



Federal Trade Commission

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Consumers' Bill of Rights for the 21st Century

Bringing Basic Consumer Protections into the High-Tech Marketplace

Consumers have a right to accurate information in the marketplace.

No new legislation required; executive order to review and update consumer disclosures for Internet

Consumers have a right to protection from fraud in the marketplace.
(DOJ, US Postal Inspection Service)

Legislative initiative:

Extend wire and mail fraud statutes to the Internet

Consumers have a right to control their personal information in the electronic marketplace.

(FTC) (*Commerce*)

Consumers should have one place to go for help, information, and to complain.
(FTC)

Legislative initiative:

Remove statutory obstacles to sharing complaint data among federal civil and criminal law enforcement agencies.

Budget initiative:

Fund FTC's Consumer Response Center to operate toll-free number and increase data-handling capacity.

Consumers have a right to protection in the global marketplace.
(State, DOJ, Customs, FTC)

Legislative and treaty initiatives:

Improve extradition procedures.

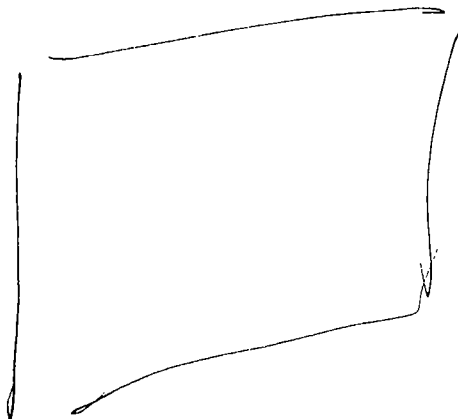
Remove statutory obstacles to sharing basic law enforcement information across borders.

move to line 1
 Consumer Financial Bill of Rights *should*

1. Consumers have the right to receive accurate, easily understood information about their financial status and about investment options. *timely* *yes*
2. Consumers have the right not to be ~~discriminated~~ *access* against in their dealings with financial institutions and financial service providers. *yes*
3. Consumers have the right to privacy in their financial records, and their financial records should not be disclosed without their prior consent. *yes*
4. Consumers have the right not to be unfairly charged for financial services such as the use of automated teller machines (ATMs). *have an opportunity to opt out of having information*
5. Consumers have the right to a fair and efficient process for resolving differences with banks and other financial institutions. *yes*

Strike bill of rights on Consumer Financial Bill of Rights.

*Consumers need
 more information
 more access
 more privacy*



Rich Carnell Treas
Sarah Rosen
Weinstein
Greg Baer

**Draft Principles for Evaluating
Consumer Protection Proposals**

Principles:

(1)

- Allow consumers to make informed choices among the widest possible array of products. *informed*
- Provide comprehensive *ex ante* disclosure to consumers of price, liability, and other terms of financial products.
- Rely on market competition to the maximum extent possible to determine price, output, and allocation of financial services.
- Protect consumers from significant loss due to loss or theft of cards when the customer behaves responsibly. *Protect*
- Maintain the safety and soundness of financial institutions. *→ Consumers have*
- Minimize regulatory costs and burdens on financial institutions. *←*

Safe
Fair
Competitive

Proposed Consumer Protection Bills

ATM Surcharges

HR 264 (Roukema) would require ATM owners to post written and "on screen" notices of ATM surcharges. *This bill is consistent with disclosure principles, as customers can make informed choices.* 

Both S 885 (D'Amato) and HR 795 (Sander) would prohibit "foreign" or "off-us" ATM fees (surcharges). *These bills appear not to advance any of the guiding principles while conflicting seriously with some. In particular, prohibiting ATM surcharges could limit consumer choice and convenience by reducing the supply of ATM machines. Thus, customers willing to pay a price for increased ease of access to their funds would be denied that choice.*

Credit Card Provisions

HR 274 (Schumer) would amend TILA to mandate disclosure of each APR that will apply in cases of pre-approved credit card solicitations or applications for open-end consumer credit plans, including a precise description of the indexes and manner used to determine such rates. *This bill appears consistent with disclosure principles, though the cost and benefit of detailed disclosures should be explored.* 

HR 1722 (Fox) would amend TILA to establish a criminal penalty for fraudulent use of credit cards and limit credit union membership to those with a common bond. *This bill would seem to promote the safety and soundness of banks and other financial institutions. The credit union provisions would have to be evaluated separately.*

HR 1975 (Kennedy) would prohibit the assessment of fees for on-time payments of open-end credit and require advance notice of interest rate increases on credit cards. *This bill appears to conflict with major principle. Prohibiting banks from charging fees to those who pay their bills on time is effectively requiring banks to extend interest free credit. Although banks may make up the difference through merchant charges, setting the price of credit does not appear to be consistent with the principles. Moreover, a bank that believed that on-time payers were a money losing proposition would remain free to cancel their cards, thereby reducing customer choice.*

HR 2599 (Fattah) would make it unlawful to require a credit card or demand an unreasonable deposit in cash as a condition for conducting business. *This bill would interfere with business decisions and would not seem to increase consumer choice.*

HR 2662 (Menendez) would amend TILA to require that certain credit card and charge card applications disclose to the consumer the maximum authorized credit limit, and the consumer's right to state in the application the lowest credit limit acceptable to the consumer. *Although the*

bill seems to protect consumers by requiring disclosure of the credit limit, it is not clear that it is necessary.

HR 3066 (Maloney) would amend TILA to require 90 days notice of any change in credit card APRs or APR indexes. *This bill appears to conflict with safety and soundness by imposing interest rate risk on banks. To the extent the notice period were shortened, this concern would dissipate.*

Debit Card Liability

S 1203 (D'Amato), S 1154 (Reed), HR 2319 (Barrett), and HR 2234 (Schumer) all essentially extend existing credit card liability limits to debit cards issued without a unique identifier such as a PIN number, photo, or retina scan. *These bills appear consistent with reasonable limitation of consumer liability. Current industry practice is to limit such liability voluntarily, though that practice was influenced by the introduction of these bills and could be changed at any time.* yes

S 1154 (Reed) would impose consumer liability for unauthorized electronic fund transfers through debit cards only if the issuer provided a PIN. *It seems that under the bill customers with debit cards that have PINs would not have a limited liability equal to that of credit card.*

Information Privacy

S 512 (Kyl) would amend the federal criminal code to provide penalties against any person who defrauds, obtains, or uses one or more means of identification other than that lawfully issued for the use of the possessor. The bill would also give the Secrete Service authority to investigate identity theft issues and require the Secret Service and the Federal Trade commission to conduct a comprehensive study of the extent and causes of identity fraud and the threat such fraud poses to financial institutions and the payment systems and consumer safety and privacy. *This bill is moot because a similar bill has recently been enacted.*

HR 1287 (Franks) would prohibit an interactive computer service from disclosing to a third party an individual's SSN or related personally identifiable information without the individual's prior informed written consent. The bill would give the FTC enforcement authority. *This bill is at odds with the Administration's position that firms that conduct business on the Internet should be given time to establish SROs or other methods to protect consumer privacy data before legislation is consider. In addition it appears that the bill would add the FTC to the list of regulators of regulated financial services firms that conduct business on the Internet and would allow individuals to allow individuals to revoke their consent of use or distribution of such information at anytime; therefore the bill would be costly, burdensome and unnecessary.*

S 600 (Feinstein) and HR 1813 (Kleezka) are identical and would redefine the term "consumer report" to exclude identifying information listed in a local telephone directory; and would prohibit commercial acquisition or distribution of an individual's SSN without written consent.

The bill would restrict the use of SSNs by state motor vehicle departments and would prohibit use of SSNs by marketing companies. *The bill in its efforts to protect SSNs remove individuals' ability to choose to let others use their SSNs.* ?

HR 1900 (LaFalce) would require banks to take numerous steps to ensure that customers who purchase non-deposit products such as insurance and securities from a bank are not under a misimpression that such products are federally insured or bank-guaranteed. The bill would also prohibit banks from coercing customers into purchasing non-deposit products. The great majority of restriction contained in the bill are already required of banks. In addition, the version of the financial modernization bill adopted by the House Banking Committee contained many of the provisions in HR 1900; however, the most controversial provisions in HR 1900 were not included -- for example the provision that would permit consumers to recover for damages if banks did not comply with the consumer protection rules and would prohibit a bank from sharing customer information with an affiliate. *The Treasury supported passage of the financial modernization bill, and our statement of concerns about the bill did not raise concerns about the provisions that were borrowed from HR 1900.* (See attachment for more information about HR 1900.) OK

HR 1964 (Markey) would require the FTC to determine the methods by which consumers may be enabled to learn what consumer information about them is being collected, used and sold, and how consumer can exercise control over such information. *Before taking a position on this bill we would need to know the federal budget costs and the cost to the private sector.*

HR 2368 (Tauzin) would, among other things, require industry working groups (defined as the Direct Marketing Association, Interactive Services Association, Truste, Association of National Advertisers, etc.) to establish voluntary guidelines to protect consumer privacy data (related to children, medical records) develop seals or icons, set up a system to deal with consumer complaints, and audit for compliance. *This bill would be at odds with the Administration's position that the private sector should be given a change to set up similar voluntary SROs before legislation is considered.*

