. Comments on Discussion Paper Draft
- VII. Next Steps

<u>Department</u>	<u>Name/Title</u>	<u>Phone</u>	<u>Fax</u>	<u>Email</u>
Treasury	*Mark McClellan, Deputy Assistant Secretary for Economic Policy	622-0563	622-2633	Mark.mcclellan@do.treas.gov
	Lucy Huffman	622-0198	622-1294	Lucy.huffman@do.treas.gov
	Michael Barr, Comm Dev Policy Dep Asst Secy	622-8597	622-5672	Michael.barr@do.treas.gov
	Cliff Kellogg, Senior Policy Advisor	622-8597	622-5672	Cliff.kellogg@do.treas.gov
Treasury: Savings Bonds	*Dino deConcini, Executive Director, Savings Bonds Marketing Office	691-3535	208-1574	Ddeconcini@bpd.treas.gov
Office of Thrift Supervision	*Ellen Seidman, Director	906-6673	898-0230	Ellen.seidman@ots.treas.gov
	Tim Burniston, Compliance Policy	906-5629	898-0230	Tim.burniston@ots.treas.gov
	Kenneth Ryder, Exec Dir, Analysis	906-6861	906-5735	Kenneth.ryder@ots.treas.gov
	David Enzel, Special Counsel	906-6464	906-5708	David.enzel@ots.treas.gov
	William Magrini, Senior Project Manager	906-5744	906-7842	William.magrini@ots.treas.gov
OCC	*Julie Williams, Chief Counsel	874-5200	874-4950	Julie.williams@occ.treas.gov
	Amy Friend, Asst Chief Counsel	874-5200	874-5374	Amy.friend@occ.treas.gov
	Michael Bylsma, Dir, Comm. and Consumer Law	874-5750	874-4889	Michael.bylsma@occ.treas.gov

USDA	Dr. Charles Laughlin, Administrator, CSREES	720-4423	720-8987	claughlin@reeusda.gov
	Bill Bailey, National Program Leader, Family Economics, CSREES	720-4114	690-3162	bbailey@reeusda.gov
	Dr. Jane Schuchardt, National Program Leader	690-2674	690-2975	jschuchardt@reeusda.gov
Labor	Rich McGahey, Asst Sec PWBA	219-8233	219-5526	McGaheyR@pwba.dol.gov
	Leslie Kramerich, Deputy Asst Secretary for Policy, PWBA	219-8233	219-5526	KramerichL@pwba.dol.gov
	Sharon Watson	219-7222, ext.3001	219-8141	WatsonS@pwba.dol.gov
Securities and Exchange Commission	*Nancy Smith, Director, Office of Investor Education and Assistance	942-7040	942-9634	Smithnm@sec.gov
Federal Trade Commission	*David Medine, Credit Practices Ass Director	326-3025	326-2558	dmedine@ftc.gov
	Carolyn Shanoff, Asst Director for Consumer and Business Education	326-3268	326-3259	cshanoff@ftc.gov
FDIC	*John Kotsiras	942-3079	942-3098	jkotsiras@fdic.gov
Commerce	*John Orszag, Director, Office of Policy and Strategic Planning	482-4127	482-4772	Jorszag@doc.gov
	Jane Molloy, Director of Policy Analysis	482-5926	482-0325	Jane.molloy@mail.doc.gov

