NOT RELEASED

Remarks by

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Federal Reserve System

to the

International Credit Association of Greater Chicago

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Good afternoon ladies and gentlemen. As I was flying out this morning from Washington, it occurred to me to wonder how in the world we ever got along without O'Hare and its necklace of hotels and meeting places. Chicago's geographic location at the epicenter of commercial America makes it a logical meeting place, but many of us pilgrims never get downtown. We fly in, meet in places like this, and depart, as I will have done today.

In any case, I am very pleased to have been invited to be with you all today. It is perfectly appropriate for the Federal Reserve to participate with you, because the Fed considers it to be vitally important that economic education be an integral part of every curriculum. Fundamentals in grammar school analysis and casework in high school, and continuing education in economics for teachers and others.

And who better to join together to try to move in the direction of more and better economic education than ICA and the

Federal Reserve. Our organizations were founded within a year of each other. We are both involved in consumer credit activities and in education and I am sure it is not pure coincidence that this meeting is taking place during National Credit Education Week.

You know, the Federal Reserve is regarded by many as a shadowy and mysterious eminence operating in a marble palace on Constitution Avenue. Perhaps that image is an indictment of the Fed's ability to educate the public about its mission and how it operates.

As the nation's central bank, our primary mission is to develop and manage monetary policy to maximize sustained economic growth consistent with stable prices. But we have many other duties assigned by Congress over the years, particularly those dealing with the supervision and regulation of the banking system. Included among those is primary responsibility for implementing and enforcing major federal statutes designed to protect consumers from misleading or predatory practices by banks and others in the extension of credit.

The Truth in Lending Act of 1968 was the first in a long list of consumer protection laws to be administered by the Federal Reserve. Not to bore you, but rather, I hope, to impress you, I will mention a few.

Regulation B -- Equal Credit Opportunity Act (ECOA): Prohibits creditors from discrimination against credit applicants, establishes guidelines for gathering and evaluating credit information, and requires written notification when credit is denied.

Regulation C -- Home Mortgage Disclosure Act (HMDA): Requires certain mortgage lenders to disclose data regarding their lending patterns.

Regulation E -- Electronic Fund Transfer Act (EFTA): Establishes the rights, liabilities and responsibilities of parties in electronic fund transfers (EFT) and protects consumers using EFT systems.

Regulation M: Implements the consumer leasing provisions of the Truth in Lending Act.

Regulation Z -- Truth in Lending Act (T-L): Prescribes uniform methods of computing the cost of credit, disclosure of credit terms, and procedures for resolving errors on certain credit accounts.

Regulation AA: Establishes consumer complaint procedures and defines unfair or deceptive acts or practices of banks in connection with extensions of credit to consumers.

Regulation BB -- Community Reinvestment Act (CRA): Implements the Community Reinvestment Act and is designed to encourage banks to help meet the credit needs of their communities.

Regulation CC (Expedited Funds Availability Act): Establishes availability schedules under which institutions must make funds deposited into transaction accounts available for withdrawal. The regulation also stipulates that institutions must disclose their funds availability policies to their customers.

Regulation DD -- Truth in Savings Act (T-S): Requires depository institutions to disclose the terms of deposit accounts to consumers.

The most recent addition was the Truth in Savings Act, part of comprehensive regulatory legislation in 1991. Incidentally, without some basic economic knowledge, consumers would not even be able to understand the disclosures required by the Act and designed for their protection.

Essentially the thrust of most of these statutes is to protect consumers by requiring lenders to disclose all of the terms and conditions and possible consequences of credit and other financial service products. The philosophy is that forewarned is forearmed.

But sometimes Congress and we regulators get caught up in a tendency to overdo it. A couple of examples might help:

Anyone here who has gone through the agony of buying real estate recently is undoubtedly painfully aware of the documentation attendant to a mortgage loan application and loan closing. Pages and pages of fine print describing the buyer's rights -- sellers don't really have any. The language is opaque and the sentence structure would make English teachers wince. Do consumers read the stuff carefully? Probably not. Could the same result be achieved with a few lines of simple language? Undoubtedly. But the ranks of unemployed lawyers would increase, contributing to the deficit.

Another familiar example would be the right of recision. That is to say, the legal right to withdraw from a contract to borrow money within a certain time frame. How often do consumers exercise this option? I have no way of knowing, but I suspect seldom. And then again, there is the problem of the person who needs the money right away, but has to wait three days after the loan is approved to decide whether he wants to exercise his recision rights. By the way, "recision" is a lawyer word. Couldn't it have been called "the right to change your mind"?

But underneath all the excesses and bureaucracy generated by red tape lies a sound public policy. Consumers are entitled to protection and the agencies charged with providing that protection must be well informed about consumers' needs, attitudes, and concerns

To this end the Federal Reserve consults with its Consumer Advisory Council. The Council was established by statute. It consists of 30 individuals representing various segments of the financial services industry, consumer-interest organizations, and academics. The Council meets with the Board of Governors of the Fed several times a year with an extensive agenda, the discussion of which fills a whole day.

The input to the Board and its staff is invaluable as we write new regulations and revise old ones. The recently passed Truth in Savings Act was, in fact, the fruition of a long campaign by a former academic member of the Council. And I understand that Doug Blanke, a new member of the Council, worked with ICA to develop the teaching unit called "I'm Credit Wise."

The Federal Reserve Board and the Reserve Banks, such as the Federal Reserve Bank of Chicago represented today by its First Vice President, Bill Conrad, conduct a broad-based public information and economic education program which incorporates consumer education as an important component.

Both the Board and the Reserve Banks conduct workshops and seminars for teachers annually. The Chicago Reserve Bank alone held about 30 such programs last year.

Some of the teachers may have met the Chicago Reserve Bank staff at the Illinois Consumer Education Association annual meeting. If not, please look for them in the future.

The System is blessed with a wealth of quality publications. I asked our Chicago Bank to prepare a sampling for each of you today. Among the packet, you will find a catalog of all our System materials. We hope you will find these materials useful.

It was through the Board's educational outreach efforts that we became familiar and affiliated with ICA.

A more recent and exciting dimension to our credit education activities is our cooperation with ICA.

Marci Schneider, a member of the Board's staff, participated in the first "Train the Trainers" seminar last summer.

Through her experience and subsequent enthusiasm, we were impressed with the goal of ICA's "Challenge 2000." That is the delivery of quality credit education to high school students and targeted adult populations by the year 2000.

Members of the Board and other senior officials feel that ICA's unique goal fits well with the Board's own educational mission.

My colleague, Governor Lindsey, met with Elizabeth Miller and Charlie Albright late last summer and agreed to join in several activities with ICA. Probably the most important endeavor has been the Credit Education Exchange meeting that ICA held at the Board which centered on forming coalition groups for state credit education training seminars. We thought that it was quite auspicious that this meeting and a reception were both held during the U.S. Office of Consumers Affairs' National Consumer Week. We were all impressed, not only with ICA's agenda but also with the people who are ICA.

The Credit Education Exchange meeting has been a springboard for the Federal Reserve System and ICA. We at the Fed look forward to assisting ICA in its goal of hosting teacher workshops, like this one, throughout the country. Our participation will vary according to need but I hope the presence today of Bill Conrad and me convinces you that we have signed on and believe in ICA's vision and goals.

As further evidence of our intentions, our Washington staff is busily assisting ICA of Greater Washington with the area's Train the Trainer" seminar to be held, in part, at the Board later this year.

As time goes by and our relationship grows, the Federal Reserve looks forward to being a partner with ICA in realizing the goals of"Challenge 2000."

Thank you for your invitation, your hospitality, and your attention.