Rent to Own

HR 3060 (Kennedy) would amend the Consumer Credit Protection Act to require comprehensive disclosure of the terms and conditions governing rent-to-own transactions and to protect consumers from certain abusive practices involving such transactions. Disclosures must be made on items at the point of rental as well as in writing for the consumer at the time of contract negotiation. Abusive, unfair, and deceptive acts in rent-to-own transactions are prohibited, subject to enforcement by the FTC and civil liability provisions. Interest, finance charges, and other fees involving rent-to-own transactions, as well as guarantees and warranties for goods, are made subject to state laws governing credit or retail installment sales of the same or similar items. Certain Federal laws are extended to rent-to-own transactions, including the Truth in Lending Act, the Equal Credit Opportunity Act, the Fair Debt Collection Practices Act, and the

Fair Credit Reporting Act. Consumer automobile leases would be brought under the provisions of this bill in place of current coverage under the consumer lease provisions of Chapter 5 of TILA. *The disclosure provisions of this bill are consistent with the guiding principles; other provisions may constitute excessive regulation and auto leases can continue to be regulated under TILA.*

yes

HR 2019 (Jones) would amend the Consumer Credit Protection Act to require comprehensive disclosure of the terms and conditions governing rental-purchase agreements, including certain disclosures via labels or tags on items at the point of rental. In addition, HR 2019 specifies the inclusion and exclusion of certain provisions in each rental-purchase agreement. For example, specified termination and reinstatement provisions must be included in the agreement, whereas a confession of judgment, a wage assignment, or a consumer's waiver of a claim defense, among others, are prohibited.. Finally, the bill requires written account statements at the time of each payment, includes provisions for the renegotiation and extension of rental-purchase agreements, places requirements on the content of rental-purchase advertising, and defines civil liability for merchant violations. *The disclosure provisions of this bill are consistent with the guiding principles; other provisions may constitute excessive regulation.*

yes

Debt Collection Practices

HR 837 (Bachus) amends the Fair Debt Collection Practices Act to require that the consumer notify the debt collector in writing of any dispute within 30 days of receiving a debt notice. It allows the debt collector to demand payment of a debt, and attempt to collect it, within 30 days of consumer notice. And it allows the debt collector to obtain information concerning location, income, assets, or credit of the consumer from any person besides the consumer's lawyer if the lawyer refuses to provide such information. *This bill appears to be inconsistent with providing reasonable limitations on consumer liability.*

HR 1059 (Bachus) would amend the Fair Debt Collection Practices Act to permit debt collection activities and communications to continue during the 30-day period following the initial debt notice by the debt collector to the debtor. *This bill appears to be inconsistent with providing reasonable limitations on consumer liability.*

S 1405 (Shelby) contains over 50 provisions that are considered regulatory burden relief measures. The Treasury testified on this bill on March 10, supporting some of its provisions and opposing others.

Unsolicited Loan Checks

S 1163 (Bryan) and HR 2053 (Hinchey) would amend TILA to prohibit the distribution of any negotiable check or other instrument with any solicitation to a consumer by a creditor to open an account under any consumer credit plan or to engage in any other credit transaction. A consumer would not be liable for the amount of such check unless the consumer actually received and

OK

negotiated the check, the burden of proof of which would be placed on the creditor. Information on any liability alleged by a creditor issuing unsolicited loan checks could not be reported or received by a credit reporting agency. *This bill appears consistent with providing reasonable limitations on consumer liability.*

Office of Economic Policy

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Washington, D.C. 20220*Consumer Financial*

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Attached is a draft paper to be discussed at
the Wednesday, October 21 2:00p.m. Consumer
Financial Education Subcommittee Meeting.

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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 JumpStart 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.



DEPARTMENT OF AGRICULTURE
OFFICE OF CONGRESSIONAL RELATIONS
WASHINGTON, D.C. 20250-0100

FAX COVER SHEET

Child Nutrition

Date:

10/16

To:

Jonet Marghita
Tom Freedman

Fax #:

From:

☒

David Carlin

☐ Hannah Richert

☐

Cheryl Tate-Macias

☐ Nat Otis

☐

Vince Ancell

☐ Chuck Jones

☐

Judy Baldwin

☐ Debbie Brenchick

☐

Julie Allen

☒ *Patricia Steel*

USDA - Office of Congressional Relations
Room 213A - Whitten Building
(202) 720-7095
Fax: (202) 720-8077

Cover sheet plus _____ page(s)

Remarks:

Child Nutrition Program
Reauthorized in directly related
to Budget Victory talking
points. Come on Man, you're
missing a big opportunity.
Patricia Steel

Julie Paradis - winfinal.2pg

Get Background info for Julie.

President Clinton, Vice President Gore, And Congressional Democrats Win On The Budget, But There Is Still More Work To Do

October 15, 1998

The final FY99 budget represents a significant step forward for America, protecting the surplus until Social Security is reformed, forging a bipartisan agreement on funding the International Monetary Fund, and putting in place critical investments in education and training, from smaller class sizes to after-school care, and from summer jobs to college mentoring. While the final budget is clearly a win for President Clinton, Vice President Gore, and Congressional Democrats, there is still more work to do to prepare America for the 21st century. Unfortunately, Republicans blocked school modernization, Patients Bill of Rights, comprehensive tobacco legislation, child care investments, and campaign finance reform.

Budget Victories:

Saving Social Security First. The President's commitment to Save Social Security First held the line against several Republican efforts to drain the surplus.

Investing in Education and Training. While House Republican tried to slash their education budget by over \$2 billion, President Clinton and Congressional Democrats delivered on their education agenda:

- ✓ **More High-Quality Teachers With Smaller Class Sizes:** \$1.2 billion for the first year of the President's new initiative to hire 100,000 new teachers to reduce class size in the early grades to a national average of 18. Through smaller classes this initiative will help recruit high-quality teachers and will insure that students will receive more individual attention, a solid foundation in the basics, and greater discipline in the classroom.
- ⇒ **After School Programs:** \$200 million to expand programs and serve a quarter of a million children.
- ✓ **Child Literacy:** \$260 million for a new literacy initiative, consistent with the President's America Reads proposal.
- ✓ **College Mentoring for Middle School Children:** \$120 million for GEAR-UP, a new mentoring initiative to help up to 100,000 low income middle school children prepare for college.
- ✓ **Education Technology:** A \$114 million increase over FY98 to ensure that every child has access to computers, the Internet, high-quality educational software, and teachers

that can use techno/logy in the classroom.

⇒ ★ ✓ **Child Care Quality:** \$182 million to improve the quality of child care for America's working families.

- ✓ **Teacher Recruitment:** \$75 million for new teacher quality programs including to recruit and prepare thousands of teachers to teach in high-poverty areas.

★ ✓ **Head Start:** A \$313 million increase to fund President's request of up to an additional 36,000 slots for children and keeping on track towards one million children served by 2002.

- ✓ **Charter Schools:** A 25% increase in funding for Charter Schools to keep on track toward 3,000 quality charter schools early in next century.

- ✓ **Hispanic Education Initiative:** Increases of \$524 million to enhance educational opportunities.

- ✓ **Pell Grants:** The largest maximum award ever for Pell grants -- \$3,125 a year per eligible student.

- ✓ **Summer Jobs:** \$871 million to provide up to 530,000 young people Summer Jobs.

Investing in a Cleaner Environment. President Clinton won important new investments to combat water pollution, protect national parks, natural forests, and other public lands, restore salmon and other endangered species, and develop clean energy technologies and defeated many anti-environment riders:

- ✓ \$1.7 billion for the President's **Clean Water Action Plan.**
- ✓ \$325 million to preserve **precious lands.**
- ✓ A 23 percent increase to protect threatened **endangered species.**
- ✓ More than \$1 billion, a 26-percent increase, to fight **global warming.**

Responding to the Farm Crisis at Home. The final budget includes about \$6 billion in emergency assistance to farmers, ranchers, and their families -- \$1.7 billion over the vetoed agriculture bill.

And to the Financial Turmoil Abroad. The final budget includes the President's full funding request of \$17.9 billion for the IMF.

Moving People from Welfare to Work and Empowering Communities.
President Clinton and Vice President Gore are committed to tapping the potential of America's

**Talking Points On Why There Should Be A
Presidential Signing Ceremony For
H.R. 3874
The Child Nutrition Reauthorization Act of 1998**

- H.R. 3874 complements a major White House initiative, the 21st Century Community Learning Center Program, on expansion of after-school education and mentoring programs. The focus of the White House initiative is to provide expanded learning opportunities for participating children in a safe, drug-free and supervised environment. H.R. 3874 provides \$120 million dollars over a five year period for nutritious snacks for over 1 million children who could be new participants in the 21st Century Program. Over 940,000 children in school-based after-school programs as well as 61,000 children in at-risk child care programs will benefit. Snacks will be served free to children ages 6-18 years old in every major urban area in the country. The funding for such snacks will be a catalyst for local educational officials to start or expand existing after-school programs. The offering of a nutritious snack would also attract at-risk youths between the ages of 12 and 17 into education programs, off the streets, thereby reducing juvenile crime.
- Through its support of after-school programs, H.R. 3874 helps women on welfare who are returning to the work force, another major White House priority.
- H.R. 3874 demonstrates Presidential leadership. The President promised a cost-neutral progressive child nutrition bill and he delivered one.

