
Chapter 4

The Federal Reserve's Consumer and Community Affairs Responsibilities

Since the late 1960s the Federal Reserve, authorized by the Congress, has been involved in implementing an ever-growing number of federal laws intended to protect consumers, including bank customers, in credit and other financial transactions (see list of consumer protection laws). In the mid-1970s the Federal Reserve established a separate division, the Division of Consumer and Community Affairs, to handle its consumer affairs responsibilities. Among these responsibilities are writing and interpreting regulations to carry out many of the major consumer protection laws, reviewing bank compliance with the regulations, responding to inquiries and complaints about compliance from the public, and addressing issues of state and federal jurisdiction. Board members frequently testify before the Congress on consumer protection issues, and staff members participate in meetings and conferences focused on consumer financial services.

In its efforts, the Federal Reserve is advised by a Consumer Advisory Council, whose members represent the interests of consumers, community groups, and creditors nationwide. The council meets three times a year at the Federal Reserve in Washington, D.C.; its meetings are open to the public.

Enforcement of Consumer Protection Laws

For many years, the Federal Reserve has conducted a specialized examination program to ensure that federal consumer protection laws are carried out. Its

responsibilities for enforcement generally extend only to state-chartered banks that are members of the Federal Reserve System. Each Federal Reserve Bank has on its staff specially trained examiners who regularly evaluate the performance of banks in its District. The examinations generally are conducted every eighteen months; poorly rated banks are examined more frequently, and highly rated banks are examined every twenty-four months.

Because states also have enacted laws protecting consumers, the Federal Reserve at times is called on to determine whether a state law is preempted by federal provisions. It also acts on requests for exemption from federal laws when state and federal requirements are similar and enforcement at the state level is adequate.

Consumer Complaint Program

The Federal Reserve operates a System-wide program to respond to inquiries and complaints from the public about consumer protection issues involving financial institutions. Complaints involving state member banks are investigated, and complaints involving other institutions are referred to the appropriate regulatory agency. Special procedures are followed in responding to and investigating complaints alleging illegal discrimination in lending.

Information on consumer inquiries and complaints is maintained in a data base that alerts the Federal Reserve to potential problems at individual institutions and assists the division in carrying

out its responsibilities, under the Federal Trade Commission Improvement Act, to identify potentially unfair or deceptive bank practices.

More than 2,500 complaints were lodged with the Federal Reserve in 1992, approximately 1,000 of them against state member banks. The complexity of the complaints has increased markedly over the past several years, paralleling the significant growth in the types and complexity of financial services products available to consumers.

Growth of Responsibilities

While expansion of financial services products has increased demands on the division, the main factor in the growth of the Consumer and Community Affairs Division's workload in recent years has been the greater focus, nationwide, on community reinvestment and fair lending issues.

Community Reinvestment

In accord with the Community Reinvestment Act (CRA), the Federal Reserve has taken an increasingly active role in encouraging banks to work with community organizations to promote local economic development. A bank's efforts to meet the credit needs of its entire community, including low- and moderate-income neighborhoods, are reviewed as part of the Federal Reserve's regular examination process. The institution's performance under the CRA is also taken into account when applications for acquisitions and mergers are being evaluated. The public may protest approval of an application on the basis of the institution's CRA record, and public scrutiny of applications has

intensified as community groups have become increasingly concerned about lending in low- and moderate-income neighborhoods.

Each Reserve Bank has on its staff a community affairs officer who is familiar with credit needs in the communities served by institutions in the District. Among the officer's responsibilities is fostering communications among banking institutions, government agencies, and community groups. Through newsletters and other publications, seminars, workshops, and conferences, the Federal Reserve provides information to banks and bank holding companies about private sector economic initiatives, community development finance, public-private partnerships, and federal and state development programs. Staff members also work directly with individual bankers and community development representatives to promote community lending.

Home Mortgage Lending

Under 1989 revisions of the Home Mortgage Disclosure Act, lenders are now required to report more information than before about their lending activities, including the race, gender, and income level of all applicants for home mortgages, not just those whose applications were approved. This additional information has led to new demands for analysis, enhanced examination and complaint investigation efforts, and the development and implementation of new initiatives to address the serious concerns raised by the data.

Analysis of the data for 1991 and 1992 has shown significant differences in loan denial rates among racial and ethnic groups. These findings have resulted in numerous new initiatives, including the following:

- increased attention to the lending records of institutions that seek Federal Reserve approval of merger and acquisition applications
 - stepped-up efforts to encourage and facilitate lending in low- and moderate-income communities
 - expanded coordination with other government agencies that are involved in fair lending issues, particularly the Department of Housing and Urban Development and the Department of Justice
 - accelerated efforts to develop responsive policies and procedures for handling potential fair lending problems and violations
 - development of systems to analyze institutions' lending records
 - intensified efforts to improve public access to institutions' lending data
 - development of specialized training in fair lending for System personnel involved in examinations and complaint analysis

- development of new, proposed rules concerning institutions' responsibilities to invest in their communities.