Education	*Jean Veta, Deputy General Counsel	401-6000	205-2689	Jean_veta@ed.gov
	Phil Rosenfelt	401-6084	205-0524	Phil_rosenfelt@ed.gov
	Amy Lustig	401-8292	205-0524	Amy_lustig@ed.gov
Defense	* Gail McGinn, Acting Dep Ass Sec for Personnel Support, Families, and Education	(703)697-7220	614-9303	McGinnG@pr.osd.mil
	Linda Smith, Dir. Office of Family Policy	(703)697-5733	696-4276	SmithL2@pr.osd.mil
	Iris Bulls	(703)696-1702 ext.131	696-4276	BullsI@pr.osd.mil
Justice	Kenneth Chernof, Dep Ass Attorney General	305-8283	514-0238	Kenneth_L._Chernof@usdoj.gov
Administration on Aging	*Carol Crecy, Dir. Office of State and Comm Programs	619-2617	260-1012	Carol.crecy@aoa.gov
Federal Reserve Board	*Maureen English, Asst Dir, Division of Consumer and Community Service	452-3401	728-5850	Maureen.english@frb.gov
	Jean Hogarth	785-6024	728-5850	Jean.hogarth@frb.gov
Council of Economic Advisors	*Doug Elmendorf, Senior Economist	395-4737	395-6809	Douglas_W._Elmendorf@cea.eop.gov
Office of Management and Budget	*Joseph J. Minarik, Ass Director	395-5873	395-1198	Joseph_J._Minarik@omb.eop.gov
	Alan B. Rhinesmith, Dep Ass Director	395-4516	395-6889	Alan_B._Rhinesmith@omb.eop.gov

OMB	Edward A. Brigham, Chief, Financial Inst Branch	395-1099	395-1292	Edward_A._Brigham@omb. eop.gov
	Alice Veenstra, Program Examiner	395-4637	395-1292	Alice_Veenstra@omb.eop.go v
White House Legislative Affairs	*Joel K. Wiginton, Spec Asst to the President	456-6493	456-6468	Joel_K._Wiginton@who.eop .gov
	Broderick Johnson	456-6620	456-2604	Broderick_Johnson@who.eo p.gov
DPC/FLOTUS	*Nicole R. Rabner, Ass Director	456-7263	456-2878	Nicole_R._Rabner@who.eop .gov
DPC	*Mary L. Smith, Ass Director/Policy Programming	456-5571	456-7431	Mary_L._Smith@opd.eop.go v

Umbrella Organizations

<u>Organization</u>	<u>Contact</u>	<u>Phone</u>	<u>Fax</u>	<u>Email</u>
National Foundation for Consumer Credit	Durant Abernathy, President	(301)589-2627	(301)495-5623	Dabernathy@nfcc.org
	Judith Cohart, Education Director	(301)589-5600 ext.22	(301)495-5623	Jcohart@aol.com
National Council on Economic Education	Dr. Robert Duvall, President and CEO	(212)730-7007 ext.388	(212)730-1793	Bduvall@eaglobal.com
	Ellin Nolan, Consultant	(202)289-3900	(202)371-0197	Enolan@jdbm.com
JumpStart Coalition for Personal Financial Literacy	Dara Duguay, Executive Director	(202)466-8610		Dduguay@afsamail.org
American Savings Education Council	Don Blandin, President	(202)775-9130	(202)775-6360	Blandin@asec.org
National Endowment for Financial Education	William Anthes			
American Association of Family and Consumer Sciences	Ann Chadwick, Executive Director	(703)706-4600		Achadwick@aafcs.org
Securities Industry Foundation for Economic Education	Dennis Hartenstine, Executive Director	(212)618-0538		Dhartenstine@sia.com

Umbrella Organizations

National Business Education Association	Janet Treichel, Executive Director	(703)860-8300		Jtreichel@nbea.org
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Private Companies and Trade Groups

<u>Organization</u>	<u>Contact</u>	<u>Phone</u>	<u>Fax</u>	<u>Email</u>
*Datek	Byron Clark	(732)516-8333		Bclark@datek.com
NASD	Susan Fallon, Grant Administrator	(202)728-8907	(202)728-8882	Fallons@nasd.com
American Express	Anna Flores	(202)434-0166	(202)624-0775	Anna.a.flores@aexp.com
Securities Industry Foundation for Economic Education	Donna Haggarty	(212)618-0586	(212)791-5020	Dhaggerty@sia.org
Freddie Mac	Ellen Roche, Director of Issues Management			
Fannie Mae	Brigid Haragan	(202)752-5348	(202)752-6845	Brigid_haragan@fanniemae.com
CUNA&Affiliates	Mary Mitchell Dunn, Vice President	(202)682-4200,	(202)371-8240	mdunn@cuna.com
VISA U.S.A.	Michael J. McGarry, Director, Corporate Relations Lamar Smith, Senior Vice President, Govt. Relations	(202)296-9230	(202)862-5498	mmcgarry@visa.com
Experian	Maxine Sweet	(972)390-3553	(972)390-3624	maxine.sweet@experian.com
MasterCard	Catherine Cummings, Vice President	(914)249-5536	(914)249-4207	catherine_cummings@mastercard.com