This legislation:

- improves program operations,
- reduces paperwork burdens,
- and enhances the nutrition and health status of children
- The Administration's bill was adopted by the Chairmen of the House and Senate authorization committees as their mark-up vehicle.
- Two years ago the House Republican leadership voted to end the entitlement status of School Lunch and block grant the program. President Clinton "school lunched" the House Republican leadership by vetoing the first Welfare Reform bill in part because it contained School Lunch Block Grants. The political fallout for Republicans was enormous and was a major factor in why the Conference Report on H.R. 3874 passed the House by a vote of 422 to 1 and the Senate by unanimous consent. Representative Mike Castle and Senator Richard Lugar provided strong leadership on this legislation and would welcome a White House signing ceremony.

- There are 94,000 schools that participate in School Lunch. Virtually every town has a school that offers a school lunch.
- H.R. 3874 is the largest child nutrition bill since 1978.
- Key Democratic members strongly supported this legislation including:
 - Minority Leader Daschle
 - Senators Johnson, Harkin and Leahy
 - Rep. Woolsey, Clay, Martinez and Kildee
- Key constituencies strongly supported this legislation including:
 - National Education Association
 - American Federation of State, County and Municipal Employees
 - National PTA
 - American Association of School Administrators
 - National Farmers Union
 - American School Food Service Association

These and other allied groups have a combined membership of over 15 million people. They all want to go to a White House signing ceremony. The last White House signing ceremony on a major child nutrition bill was in 1978.

- On a more substantive note — H.R. 3874 will:
 - provide 15,000 preschool children in Kentucky and Iowa with nutritious meals through the Child and Adult Care Food Program. These children would have been terminated from CACFP without this legislation since they were in for profit child care centers. All of these children are poor, but Federal guidelines presented a barrier to their participation in CACFP because they were in for profit child care centers. H.R. 3874 changed those guidelines thereby benefiting these children and allowing their parents to go to work knowing that their children were in safe, quality child care.
 - make a change in licensing requirements for CACFP requested by the entire Ohio delegation, thereby preserving benefits for thousands of young children served by Boys & Girls Clubs
 - give USDA funding (through the use of Section 32 funds) to ensure that commodities that pose health or safety risks are immediately removed from schools (i.e., bad strawberries and meat contaminated with e-coli)
 - For the first time the legislation provide \$1 million in funds to USDA to focus on improving integrity in the CACFP. By leveraging these dollars

with our State partners significant improvement in Program integrity should lead to substantial reductions in Federal outlays without jeopardizing meals service to eligible Program participants. The law would establish several new requirements designed to minimize fraud and abuse in the WIC program. This new law establishes important safeguards to make sure that WIC participants have access to the important supplemental foods that WIC provides, through credible food stores. Under this new law, food stores found to be trafficking in WIC food instruments would be permanently disqualified from the program. The law would also provide for the criminal forfeiture of all property used in such transactions.

10/15/98

DRAFT

**Consumers' Bill of Rights
for Financial Services**

DRAFT

PREFACE: Technology and innovation changing products and services. But basic rights do not change. Need to update our protections for new world.

Consumers have a right to privacy of financial information

- Give bank regulators authority to issue rules to implement FCRA and to examine for compliance
- Require explicit opt-in before affiliate sharing of insurance (medical) information in bank holding company
- Money for FTC for internet privacy initiative
- Amend FCRA to prohibit a bank from sharing customer info with 3rd party if customer opts-out of such sharing

Consumers have a right to full disclosure

- Minimum payment disclosures on credit cards
- Durbin disclosure (credit company hasn't assessed your ability to repay)
- Lease-to-own disclosure
- Disclosure of mutual fund fees
- ATM surcharges
- Survivor benefit options for pension plans
- New disclosures on high LTV second mortgages

Consumers have a right to competitive marketplace

- Database of information on banking fees for easy comparison of products

Consumers have a right to protection against fraud

- Identify theft and pretext calling legislation
- FTC enforcement
- Limits on liability for non-PIN protected debit cards (comparable to credit cards)
- Prohibit unsolicited mailing of loan checks????
- NASC oversight of investment advisors
- Extend criminal wire fraud and mail fraud statutes to cyberspace??

All consumers have a right to access to financial services

- ETAs
- ATMs in post offices and public buildings in low-income areas

Consumers have a right to save for their own financial security

- IDAs
- Expand access to payroll deduction for retirement savings



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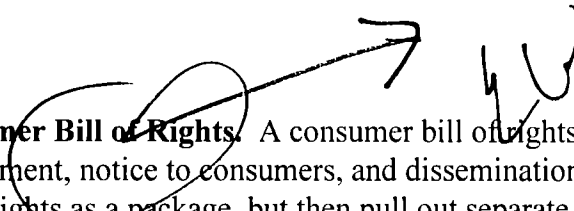
Consumers have a right(?) to pension security????

- SMART
- Portability proposals
- Other pension initiatives?

QUERY: Do we frame financial literacy initiative as a right or a responsibility

Consumers have a right to a good education about how to manage their finances

- Clearinghouse for financial empowerment at Treasury
- Presidential Advisory Committee on Financial Fitness
- Incentive grant program for consumer credit and financial management education k-12
- Expand DoD, Ag Extension, DoL, Administration on Aging, and EFT 99 education programs under one umbrella
- Public Service Campaign



Consumer Bill of Rights. A consumer bill of rights to address a number of areas such as enforcement, notice to consumers, and dissemination of information. We could announce this bill of rights as a package, but then pull out separate pieces for separate events as with the Patients' Bill of Rights area. We could include a number of different areas such as the following:

(1) **Consumers have a right to accurate information in the (electronic) marketplace.** We have entered the Information Age, but sometimes information misleads rather than inspires consumers. For instance, on the Internet, many advertisements are confusing because important information is missing, hidden, or inaccurate.

- 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 \$150,00 for a more useful interactive site. Consumer education in the use of the website and its information would be an additional cost.
- Credit card disclosures and options which would 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; 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.
- Disclosure of mutual fund costs : Encourage the SEC's efforts to improve disclosure to mutual fund investors and question fees that may not be appropriate.
- Debit card issues and options: Support the Schumer-Gonzalez bill, which would: (1) limit 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) require card issuers, as a condition of imposing any liability on consumers, to disclose the importance of prompt reporting loss or theft of the card; and (3) prohibit 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.
- Disclosure of customer costs of acquiring financial products: Support stand-alone enactment of the Dingell/LaFalce or some other disclosure scheme that runs

across all industries.

- To fix this problem, we need to make sure that existing laws are in step with new technology. All agencies should review and revise their consumer disclosure laws to ensure that they are as effective online as they are on paper.

(2) **Consumers have a right to protection from fraud in the (electronic) marketplace.**

- Rent-to-own transactions issues and options: 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.)
- Unsolicited Mailings of Loan Checks: 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.
- NASD oversight of investment advisors
- Congress should extend the criminal wire fraud and mail fraud statutes to cyberspace and prohibit deceptive practices online. We could provide 30 additional FTEs for the Federal Trade Commission's Bureau of Consumer Protection to detect and enforce antifraud laws on the Internet and to expand consumer education efforts.

(3) **Consumers have a right to control their personal information in the electronic marketplace.** Consumers should be able to shop in cyberspace without fear of prying eyes. They should know if a web site wants to collect information about them, and they should have a choice about how that information will be used. Consumers should have access to their personal information to make sure it is accurate and their personal data should be kept secure. [Congress just passed an identity theft law.]

- We could fund 15 FTEs to staff the FTC's Bureau of Consumer Protection Internet Privacy initiative.

(4) **Consumers should have one place to go for help and information.** Consumers should have a one-stop shop for their Internet fraud problems, and law enforcement should be able to respond to reported consumer fraud quickly and effectively. The Federal Trade Commission already operates the Consumer Response Center, which puts

mail, telephone, and Internet fraud complaints in one database called Consumer Sentinel. This database contains over 150,000 complaints that are shared with officials across the U.S. and Canada.

- Coordinating Office and Advisory Council on Financial Fitness. This office will help coordinate activities on financial education and outreach throughout the Administration. Previously, the White House Consumer Office provided this coordination; because the office was “downsized” in 1995, however, it may be politically difficult to implement a new White House office for these activities. An alternative “home” is within the Treasury Department’s Domestic Finance program, which already provides some policy coordination functions on financial services issues in the Administration. This small office (2 staff members) would help implement policy decisions taken through the White House interagency process on financial services initiatives, through regular communications, updates, and conferences. The Administration could also create a high-profile Advisory Council on Financial Fitness, which could provide both advice and publicity for Administration financial literacy initiatives. The likely cost is around \$1 million for the coordinating office, and \$1 million for the Advisory Council.
 - Clearinghouse for Financial Empowerment: The Administration would support the development of data banks of information on existing public and private consumer education and counseling resources, and information on programs for educators and counselors, to be made available on an Internet site with appropriate links and an on-line search capability (expansion of FTC’s www.consumer.gov website, with links and/or supplemental sites on other Departmental websites), or an 800 phone number. This initiative would be supported by web and network resources already developed by a range of public and private groups.
 - Educational Incentive Grant Program: The Department of Education would provide additional budget support for consumer credit and financial management education through existing grant programs in K-12 and post-secondary institutions. The support could take the form of an award and recognition for excellent existing programs, seed money for integrating financial management models into high school curricula, or matching funds for local district efforts to include financial education in their curricula. The Department of Agriculture, through the auspices of the 4-H Cooperative Extension programs, may also provide some support for high school education.
 - We could fund a toll-free complaint number for the FTC’s Bureau of Consumer Protection.
- (5) **Consumers have a right to protection in the global marketplace.** Schemers and criminals hide behind borders, even as they travel through borderless cyberspace, to victimize consumers everywhere. In order to bring these persons to justice, we need to strengthen our extradition treaties and change our laws so that we can share information

and increase cooperation with our law enforcement partners around the globe.