Congressional oversight of the financial services area—in particular, fair lending and community reinvestment issues—has increased dramatically. Federal Reserve staff members routinely provide information and analyses to the Congress, and Board members are frequently called on to testify before congressional committees. With fair lending concerns the focus of national attention and action, outreach efforts, conference participation, and working with lending institutions, community groups, and others in the private sector represent serious demands on Federal Reserve staff. Consequently, to ensure that quality analysis and deadlines are not compromised, staff increases have been authorized for the Division of Consumer and Community Affairs over the past several years. ■

Consumer protection laws for which the Federal Reserve has implementation or enforcement responsibilities

Law	Highlights of provisions
Community Reinvestment Act	Encourages financial institutions to help meet the credit needs of their communities, particularly low- and moderate-income neighborhoods; requires institutions to specify the services they offer and to identify their lending area. The Federal Reserve assesses a bank's performance in meeting its obligations to its community and takes that assessment, along with other factors, into account when considering applications for mergers, acquisitions, and formation of bank holding companies.
Consumer Leasing Act	Requires that institutions disclose the cost and terms of consumer leases (such as automobile leases.)

Law	Highlights of provisions
Electronic Fund Transfer Act	Establishes rules concerning a consumer's liability for unauthorized use of a debit card and the unsolicited issuance of debit cards by financial institutions. (Covers transactions at automated teller machines; telephone bill-payment plans; point-of-sale terminals in stores; and preauthorized transfers to and from a customer's account, such as direct deposit of salary and social security payments.)
Equal Credit Opportunity Act	Prohibits discrimination in credit transactions on several bases, including gender, marital status, age, race, religion, color, and national origin; requires creditors to grant credit to qualified individuals without requiring cosignature by spouses, to inform unsuccessful applicants in writing of the reasons credit was denied, and to allow married individuals to have credit histories on jointly held accounts maintained in the names of both spouses.
Expedited Funds Availability Act	Dictates when depository institutions must make consumers' deposited funds available to them; requires institutions to disclose to their customers their policies on funds availability.
Fair Credit Billing Act	Specifies how creditors must respond to billing complaints from consumers; imposes requirements to ensure that creditors handle credit accounts fairly and promptly. (Applies mainly to revolving and credit card accounts.)
Fair Credit and Charge Card Disclosure Act	Requires that applications for credit cards that are sent through the mail, solicited by telephone, or made available to the public (such as at counters in retail stores or in catalogs) contain information about key terms of the account.
Fair Credit Reporting Act	Protects consumers against inaccurate or misleading information in credit files maintained by credit reporting agencies; requires credit reporting agencies to allow credit applicants to correct erroneous reports.
Fair Debt Collection Practices Act	Prohibits abusive debt collection practices. (Applies to banks that function as debt collectors for other entities.)
Fair Housing Act	Prohibits discrimination in the extension of housing credit on the basis of race, color, religion, national origin, gender, handicap, or familial status.
Flood Disaster Protection Act	Requires flood insurance on property in a flood hazard area that comes under the National Flood Insurance Program.

Law	Highlights of provisions
Federal Trade Commission Improvement Act	Authorizes the Federal Reserve to identify unfair or deceptive acts or practices by banks and to issue regulations to prohibit them. Using this authority, the Federal Reserve has adopted rules that restrict certain practices in the collection of delinquent consumer debts, for example, practices related to late charges, the responsibilities of cosigners, and wage assignments.
Home Equity Loan Consumer Protection Act	Requires creditors to provide detailed information about a credit plan secured by a consumer's dwelling, as well as a brochure explaining home equity loans in general; restricts the terms of home equity loan plans; regulates advertising of home equity loans.
Home Mortgage Disclosure Act	Requires mortgage lenders to publicly disclose the geographic distribution of their mortgage and home improvement loans as well as their loan approval rates by gender, race, and certain other applicant characteristics; directs the Federal Financial Institutions Examination Council (of which the Federal Reserve is a member) to make summaries of these data available to the public.
Real Estate Settlement Procedures Act	Requires that the nature and costs of the real estate settlement process be disclosed to borrowers; protects borrowers against certain abusive practices, such as kick-backs; limits the use of escrow accounts.
Right to Financial Privacy Act	Protects bank customers' financial records from unlawful scrutiny by federal agencies; specifies procedures government authorities must follow when they seek information about a customer's financial records from a financial institution.
Truth in Lending Act	Requires uniform methods for computing the cost of credit and for disclosing credit terms; gives borrowers the right to cancel certain loans secured by their residences; prohibits the unsolicited issuance of credit cards and limits cardholder liability for unauthorized use.
Women's Business Ownership Act	Extends to applicants for business credit certain protections afforded consumer credit applicants, such as the right to an explanation for credit denial.
Truth in Savings Act	Requires that depository institutions disclose to depositors certain information, including the annual percentage yield calculated in a uniform manner; regulates advertising of savings accounts; prohibits certain methods of calculating interest.