Private Companies and Trade Groups

American Bankers Association	Susan Cole, Managing Director	(202)663-5309		
	Kathryn Kelly, Program Manager	(202)663-5425		kkelly@aba.com
American Financial Services Association	Randy Lively, President	(202)296-5544	(202)223-0321	rlively@afsamailorg
	Susie Irvine, Foundation Director	(202)296-5544		
American Bankruptcy Institute	Samuel Gerdano, Executive Director	(703)739-0800	(703)739-1060	Sgerdano@abiworld.org
National Alliance of Business	Milton Goldberg, Executive Vice President	(202)289-2944	(202)289-2908	Goldberg@nab.com
Life and Health Insurance Foundation for Education	Francesca Monoki, Program Director	(202)331-3851	(202)835-9615	Fdea@nalu.org
American Institute of CPAs	Phyllis Bernstein			
Fidelity Investments	Perry Chlan			
Investment Company Institute	Thomas Kim			
	Sue Duncan			
Prudential Investments	Dan McGrath			

Private Companies and Trade Groups

Salomon Smith Barney	Mary Connolly, Media and Public Relations	(212)816-5303		
America's Community Bankers				
Financial Services Roundtable				
Independent Banking Association of America				
MBNA Corporation	Charlie Cawley, President & CEO			
Household International	Bill Aldinger, Chairman & CEO			
Chase Manhattan Corporation	Don Boudreau, Vice Chairman			
The Dime Savings Bank	Larry Toal, Chairman, President & CEO			
National Association of Life Underwriters	Mike Kerly	(202)331-6022		
American Insurance Corporation	Steve Johnson	(202)828-7173		

Private Companies and Trade Groups

Consumer Bankers Association	Nancy Camm	(703)276-3872		
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Consumer, Education, and Community Development Groups

<u>Organization</u>	<u>Contact</u>	<u>Phone</u>	<u>Fax</u>	<u>Email</u>
National Association of Elementary School Principals	Margaret Evans	(703)684-3345	(703)549-5568	Mevans@naesp.org
College Parents of America	Richard Flaherty, Executive Director	(202)661-2170	(202)661-2189	CollegeParents@worldnet.att.net
National Council for the Social Studies	Janet Lieberman	(202)966-7840	(202)966-2061	ncss@ncss.org
Neighborhood Reinvestment Corporation	Laurie Strongin	(202)220-2303	(202)376-2600	lstrongin@nw.org
Debt Counselors of America	Gerri Detweiler		(301)730-1693	
Consumer Information Center	Linda O'Neil, Director	(202)501-1794	(202)501-4281	Linda.oneil@gsa.gov
Consumer Federation of America	Stephen Brobeck			
AARP	Roy Green David Certner	(202)434-3800	(202)434-6477	
Consumers Union	Frank Torres Mary Griffin	(202)462-6262 (202)462-6262	(202)265-9548	TorrFr@consumer.org GrifMa@consumer.org

Consumer, Education, and Community Development Groups

National Consumer Law Center	Margot Saunders	(202)986-6060	(202)986-6648	
Financial Services Education Coalition				
North American Securities Administrators Association	Marc Beauchamp, Director for Media Relations	(202)737-0901, ext.123	(202)783-3571	Mb@nasaa.org
National Association of State Treasurers	Chris Allen, Director of Federal Relations	(202)634-8592	(202)624-5300	Callen@csg.org
National Association of Attorney Generals	Sarah Reznick, Consumer Protection Project Director	(202)326-6016		Sreznick@naag.org



United States Department of Agriculture



**Key Findings of the "Evaluation of the NEFE
High School Financial Planning Program: 1997-1998"**

The High School Financial Planning Program (HSFPP) makes a significant, positive difference* in the personal financial --

- knowledge of teens. Nearly half (47%) knew more about credit costs, and nearly two-fifths (38%) knew more about investments.
- behavior of teens. Nearly two-fifths (37%) improved skills for tracking spending, and nearly half (45%) started saving or began saving more.
- confidence of teens. Nearly two-fifths (38%) felt more confident about managing their money.