- We could provide funding for the FTC's Bureau of Consumer Protection to develop a global version of Consumer Sentinel, train law enforcement personnel to use it, and bring meaningful law enforcement actions against international cybercrooks.

THE WHITE HOUSE
National Economic Council

what's by
news.
while before exp.
Mark

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Financial

From: Sarah Rosen

For 3:30 mtg

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low cost
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Ray Greg. S.

CREATING A FINANCIAL RIGHT TO KNOW

In order to allow consumers to keep pace with profound changes in the financial services industry, the Clinton Administration is proposing a "financial right to know" initiative. Because of a revolution in technology and increased competition in financial services, consumers now face far more numerous and complex financial decisions than ever before. New technology also gives Americans the ability to make important financial decisions in an instant. The financial right to know initiative will give consumers the tools to profit from these new opportunities and will protect them from new abuses.

Certainly, the most sophisticated investors already benefit from this financial revolution -- they invest on-line at low commission rates, comparison shop mortgage rates on the Internet, and use credit cards to earn frequent flyer miles. But for millions of Americans, new products have brought new risks and old practices continue: building up unmanageable levels of debt on an unending supply of credit cards and paying check cashers _ percent of the value of a social security check. And all consumers share some risks: violations of their privacy, susceptibility to "identity theft" and other types of financial fraud, and incomplete and confusing explanations of the products they are offered.

The financial right to know initiative includes legislative, regulatory, and other steps to prepare American consumers for the financial services industry of the 21st century.

First, the initiative will provide consumers **full and fair disclosure** about the financial products they are considering. Bank customers asked to purchase securities or insurance products must understand clearly that those products are not federally insured or bank guaranteed. Credit card customers must be told just how expensive it can be to make only the minimum payment each month, and understand the details of low introductory interest rates. Purchasers of rent-to-own products must know whether those products are new or used, and how much they really cost. The financial right to know initiative will place this information in the hands of consumers.

Second, the initiative includes concrete steps to protect the **privacy** of confidential consumer financial information. The initiative will prevent financial institutions from selling such information to a third party without first notifying the customer. It will prevent almost any sharing of medical information the institution might

TOTAL P.04

hold. And it will penalize any attempt to trick confidential information out of bank employees.

Third, the Administration intends to broaden and strengthen efforts to **prevent and punish financial fraud**. To enforce the Identity Theft and Assumption Deterrence Act, the Secret Service will increase enforcement efforts against a crime that, while relatively new, is increasing dramatically. The initiative includes legislation to prevent debit cards and loan checks from creating the same risks of fraud that credit cards once did. And the Treasury Department will work with the states to protect consumers against the worst abuses of unregulated "fringe banks."

Fourth, the initiative will increase Americans' **access** to financial services. We will expand the availability of Individual Development Accounts, where customers can save for education, medical emergencies, and other important needs. The Treasury is in the process of establishing electronic transfer accounts, through which recipients of federal payments will have access to basic banking services at low cost.

And finally, our Administration intends to **educate** consumers -- starting with schoolchildren and ending with retirees -- about the many opportunities and risks in the financial services industry of the 21st century. The Department of Education will promote financial planning education in high schools. Federal agencies are pooling their efforts and working with private organizations and companies to provide information to consumers about financial planning for retirement, education, growing a business, and achieving other important life goals.

FINANCIAL SECURITY 2000

I. EXECUTIVE SUMMARY

A. Introduction

Growth and innovation in our financial markets have produced great opportunities for the American people. But the new products and technology have also created new threats to our families' hard-earned savings, new ways to violate individual privacy and new techniques to defraud consumers. And too many Americans still live just an accident away from financial catastrophe. We must take concrete action to help American families protect their investments and save for the future. The "Financial Security 2000 Act" that the President will soon be sending to Congress will do just that. It will require financial institutions to protect the privacy of confidential medical and account information, increase Federal efforts to combat consumer financial fraud, help consumers get the information they need to make smart choices and protect their savings, and expand ways for low-income families to save. Other non-legislative initiatives, described below, will reinforce and extend these protections. Strengthening financial security for every American family should be no less important a goal than maintaining fiscal discipline for our nation.

B. Proposals

Proposed initiatives are set forth below. Those that have raised some controversy within the working group, and on which Deputies input would be particularly valuable, are written in italics. Pros and cons follow in the attached paper describing all of the proposals in greater detail.

This summary and the attachment also list other proposals the working group is considering but that are not yet ready for formal presentation. Except as noted, no additional funding is required or expected.

1. Expand access to financial services

- Expand the availability of low-cost, electronic banking accounts (ETAs), so that all Americans can have a low-cost, yet safe and sound account in which to deposit and save their money. (The Treasury Department issued a proposed rule on January 7.) J K. Chase will offer
 - Install ATMs in post offices in low-income areas, so that neighborhoods can have access to low-cost electronic banking. (Treasury and the Postal Service are finalizing a memorandum of understanding to develop a pilot project in Baltimore and Florida.) → p42
- low

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Best practice
list:

Expand use of individual deposit accounts (IDAs) that allow low-income households to save not just for retirement but also for education, emergencies, homeownership, or business investment. (The FY00 budget provides HHS with increased funding for this project.)

in
wedged

2. Protect consumer privacy

- Prohibit sharing of medical information, such as those gathered from health or life insurance records, within financial services conglomerates.

advis
firms

- Expand protection of consumers' credit records under the Fair Credit Reporting Act (FCRA), which regulates the assembling and distribution of reports from credit reporting agencies. (Each step requires legislation.)

Require customer notice and customer opt-out choice before an organization can share transaction or experience information with a third party. / affiliate

bank to
sales

not affiliate

- Give bank regulators joint authority to issue enforceable rules under FCRA.

- Give bank regulators broader authority to examine bank compliance with FCRA.

love

Study of insurance

3. Combat fraud against consumers

Fund FTC consumer response network, which is used primarily by consumers victimized by credit fraud.

- Implement new Treasury regulations to guard against and punish identity theft. [Insert from Treasury/ Enforcement.]
- Support Leach bill on pretext calling, so that FTC can sanction private investigators and data brokers who trick confidential customer information out of banks. (The Administration supported this bill in the 105th Congress.)

Impose limits on liability for non-PIN protected debit cards; these cards look like credit cards but can expose the holder to greater risk of loss. (Requires legislation.)

Prohibit unsolicited mailing of loan checks – which any recipient can cash simply by signing – to the same extent as unsolicited mailing of credit cards. Also prohibit mailing of solicitations designed to look like checks -- e.g. mailings marked "Pay to the order of." (Requires legislation.)

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- Work with the states to ensure that customers of unregulated "fringe" banks -- e.g., check cashers -- are protected.

4. Require expanded disclosures of information to consumers

- Require additional monthly disclosures about the terms and implications of credit card debt, including clear and conspicuous notice of how long and how costly repayment would be if the consumer makes only the minimum payment, and the expiration date of any "teaser" or discount interest rate expires. (Such legislation was supported by the Administration in the context of last year's bankruptcy reform.)
- Provide enforcement "teeth" for bank sales practice guidelines - e.g., require disclosure that non-deposit products are not federally insured, and take enforcement action against violators. (Requires legislation or regulation.)
- Require rent-to-own companies to make basic disclosures: whether a product is new or used, what the products total cost would be under the contract; examine the feasibility of additional disclosures based on an FTC study nearing completion. (Requires legislation.)
- Require ATM owners to post any surcharge both on the machine and on-screen. *More?*
- Require the Federal Reserve to establish an electronic database of banking fees information that banks are already required to provide individual customers. (Requires legislation or Fed support.)
- Require lenders to notify customers that a new extension of credit may not be appropriate for a consumer's financial needs, and provide a simple worksheet to assist the consumer in determining how to use his or her credit appropriately.
- Develop standards of conduct for debtor counseling services.

5. Improve consumer education for effective financial planning.

- Launch a consumer financial planning/asset building education campaign that draws on existing resources and programs in many Federal agencies. Initiatives include programs in the Department of Agriculture, Department of Defense, Department of Labor, Department of Health and Human Services, Department of the Treasury, the Federal Trade Commission, the Securities and Exchange Commission, and the Fed, as well as public-private

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partnerships involving these agencies.

- Promote financial planning in high school education, by identifying promising personal finance education programs and including them in guidance distributed to state and local education officials, and by exploring opportunities to include such programs as priorities in the Department of Education's incentive grant program for curriculum development (\$200M is already budgeted for overall incentive grant program in FY00).
 - Establish easy-to-use government clearinghouse of resources for financial planning by building on existing agency web sites, to help consumers and interested groups locate financial planning resources.
 - Co-sponsore FTC's Consumer Week in early February.
6. **Issues that need further research**
- Require new disclosures on high loan-to-value second mortgages.
 - [Expand the availability of payroll deductions for retirement savings, to make it easier for all Americans to save for their retirement.][is this still alive??]
 - Consider further limits on inter-affiliate sharing of information as a privacy protection.
 - Enhance supervision and regulation of independent investment advisors, who can perform most of the same functions as stock brokers but who are not subject to the same consumer protections.
 - Require disclosure of mutual fund gross earnings and all fees, in addition to disclosure of net earnings. (Disclosure of tax implications?)

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II. ANALYSIS OF PROPOSALS

1. Expand access to financial services

While more Americans than ever are using an increasingly broad array of financial services, some Americans remain unfamiliar with important opportunities to save or invest, or do not have easy access to low-cost vehicles for doing so. Our proposals target two critical gaps. First, some Americans have been left out of the dramatic changes in financial services entirely -- over ten million Americans do not have a bank account. Second, even though the number of Americans who are investing for retirement savings is growing rapidly, evidence suggests that many households are saving less than appears optimal to meet their life goals. More than half of households, including some with high incomes, have less than \$2000 of liquid financial assets. An increasing share of households have rising levels of consumer debt, with no financial buffer in the event of a job loss, illness, or other major expense -- possibly contributing to the rise in personal bankruptcies and default rates during the past decade.

- Expand availability of basic financial services using EFT '99. Treasury's EFT'99 initiative has taken important steps toward reaching the "unbanked" and bringing them into the world of modern financial services. Treasury has sought comment on a basic electronic transfer account (ETA) -- an account for the deposit of federal benefits -- and optional features that hold the promise of bringing low-income federal beneficiaries into the economic mainstream. These optional features include paying interest on deposits, accepting other deposits, and making third-party bill payments. Treasury's FMS has lined up several major institutions as fiscal agents to offer the ETA once it is finalized (currently scheduled for April 30). Publicizing this continued initiative would further expand the availability of financial services for recipients of Federal benefits.

- Install ATMs at post offices in underserved low-income areas. Initiatives to expand modern electronic finance to all Americans will succeed only if customers can access their money. But there is often an acute shortage of ATMs in inner city and depressed rural areas. The U.S. Postal Service is working with Treasury to install private ATMs, on a pilot basis, at 3 USPS locations in Baltimore and 3 in Florida. ETA account holders would not be surcharged at these ATMs. This pilot project could be accelerated and expanded to include many locations throughout the country.

- Encourage low-income persons to save through Individual Development Accounts. Individual Development Accounts (IDAs) are designed to encourage low income individuals to save for investments such as saving for

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post-secondary education and training, buying a first home, providing financial security against adverse events or starting a micro-business. Congress recently enacted the Assets for Independence Act, a four-year demonstration program to be administered by HHS, and provided \$10 million in FY99 funding to begin the pilot. This pilot is currently budget for expansion to the \$20-25 million level in FY00.

2. Protect consumer privacy

Americans consistently express concern about their financial privacy, as computers continue to enhance the ability of financial service providers to mind customer data. Particularly sensitive topics include the use of medical information gathered by insurance companies, and the sale or sharing of transaction information from financial accounts with third parties.

- Prohibit sharing of medical information within financial services companies, except for very limited purposes. This would prohibit a health or life insurance company from providing a customer's medical examination to an affiliated lender. In conjunction with the Federal Reserve's approval of its merger with Citicorp, Travelers insurance committed to keep confidential all customer health and medical information.¹ State law already imposes similar requirements.

- Expand protection of an individual's credit record under the Fair Credit Reporting Act (FCRA). The FCRA governs use of "credit reports"-- profiles of a customer's credit history that are now used not only by lenders but also used by potential employers, insurance companies, and rental agents. Current law imposes responsibilities on institutions, including banks, that report information to a credit agency but exempts from regulation the institution's sharing of "experience" and "transactional" information with affiliates or non-credit agency third parties. Other information can be shared with affiliates but only if the customer is allowed to opt out.

- Amend FCRA to allow customers to opt out of sharing confidential personal banking information with a third party. The banks claim that they do not sell confidential information to third parties, and this restriction would take them at their word. This proposal would likely be very controversial, though.

- Give bank regulators authority to issue enforceable rules under the FCRA. Currently, the Fed (only) is authorized to issue only "interpretations," and does so slowly. Thus, there are no definitive rules on when an opt out notice is sufficient, or what "experience" information is. The OCC recently faced Republican opposition to

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issuance of an advisory letter that would provide national banks examples of best practices in this area. The Fed is also concerned that the OCC may be acting prematurely in the absence of a Fed interpretative opinion.

Give bank regulators authority to examine for compliance. As part of the compromise on FCRA amendments in 1996, the banking industry "won" a prohibition on its regulators examining for FCRA compliance absent a complaint or other indication of noncompliance. The industry argued that credit reporting agencies themselves are not subject to examination, and that any errors can be corrected when the customer obtains access to the credit report. This decision could be reversed.

3. Combat fraud against consumers

The increased availability of sensitive, personal information on-line has created new opportunities for fraud, and thus a new need for government action to guard against fraudulent use of sensitive information.

- Fund FTC consumer resource network.
- Implement Treasury initiative on identity theft. [Insert from Treasury enforcement.]
- Combat pretext calling by supporting Leach bill. Chairman Leach last year introduced a bill to restrict pretext calling, where private investigators or data brokers trick customer information out of banks -- e.g., by pretending to be the customer. The bill would allow the FTC to impose sanctions on those who make pretext calls. It would have been enacted by acclamation, but time ran out.
- Extend consumer protections for debit card holders. At present, consumer losses due to credit card theft and fraud are limited by federal law, while losses on an ATM card (while not legally limited) are prevented by security features (PINs). Debit cards carry neither legal protection nor security protection against loss. Although VISA and Mastercard have voluntarily extended strong protections -- beyond what has been contemplated legislatively, for example in the Schumer-Gonzales bill -- this area is rapidly changing and it may make sense to enact certain basic protections that any future issuer will have to provide. Care would need to be taken so that any legislation established a reasonable level of protection, but did not encourage VISA and Mastercard to drop their practices to that floor.
- Prohibit unsolicited mailing of loan checks. *Already prohibited from mailing*

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unsolicited credit cards, some banks now mail "loan checks" that need only be endorsed by the recipient to be converted into cash (thereby effectuating a loan from the sender).

Pros: Concerns here include the potential for consumer inconvenience and reputational harm if the loan check is stolen, paternalism to the extent that customers are quickly indebting themselves without adequate information on the terms and implications of the debt, and privacy (the right not to have checks made out to you floating around). Put another way, unintended recipients of loan checks may (rightly) feel the need to destroy them in a way that is unnecessary with other junk mail, and this is an unjustified intrusion, and inconvenience.

Cons: The practice at this point is quite limited (Fleet Financial being the primary user), and targeted only at the more affluent. Some recipients may view the loan checks as a convenience.

Fringe banks. Work on EFT '99 has highlighted the practices of unregulated "fringe banks" such as check cashers. Although fringe banks perform services valued by their (many) customers, some of their practices are clearly abusive. We could propose a task force to work with the states to determine whether existing regulations and enforcement resources are sufficient to protect customers of fringe banks. Also the Treasury/FMS has proposed to regulate payment arrangements under EFT'99 that provide access to accounts at financial institutions through non-bank entities, including fringe banks.

4. Require expanded disclosure of information to consumers

Additional monthly/regular disclosures on credit cards. Current law requires credit card issuers to disclose prominently a consumer's balance, current finance charges, minimum monthly payment, and effective monthly interest rate. This information may not give consumers a complete and forward-looking picture of the implications of their debt burden; for example, some credit cards offer terms such that making minimum payments will never pay off a debt.

In last year's bankruptcy reform debate, the Administration supported additional clear and conspicuous monthly disclosures of the implications of making only the minimum payment: how many months (if ever) it would take to pay off the debt, and what the total (principal plus interest) payments would be. In addition, credit card issuers might be required to disclose regularly: (1) how much longer a "teaser" or discount interest rate will remain operative (and what the subsequent rate will be) – consumer anger

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about this problem accounts for the bulk of credit card-related complaints to the OCC; (2) if the creditor is taking a secured interest in purchases, and of the implications for delinquency and bankruptcy (the debt is not dischargeable); and (3) how the consumer can obtain a low-cost copy of his/her credit report. Questions remain about whether such disclosures can be provided in an effective, clear and conspicuous, and nonburdensome way; thus, the Administration might propose legislation for a Fed/Treasury study of the best approach to these new disclosure requirements, to be followed by new TILA disclosure regulations as appropriate.

Convert bank sales practice guidelines into enforceable rules - e.g., require by rule that banks disclose that non-deposit products aren't federally insured.

The four federal banking agencies have jointly adopted an Interagency Statement on Retail Sales of Non-deposit Investment Products. The Statement does not have the force of law, yet is the only place in federal regulation where an attempt is made to ensure that customers buying insurance or securities products on bank premises understand that those products are not federally insured or bank guaranteed. Consumer groups have long sought to make these regulations enforceable, and surveys continue to show a disturbing level of customer confusion about what products are federally insured.