(in addition to those who maintained knowledge, skill, and confidence levels.)*

Even more important, teens who studied the HSFPP --

- maintained increases in personal finance knowledge and behavior over time. By doing so, they increased their confidence to manage money throughout their lifetimes.

After participating in the HSFPP, the students said --

saving money was their most important action. Teens who save are more likely to save as adults.

Teachers who were trained prior to teaching the curriculum --

- were more satisfied with the curriculum content, more confident in teaching, and more likely to repeat its use.
- were more likely to use the curriculum in its entirety and had students who reported greater average gains in knowledge, skills, and confidence.

The study was based on responses --

- of 188 teachers and 4,107 students and can be generalized to all HSFPP students.
- collected during an 18-month period in 1997-98.
- of students before and after participating in the HSFPP, and three months later.
- of teachers about their training, use of the curriculum, and impact on students.

The High School Financial Planning Program (HSFPP) is a comprehensive, seven-unit curriculum designed primarily for high schools. Via 10 hours of instruction, students learn the basic concepts of financial planning and how they apply to teens now and in the near future. The National Endowment for Financial Education (NEFE) directs the program and provides instructors' manuals and student workbooks at no charge. Via a partnership with the nationwide Cooperative Extension System, and other groups identified by NEFE, the HSFPP is delivered to more than one quarter million students each school year. To find out more, call NEFE at 303-741-6333 or visit the web site at www.nefe.org.

Summarized by Jane Schuchardt, 1999 NEFE Senior Fellow, April 1999, based on program evaluation research funded by the National Endowment for Financial Education (NEFE) and directed by Laurie Boyce, University of Wisconsin, and Sharon Danes, University of Minnesota. NEFE and the NEFE High School Financial Planning Program are service marks of the National Endowment for Financial Education.

Jump\$tart Coalition for Personal Financial Literacy Q & A

Q.) Who are the members of the Coalition?

A.) A wide range of organizations including government agencies, universities, associations, youth education groups, and non-profit and for-profit providers of personal finance education.

Q.) How can I get involved in Jump\$tart?

A.) Coalition partnerships are considered for all national organizations who share Jump\$tart's mission. Participation on a local level is possible through involvement with state coalitions.

Q.) How can I keep up to date on the personal finance movement?

A.) Subscribe to Jump\$tart's newsletter. The Update is published quarterly and costs only \$8.00 for a yearly subscription. The coalition members contribute articles for each issue. Topics relate to existing programs, research, and other personal finance information. To receive a free sample of Jump\$tart's Update, call **1-888-45-EDUCATE**.

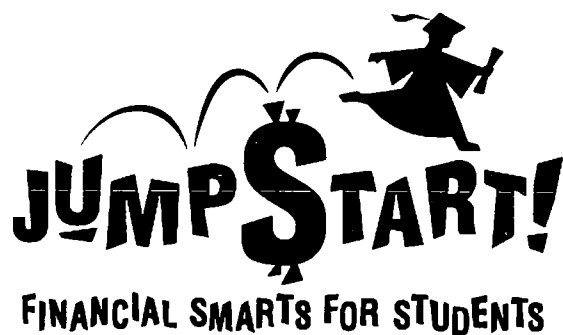
Q.) How can I get top quality personal finance teaching materials?

A.) Visit Jump\$tart's Clearinghouse, accessible via the web site, www.jumpstart-coalition.org (click on "Education Materials" at the bottom of the screen). Also, check out the Guest Speaker and Training Program sections.

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State University of New York at Buffalo
•
The Wall Street Journal Classroom Edition





The Jump\$Tart Coalition for Personal Financial Literacy seeks to improve the personal financial literacy for young adults.

Jump\$Tart's purpose is to evaluate the financial literacy of young adults; develop, disseminate, and encourage the use of guidelines for grades K-12; and promote the teaching of personal finance.