Require basic rent-to-own disclosures. Propose authorizing the Fed to write appropriate disclosure requirements for rent-to-own transactions. Pending release of an ongoing 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. (Additional disclosures such as calculating the implicit interest rate, or alternatively the equivalent purchase at a reasonable interest rate that could be financed by the total payments under the rent-to-own contract, need further study.)

On-screen and on-machine posting of ATM surcharges. 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, though most network rules require both.

Ask the Federal Reserve to create a database of information on banking fees for easy comparison of products. This data is available because the Truth in Savings Act already requires all banks to provide such information to anyone who requests it, and requires the Federal Reserve to draft regulations on the format for such data.

Require disclosures advising care in the use of new credit extensions. The disclosure would state that, while the credit card company has evaluated a

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consumer's ability to repay, it has not evaluated whether taking on any additional debt is in the consumer's financial interest. This disclosure might be accompanied by the "Durbin worksheet," which consumers can use to assess whether a credit extension is appropriate given their financial circumstances and needs.

Develop voluntary or mandatory standards and disclosures of interests for debtor counseling services. As consumer debt and delinquencies have increased, the debtor counseling industry has grown as well. This diverse industry includes large non-profit organizations (many of which are funded by creditors), large for-profit companies like Genus Credit Management, and many small, sometimes less reputable, companies. State regulation of these agencies is uneven, and only six states regulate non-profits at all. With proposals last year to include mandatory credit counseling as a condition for bankruptcy filing, the Executive Office of the U.S. Bankruptcy Trustees began to evaluate proposals for the development of standards or, at a minimum, consumer guidelines for this industry. Several other financial education groups have also developed guides for consumers.

This initiative might support the development of a standardized description of services, a checklist of questions to help the consumer determine which approach to dealing with debt may be best for her, and resource lists of "approved" counseling and debt assistance agencies in local areas. Alternatively, voluntary standards could be developed, as the National Federation of Credit Counselors has done. The development and enforcement of national standards, perhaps in coordination with state regulatory authorities, would be very costly – but might be feasible (or required) as part of a bankruptcy reform package. Alternatively, the Administration could propose a study of options for improving the reliability of the credit counseling industry.

5. Improve consumer education for effective financial planning

This initiative proposes new disclosures and protections appropriate for our increasingly complex financial system. To take advantage of new opportunities, 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 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

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and planning – a skill that they now need as soon as they graduate.

[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.]

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.

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 productivity (more willing to invest in skill development, better ability to plan complex tasks).

These proposals will help consumers take advantage of the rights and opportunities provided by the other components of Financial Security 2000, and will complement other Administration initiatives to help Americans build critical skills through training and other lifelong learning programs, basic literacy programs, and public health and nutrition education.

- Launch consumer education campaign. Federal agencies and collaborating private organizations will launch a consumer financial planning/asset building education campaign. The campaign would highlight and build upon consumer financial education activities currently undertaken by the many agencies, including: the U.S. Department of Agriculture (through its Cooperative Extension programs to provide personal finance education in low-income and rural areas), the Department of Defense (which has developed curricula and programs for military families and youths), the Department of Labor (which cosponsors ASEC, a public-private partnership to encourage retirement savings), the Department of Health and Human Services' Administration on Aging (which also sponsors educational

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programs to assist with financial planning for retirement), the FTC and the Fed (which have consumer offices that promote better and more informed consumer financial decision-making), the SEC (which cosponsors public-private initiatives to help consumers make informed investment decisions), and the Treasury (which sponsors financial services education and outreach programs, particularly for low-income households). Treasury will help coordinate these activities, by encouraging further development of public-private partnerships and facilitating joint activities by all participating agencies. The campaign may include appearances and speeches by senior Administration officials at events that highlight financial planning/asset building initiatives, to focus public attention on the message. Other elements of the campaign could include Treasury or other Administration sponsorship of and participation in grassroots outreach efforts by the consortium, such as media campaigns, public service announcements, or other educational activities for adults and young people.

Promote financial planning in high school education. The Department of Education will promote financial planning in high school education, by identifying promising personal finance education programs and including them in guidance distributed to state and local education officials, and by exploring opportunities to include such programs as priorities in the Department of Education's incentive grant program for curriculum development (\$200M budgeted for overall incentive grant program in FY00). Public and private groups have developed and evaluated personal finance modules for inclusion in math, social science, and other standard courses; some districts have already adopted these curricula. This proposal would provide additional Federal encouragement for personal finance education in high school.

Create a government "information clearinghouse" on financial planning resources. This proposal would provide government-wide links to information on financial planning resources that have been supported fully or in part through Federal initiatives. It would build on existing web sites, including DOL's site on retirement savings and FTC's web site on consumer financial rights. The clearinghouse would also help direct consumers to appropriate information and publications on financial management topics, and provide a mechanism for the diverse initiatives to share information and resources. *No budgetary cost--subject to funding of web sites at each agency at existing levels*

Administration co-sponsorship of Consumer Week 1999 programs on consumer fraud. The FTC sponsors Consumer Week in early February, an annual set of activities and events around a single consumer theme. This

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year's topic is credit fraud, and it will feature public education events sponsored by government, nonprofit, and private industry groups. Sponsorship could include appearances by Administration officials at appropriate events related to areas of fraud under their jurisdiction and/or separate events at which senior Administration officials would support consumer fraud and education activities. In particular the President's annual proclamation for Consumer Week should include support of the consumer financial security initiatives.

III. ISSUES THAT NEED FURTHER RESEARCH

- Improve disclosure of mutual fund fees. The fees associated with mutual funds can have a dramatic effect on the return earned on an investment. Yet they are confusing, even consumers who carefully study the returns posted by funds generally remain ignorant of the full impact of fees on returns. The SEC and NASD have begun to highlight and study this issue, and we will work with them in the coming weeks to identify if there is an Administration role here. A proposed disclosure must consider several factors, including: funds able to earn higher returns may incur higher fees, so that the disclosure should highlight net returns; and it is unclear whether and how the government should encourage disclosures that clarify tax implications, thereby reducing revenues.
- Impose regulation of independent investment advisors. The U.S. currently has 11,000 investment advisors with more than \$6 trillion under management. Yet they are not subject to the same consumer protections as registered representatives/brokers.
- New disclosures on high loan-to-value second mortgages. Require new disclosures on high loan-to-value second mortgages., such as: total loan payments including all fees, the risk of home foreclosure if payments are not made, and the non-deductibility of interest payments on loans greater than the value of the home.
- Further limit inter-affiliate sharing of information for privacy purposes.

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Date: 1/25

___ Pages

To: Tom Freedman

From: Sarah Rosen

For 3:30 mtg

CREATING A FINANCIAL RIGHT TO KNOW

In order to allow consumers to keep pace with profound changes in the financial services industry, the Clinton Administration is proposing a "financial right to know" initiative. Because of a revolution in technology and increased competition in financial services, consumers now face far more numerous and complex financial decisions than ever before. New technology also gives Americans the ability to make important financial decisions in an instant. The financial right to know initiative will give consumers the tools to profit from these new opportunities and will protect them from new abuses.

Certainly, the most sophisticated investors already benefit from this financial revolution -- they invest on-line at low commission rates, comparison shop mortgage rates on the Internet, and use credit cards to earn frequent flyer miles. But for millions of Americans, new products have brought new risks and old practices continue: building up unmanageable levels of debt on an unending supply of credit cards and paying check cashers _ percent of the value of a social security check. And all consumers share some risks: violations of their privacy, susceptibility to "identity theft" and other types of financial fraud, and incomplete and confusing explanations of the products they are offered.

The financial right to know initiative includes legislative, regulatory, and other steps to prepare American consumers for the financial services industry of the 21st century.

First, the initiative will provide consumers full and fair disclosure about the financial products they are considering. Bank customers asked to purchase securities or insurance products must understand clearly that those products are not federally insured or bank guaranteed. Credit card customers must be told just how expensive it can be to make only the minimum payment each month, and understand the details of low introductory interest rates. Purchasers of rent-to-own products must know whether those products are new or used, and how much they really cost. The financial right to know initiative will place this information in the hands of consumers.

Second, the initiative includes concrete steps to protect the privacy of confidential consumer financial information. The initiative will prevent financial institutions from selling such information to a third party without first notifying the customer. It will prevent almost any sharing of medical information the institution might

hold. And it will penalize any attempt to trick confidential information out of bank employees.

Third, the Administration intends to broaden and strengthen efforts to **prevent and punish financial fraud**. To enforce the Identity Theft and Assumption Deterrence Act, the Secret Service will increase enforcement efforts against a crime that, while relatively new, is increasing dramatically. The initiative includes legislation to prevent debit cards and loan checks from creating the same risks of fraud that credit cards once did. And the Treasury Department will work with the states to protect consumers against the worst abuses of unregulated "fringe banks."

Fourth, the initiative will increase Americans' access to financial services. We will expand the availability of Individual Development Accounts, where customers can save for education, medical emergencies, and other important needs. The Treasury is in the process of establishing electronic transfer accounts, through which recipients of federal payments will have access to basic banking services at low cost.

And finally, our Administration intends to educate consumers -- starting with schoolchildren and ending with retirees -- about the many opportunities and risks in the financial services industry of the 21st century. The Department of Education will promote financial planning education in high schools. Federal agencies are pooling their efforts and working with private organizations and companies to provide information to consumers about financial planning for retirement, education, growing a business, and achieving other important life goals.

FINANCIAL SECURITY 2000

I. EXECUTIVE SUMMARY

A. Introduction

Growth and innovation in our financial markets have produced great opportunities for the American people. But the new products and technology have also created new threats to our families' hard-earned savings, new ways to violate individual privacy and new techniques to defraud consumers. And too many Americans still live just an accident away from financial catastrophe. We must take concrete action to help American families protect their investments and save for the future. The "Financial Security 2000 Act" that the President will soon be sending to Congress will do just that. It will require financial institutions to protect the privacy of confidential medical and account information, increase Federal efforts to combat consumer financial fraud, help consumers get the information they need to make smart choices and protect their savings, and expand ways for low-income families to save. Other non-legislative initiatives, described below, will reinforce and extend these protections. Strengthening financial security for every American family should be no less important a goal than maintaining fiscal discipline for our nation.

B. Proposals

Proposed initiatives are set forth below. Those that have raised some controversy within the working group, and on which Deputies input would be particularly valuable, are written in italics. Pros and cons follow in the attached paper describing all of the proposals in greater detail.

This summary and the attachment also list other proposals the working group is considering but that are not yet ready for formal presentation. Except as noted, no additional funding is required or expected.

1. Expand access to financial services

- Expand the availability of low-cost, electronic banking accounts (ETAs), so that all Americans can have a low-cost, yet safe and sound account in which to deposit and save their money. (The Treasury Department issued a proposed rule on January 7.)
- Install ATMs in post offices in low-income areas, so that neighborhoods can have access to low-cost electronic banking. (Treasury and the Postal Service are finalizing a memorandum of understanding to develop a pilot project in Baltimore and Florida.)

Expand use of individual deposit accounts (IDAs) that allow low-income households to save not just for retirement but also for education, emergencies, homeownership, or business investment. (The FY00 budget provides HHS with increased funding for this project.)

2. Protect consumer privacy

- Prohibit sharing of medical information, such as those gathered from health or life insurance records, within financial services conglomerates.
- Expand protection of consumers' credit records under the Fair Credit Reporting Act (FCRA), which regulates the assembling and distribution of reports from credit reporting agencies. (Each step requires legislation.)
 - Require customer notice and customer opt-out choice before an organization can share transaction or experience information with a third party.*
 - Give bank regulators joint authority to issue enforceable rules under FCRA.
 - Give bank regulators broader authority to examine bank compliance with FCRA.

3. Combat fraud against consumers

- Fund FTC consumer response network, which is used primarily by consumers victimized by credit fraud.
- Implement new Treasury regulations to guard against and punish identity theft. [Insert from Treasury/ Enforcement.]
- Support Leach bill on pretext calling, so that FTC can sanction private investigators and data brokers who trick confidential customer information out of banks. (The Administration supported this bill in the 105th Congress.)
- Impose limits on liability for non-PIN protected debit cards; these cards look like credit cards but can expose the holder to greater risk of loss. (Requires legislation.)
- Prohibit unsolicited mailing of loan checks – which any recipient can cash simply by signing – to the same extent as unsolicited mailing of credit cards. Also prohibit mailing of solicitations designed to look like checks -- e.g. mailings marked "Pay to the order of." (Requires legislation.)*

Work with the states to ensure that customers of unregulated "fringe" banks -- e.g., check cashers -- are protected.

4. Require expanded disclosures of information to consumers

- Require additional monthly disclosures about the terms and implications of credit card debt, including clear and conspicuous notice of how long and how costly repayment would be if the consumer makes only the minimum payment, and the expiration date of any "teaser" or discount interest rate expires. (Such legislation was supported by the Administration in the context of last year's bankruptcy reform.)
- Provide enforcement "teeth" for bank sales practice guidelines - e.g., require disclosure that non-deposit products are not federally insured, and take enforcement action against violators. (Requires legislation or regulation.)
- Require rent-to-own companies to make basic disclosures: whether a product is new or used, what the products total cost would be under the contract; examine the feasibility of additional disclosures based on an FTC study nearing completion. (Requires legislation.)
- Require ATM owners to post any surcharge both on the machine and on-screen.
- Require the Federal Reserve to establish an electronic database of banking fees information that banks are already required to provide individual customers. (Requires legislation or Fed support.)
- Require lenders to notify customers that a new extension of credit may not be appropriate for a consumer's financial needs, and provide a simple worksheet to assist the consumer in determining how to use his or her credit appropriately.
- Develop standards of conduct for debtor counseling services.

5. Improve consumer education for effective financial planning.

- Launch a consumer financial planning/asset building education campaign that draws on existing resources and programs in many Federal agencies. Initiatives include programs in the Department of Agriculture, Department of Defense, Department of Labor, Department of Health and Human Services, Department of the Treasury, the Federal Trade Commission, the Securities and Exchange Commission, and the Fed, as well as public-private

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partnerships involving these agencies.

- Promote financial planning in high school education, by identifying promising personal finance education programs and including them in guidance distributed to state and local education officials, and by exploring opportunities to include such programs as priorities in the Department of Education's incentive grant program for curriculum development (\$200M is already budgeted for overall incentive grant program in FY00).
 - Establish easy-to-use government clearinghouse of resources for financial planning by building on existing agency web sites, to help consumers and interested groups locate financial planning resources.
 - Co-sponsor FTC's Consumer Week in early February.
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- Expand availability of basic financial services using EFT '99. Treasury's EFT'99 initiative has taken important steps toward reaching the "unbanked" and bringing them into the world of modern financial services. Treasury has sought comment on a basic electronic transfer account (ETA) -- an account for the deposit of federal benefits -- and optional features that hold the promise of bringing low-income federal beneficiaries into the economic mainstream. These optional features include paying interest on deposits, accepting other deposits, and making third-party bill payments. Treasury's FMS has lined up several major institutions as fiscal agents to offer the ETA once it is finalized (currently scheduled for April 30). Publicizing this continued initiative would further expand the availability of financial services for recipients of Federal benefits.
- Install ATMs at post offices in underserved low-income areas. Initiatives to expand modern electronic finance to all Americans will succeed only if customers can access their money. But there is often an acute shortage of ATMs in inner city and depressed rural areas. The U.S. Postal Service is working with Treasury to install private ATMs, on a pilot basis, at 3 USPS locations in Baltimore and 3 in Florida. ETA account holders would not be surcharged at these ATMs. This pilot project could be accelerated and expanded to include many locations throughout the country.
- Encourage low-income persons to save through Individual Development Accounts. Individual Development Accounts (IDAs) are designed to encourage low income individuals to save for investments such as saving for

post-secondary education and training, buying a first home, providing financial security against adverse events or starting a micro-business. Congress recently enacted the Assets for Independence Act, a four-year demonstration program to be administered by HHS, and provided \$10 million in FY99 funding to begin the pilot. This pilot is currently budget for expansion to the \$20-25 million level in FY00.

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- Amend FCRA to allow customers to opt out of sharing confidential personal banking information with a third party. The banks claim that they do not sell confidential information to third parties, and this restriction would take them at their word. This proposal would likely be very controversial, though.

- Give bank regulators authority to issue enforceable rules under the FCRA. Currently, the Fed (only) is authorized to issue only "interpretations," and does so slowly. Thus, there are no definitive rules on when an opt out notice is sufficient, or what "experience" information is. The OCC recently faced Republican opposition to

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3. Combat fraud against consumers

The increased availability of sensitive, personal information on-line has created new opportunities for fraud, and thus a new need for government action to guard against fraudulent use of sensitive information.

- Fund FTC consumer resource network.
- Implement Treasury initiative on identity theft. [Insert from Treasury enforcement.]
- Combat pretext calling by supporting Leach bill. Chairman Leach last year introduced a bill to restrict pretext calling, where private investigators or data brokers trick customer information out of banks -- e.g., by pretending to be the customer. The bill would allow the FTC to impose sanctions on those who make pretext calls. It would have been enacted by acclamation, but time ran out.
- Extend consumer protections for debit card holders. At present, consumer losses due to credit card theft and fraud are limited by federal law, while losses on an ATM card (while not legally limited) are prevented by security features (PINs). Debit cards carry neither legal protection nor security protection against loss. Although VISA and Mastercard have voluntarily extended strong protections -- beyond what has been contemplated legislatively, for example in the Schumer-Gonzales bill -- this area is rapidly changing and it may make sense to enact certain basic protections that any future issuer will have to provide. Care would need to be taken so that any legislation established a reasonable level of protection, but did not encourage VISA and Mastercard to drop their practices to that floor.
- Prohibit unsolicited mailing of loan checks. *Already prohibited from mailing*

unsolicited credit cards, some banks now mail "loan checks" that need only be endorsed by the recipient to be converted into cash (thereby effectuating a loan from the sender).