The Jump\$Tart Coalition believes that all young adults need to have the financial literacy necessary to make informed financial decisions.

Jump\$Tart Coalition for Personal Financial Literacy

919 Eighteenth Street, N.W., 3rd Floor
Washington, D.C. 20006

1-888-45-EDUCATE
Fax: 202-223-0321

Website: www.jumpstartcoalition.org
Email: info@jumpstartcoalition.org

Jump\$Tart Initiatives

PERSONAL FINANCIAL LITERACY SURVEY

A Personal Financial Literacy Survey was administered to a national sample of 1509 high school seniors in February 1997. On average, survey participants answered only 57% of the questions correctly — failing, on the grade scale used by most schools. When asked where they learned the most about managing their money, fewer than 11% answered "at school." Clearly, this demonstrates the need to provide personal finance curricula for the nation's 50 million students in grades K-12.

The survey will be conducted biennially to measure progress toward achieving Jump\$Tart's goal of personal financial literacy among all high school graduates by the year 2007. A copy of the survey and its results may be obtained by calling **1-888-45-EDUCATE**.

Our Vulnerable Youth: The Financial Literacy of American 12th Graders has been prepared by Dr. Mandell, author of the survey. This book focuses on America's young adults that are leaving school without the ability to make critical decisions affecting their lives. The book is based on the findings from the 1997 Jump\$Tart Personal Finance Survey of high school seniors and will also be published biennially.

GUIDELINES AND BENCHMARKS

A nationally selected panel of teachers completed the *Personal Finance Education Guidelines and Benchmarks* for use by educators and parents. The guidelines provide a recommended scope of personal finance basics to be taught within four core areas:

- Income
- Money management
- Spending and credit
- Saving and investing

The benchmarks correlate with the guidelines to indicate the knowledge and skills that students need to learn by grades 4, 8 and 12. The guidelines and benchmarks enable school systems and youth-serving organizations to integrate resources into their curricula for educating students in this area of critical need. To receive a copy, call **1-888-45-EDUCATE**.

CLEARINGHOUSE OF EDUCATION MATERIALS

The Jump\$Tart Clearinghouse provides a searchable database of educational materials for the K-12 age group. All materials have been evaluated to ensure coverage of one of the four guidelines of personal financial literacy. The Clearinghouse is searchable by grade level and topic in addition to other categories.

Located in the Clearinghouse is *How to Raise a Money-Smart Child: A Parents Guide*, a compilation of articles and activities written by Jump\$Tart's coalition members to help parents and educators explore the fundamentals of money management with their children and students.

To search the Clearinghouse, go to **www.jumpstartcoalition.org** and click on the "Education Materials" button at the bottom of the screen.

STATE COALITIONS

The Jump\$Tart Coalition is involved in a leadership role in the formation of state coalitions for personal financial literacy. The state coalitions' membership mirrors that of the national coalition. The reason for their formation is to work with those who are familiar with the particular needs of a state in the area of personal finance education for grades K-12. Each state coalition has adopted Jump\$Tart's mission, guidelines, and initiatives.

To see if a state coalition has been formed in your state go to **www.jumpstartcoalition.org** and click on the "State Coalitions" button at the bottom of the screen.

PUBLIC AWARENESS CAMPAIGN

Jump\$Tart is raising the public's awareness that personal finance management, like reading, math, or driver education, is a fundamental life skill that needs to be taught to our nation's youth before they become self-supporting. The Jump\$Tart Campaign will target the educational decision makers and communicators, such as government and administration officials, parents, educators, school board officials, personal finance media, and organizations represented as coalition members. The idea is to move the public through various levels of awareness toward the goals of improved personal financial education for America's youth.

Partners

American Association of School Administrators
American Bankruptcy Institute
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American Institute of Certified Public Accountants
Bank of America
Bannister Financial Education Services
Business Professionals of America
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College Parents of America
Consumer Information Center
CUNA & Affiliates
CUNA Mutual
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Future Homemakers of America, Inc.
Genus Credit Management
Girl's Inc.
IAS Financial Education
Kiplinger's Personal Finance Magazine
Life and Health Insurance Foundation for Education

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