Pros: Concerns here include the potential for consumer inconvenience and reputational harm if the loan check is stolen, paternalism to the extent that customers are quickly indebting themselves without adequate information on the terms and implications of the debt, and privacy (the right not to have checks made out to you floating around). Put another way, unintended recipients of loan checks may (rightly) feel the need to destroy them in a way that is unnecessary with other junk mail, and this is an unjustified intrusion, and Inconvenience.

Cons: The practice at this point is quite limited (Fleet Financial being the primary user), and targeted only at the more affluent. Some recipients may view the loan checks as a convenience.

Fringe banks. Work on EFT '99 has highlighted the practices of unregulated "fringe banks" such as check cashers. Although fringe banks perform services valued by their (many) customers, some of their practices are clearly abusive. We could propose a task force to work with the states to determine whether existing regulations and enforcement resources are sufficient to protect customers of fringe banks. Also the Treasury/FMS has proposed to regulate payment arrangements under EFT'99 that provide access to accounts at financial institutions through non-bank entities, including fringe banks.

4. Require expanded disclosure of information to consumers

Additional monthly/regular disclosures on credit cards. Current law requires credit card issuers to disclose prominently a consumer's balance, current finance charges, minimum monthly payment, and effective monthly interest rate. This information may not give consumers a complete and forward-looking picture of the implications of their debt burden; for example, some credit cards offer terms such that making minimum payments will never pay off a debt.

In last year's bankruptcy reform debate, the Administration supported additional clear and conspicuous monthly disclosures of the implications of making only the minimum payment: how many months (if ever) it would take to pay off the debt, and what the total (principal plus interest) payments would be. In addition, credit card issuers might be required to disclose regularly: (1) how much longer a "teaser" or discount interest rate will remain operative (and what the subsequent rate will be) – consumer anger

about this problem accounts for the bulk of credit card-related complaints to the OCC; (2) if the creditor is taking a secured interest in purchases, and of the implications for delinquency and bankruptcy (the debt is not dischargeable); and (3) how the consumer can obtain a low-cost copy of his/her credit report. Questions remain about whether such disclosures can be provided in an effective, clear and conspicuous, and nonburdensome way; thus, the Administration might propose legislation for a Fed/Treasury study of the best approach to these new disclosure requirements, to be followed by new TILA disclosure regulations as appropriate.

- Convert bank sales practice guidelines into enforceable rules - e.g., require by rule that banks disclose that non-deposit products aren't federally insured.

The four federal banking agencies have jointly adopted an Interagency Statement on Retail Sales of Non-deposit Investment Products. The Statement does not have the force of law, yet is the only place in federal regulation where an attempt is made to ensure that customers buying insurance or securities products on bank premises understand that those products are not federally insured or bank guaranteed. Consumer groups have long sought to make these regulations enforceable, and surveys continue to show a disturbing level of customer confusion about what products are federally insured.

- Require basic rent-to-own disclosures. Propose authorizing the Fed to write appropriate disclosure requirements for rent-to-own transactions. Pending release of an ongoing 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. (Additional disclosures such as calculating the implicit interest rate, or alternatively the equivalent purchase at a reasonable interest rate that could be financed by the total payments under the rent-to-own contract, need further study.)

- On-screen and on-machine posting of ATM surcharges. 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, through most network rules require both.

- Ask the Federal Reserve to create a database of information on banking fees for easy comparison of products. This data is available because the Truth in Savings Act already requires all banks to provide such information to anyone who requests it, and requires the Federal Reserve to draft regulations on the format for such data.

- Require disclosures advising care in the use of new credit extensions. The disclosure would state that, while the credit card company has evaluated a

consumer's ability to repay, it has not evaluated whether taking on any additional debt is in the consumer's financial interest. This disclosure might be accompanied by the "Durbin worksheet," which consumers can use to assess whether a credit extension is appropriate given their financial circumstances and needs.

Develop voluntary or mandatory standards and disclosures of interests for debtor counseling services. As consumer debt and delinquencies have increased, the debtor counseling industry has grown as well. This diverse industry includes large non-profit organizations (many of which are funded by creditors), large for-profit companies like Genus Credit Management, and many small, sometimes less reputable, companies. State regulation of these agencies is uneven, and only six states regulate non-profits at all. With proposals last year to include mandatory credit counseling as a condition for bankruptcy filing, the Executive Office of the U.S. Bankruptcy Trustees began to evaluate proposals for the development of standards or, at a minimum, consumer guidelines for this industry. Several other financial education groups have also developed guides for consumers.

This initiative might support the development of a standardized description of services, a checklist of questions to help the consumer determine which approach to dealing with debt may be best for her, and resource lists of "approved" counseling and debt assistance agencies in local areas. Alternatively, voluntary standards could be developed, as the National Federation of Credit Counselors has done. The development and enforcement of national standards, perhaps in coordination with state regulatory authorities, would be very costly – but might be feasible (or required) as part of a bankruptcy reform package. Alternatively, the Administration could propose a study of options for improving the reliability of the credit counseling industry.

5. Improve consumer education for effective financial planning

This initiative proposes new disclosures and protections appropriate for our increasingly complex financial system. To take advantage of new opportunities, 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 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 skill that they now need as soon as they graduate.

[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.]

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.

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 productivity (more willing to invest in skill development, better ability to plan complex tasks).

These proposals will help consumers take advantage of the rights and opportunities provided by the other components of Financial Security 2000, and will complement other Administration initiatives to help Americans build critical skills through training and other lifelong learning programs, basic literacy programs, and public health and nutrition education.

- Launch consumer education campaign. Federal agencies and collaborating private organizations will launch a consumer financial planning/asset building education campaign. The campaign would highlight and build upon consumer financial education activities currently undertaken by the many agencies, including: the U.S. Department of Agriculture (through its Cooperative Extension programs to provide personal finance education in low-income and rural areas), the Department of Defense (which has developed curricula and programs for military families and youths), the Department of Labor (which cosponsors ASEC, a public-private partnership to encourage retirement savings), the Department of Health and Human Services' Administration on Aging (which also sponsors educational

programs to assist with financial planning for retirement), the FTC and the Fed (which have consumer offices that promote better and more informed consumer financial decision-making), the SEC (which cosponsors public-private initiatives to help consumers make informed investment decisions), and the Treasury (which sponsors financial services education and outreach programs, particularly for low-income households). Treasury will help coordinate these activities, by encouraging further development of public-private partnerships and facilitating joint activities by all participating agencies. The campaign may include appearances and speeches by senior Administration officials at events that highlight financial planning/asset building initiatives, to focus public attention on the message. Other elements of the campaign could include Treasury or other Administration sponsorship of and participation in grassroots outreach efforts by the consortium, such as media campaigns, public service announcements, or other educational activities for adults and young people.

Promote financial planning in high school education. The Department of Education will promote financial planning in high school education, by identifying promising personal finance education programs and including them in guidance distributed to state and local education officials, and by exploring opportunities to include such programs as priorities in the Department of Education's incentive grant program for curriculum development (\$200M budgeted for overall incentive grant program in FY00). Public and private groups have developed and evaluated personal finance modules for inclusion in math, social science, and other standard courses; some districts have already adopted these curricula. This proposal would provide additional Federal encouragement for personal finance education in high school.

Create a government "information clearinghouse" on financial planning resources. This proposal would provide government-wide links to information on financial planning resources that have been supported fully or in part through Federal initiatives. It would build on existing web sites, including DOL's site on retirement savings and FTC's web site on consumer financial rights. The clearinghouse would also help direct consumers to appropriate information and publications on financial management topics, and provide a mechanism for the diverse initiatives to share information and resources. *No budgetary cost--subject to funding of web sites at each agency at existing levels*

Administration co-sponsorship of Consumer Week 1999 programs on consumer fraud. The FTC sponsors Consumer Week in early February, an annual set of activities and events around a single consumer theme. This

year's topic is credit fraud, and it will feature public education events sponsored by government, nonprofit, and private industry groups. Sponsorship could include appearances by Administration officials at appropriate events related to areas of fraud under their jurisdiction and/or separate events at which senior Administration officials would support consumer fraud and education activities. In particular the President's annual proclamation for Consumer Week should include support of the consumer financial security initiatives.

III. ISSUES THAT NEED FURTHER RESEARCH

- Improve disclosure of mutual fund fees. The fees associated with mutual funds can have a dramatic effect on the return earned on an investment. Yet they are confusing, even consumers who carefully study the returns posted by funds generally remain ignorant of the full impact of fees on returns. The SEC and NASD have begun to highlight and study this issue, and we will work with them in the coming weeks to identify if there is an Administration role here. A proposed disclosure must consider several factors, including: funds able to earn higher returns may incur higher fees, so that the disclosure should highlight net returns; and it is unclear whether and how the government should encourage disclosures that clarify tax implications, thereby reducing revenues.
- Impose regulation of independent investment advisors. The U.S. currently has 11,000 investment advisors with more than \$6 trillion under management. Yet they are not subject to the same consumer protections as registered representatives/brokers.
- New disclosures on high loan-to-value second mortgages. Require new disclosures on high loan-to-value second mortgages., such as: total loan payments including all fees, the risk of home foreclosure if payments are not made, and the non-deductibility of interest payments on loans greater than the value of the home.
- Further limit inter-affiliate sharing of information for privacy purposes.

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