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Statement by

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On behalf of the Board of Governors, I welcome the opportunity to appear before this Subcommittee to outline the scope of the Board's consumer protection program, with particular reference to the collection and dissemination of statistical data.

In 1974, as I shall describe shortly, the Board established the Office of Saver and Consumer Affairs in order to provide a focus within the Board's structure for the conduct of our responsibilities affecting consumers. However, we believe it is important to underscore the fact that throughout its history, and certainly within the period of time encompassed by the service of present members of the Board, the interests of consumers have been very much taken into account over the whole range of decisions we have made--with regard to such vital areas as monetary policy, bank and bank holding company supervision and regulation, securities regulation, and electronic funds transfers. Economic policies, particularly those relating to the role of monetary policy in economic stabilization, are of the utmost importance to all consumers, and the Board is always mindful of its responsibility to be responsive to their concerns. In this regard, the Board continually strives to follow policies that will promote stable prices, high employment and production. The Board's regulation of member banks contributes to the welfare of consumers by helping to assure the safety and soundness of banks. To help us in these tasks, we have assembled the best staff we could find, and have given them the job of informing the Board how best to meet the needs of the public at large. To give you an example of how this process works, let me mention briefly what the Board has done to strengthen competition in the area of consumer credit--over and apart from the Truth in Lending function, which deserves separate treatment.

Competition in Consumer Finance

The Board for some time has held the view which was later enunciated in the report of the National Commission on Consumer Finance, that we should rely basically on vigorous competition to provide optimal performance in terms of the price and the availability of consumer credit. For many years the Board has been responsible for administering the Bank Merger Act among State member banks, and thus, fostering competition among these important consumer lenders. More recently under authority granted by section 4(c)(8) of the Bank Holding Company Act the Board has authorized bank holding companies to establish subsidiary finance companies; as part of this authorization, procedures have been established to encourage de novo entry in this field. These actions, which are essentially pro-competitive, are permitted after a careful review by the Federal Reserve. Moreover, although the Board's procedures encourage de novo entry, we believe the acquisition of an existing company in specific instances may also be pro-competitive. We have denied applications to acquire existing companies that compete significantly with the applicant in geographical areas they already serve. This has encouraged applicants to approach the Board with proposals involving companies that serve markets geographically separated from those served by the applicant. Substantial competition can result from such a process. At all times, the Board keeps in mind the criterion that the public benefits must outweigh any adverse effects, and in the consumer credit field this policy has already resulted in better service for consumer credit borrowers.

Securities Credit Regulation

In 1934, the Federal Reserve was given the responsibility by Congress for setting margin requirements on credit to purchase or carry securities. The principal purpose of this legislation was to prevent the excessive use of credit to purchase or carry securities.

While the securities credit regulations we have issued under this authority provide indirect protection for the saver and investor by helping to avoid destabilization of securities markets, the regulations also provide a more direct protection. The legislative history of the statutory provision (section 7 of the Securities Exchange Act of 1934 (15 U.S.C. 78g)) shows that Congress was also concerned about an important ancillary effect of the regulation. By limiting the extent to which an individual could be induced to buy securities on thin margin, the legislation reduced the chances of his being over-committed and of being sold out if the market should decline.

Truth in Lending

With this record of activity as a background, it is perhaps not surprising that in recent years Congress has added to the Board's responsibilities by placing upon us specific duties in the field of consumer protection. The first example of this legislation, of course, was the Truth in Lending Act, which was passed in 1968. This legislation, as you know, was based on the premise that uniform disclosure of credit costs would enable the consumer to compare more readily various credit terms and thus, help to educate consumers in the use of credit. Amendments to the Act in 1970 prohibited the unsolicited distribution of credit cards and limited the liability for unauthorized use of lost or stolen cards to $50.

The coverage of Truth in Lending is far reaching, because great numbers of individuals use consumer credit in one form or another. Many retail stores offer charge accounts with extended repayment privileges and subject to special financing charges; credit cards may be used for department and other store purchases, travel, or entertainment; cars and furniture may be bought on an instalment purchase plan; most homes are purchased with a mortgage; and medical bills, vacations, and even tax payments are often financed through personal loans repayable in monthly instalments. Although the precise number of creditors subject to Truth in Lending is not known, we believe about one million is a reasonable estimate.

Because of the Act's extremely broad impact on both creditors and consumers, the Board instituted an extensive program of public education relating to Truth in Lending in conjunction with developing the necessary regulations. Early in the life of Truth in Lending, members of the staff participated in a great number of meetings and seminars sponsored by creditor and consumer groups and regulatory agencies for the purposes of explaining the Truth in Lending provisions. While no actual count of the number of such contacts has been maintained, such training sessions constituted a substantial amount of the staff's work during the earlier periods.

One of the major educational thrusts was to put into the hands of creditors and consumers a pamphlet containing the Truth in Lending Act and Regulation Z. This pamphlet also contained questions and answers about the Regulation and sample disclosure forms. To date, nearly two million copies of the Regulation Z pamphlet have been distributed. In addition, copies of amendments and interpretations of Regulation Z have been available on request, and the Regulation Z pamphlet has been republished from time to time to include new amendments and interpretations. Any interested person can be placed on the mailing list.

The Board has also developed a leaflet for consumers explaining in easy-to-understand language the primary provisions of the Act. Thus far, almost 3.5 million copies of this free leaflet have been distributed to the public. A Spanish language version of the leaflet has also been published and more than a half million copies have been distributed. In addition, the Board's staff has developed film strips for consumer and creditor education. Copies of this film strip may be borrowed free of charge or purchased for $10 each. Questions from the public continue to occupy a substantial amount of staff time. In addition, the twelve Federal Reserve Banks have also been involved in the educational efforts.

Clearly, Truth in Lending is not going to effect an overnight change in the consumer's attitude toward the cost of credit and the need to shop for credit. We feel that substantial further improvement in this area cannot be expected until such matters are taught in the schools. In this vein, the Board is further developing educational materials for use in secondary and adult education classrooms. We are hopeful of having these ready for formal classroom use during the 1975-76 school year. In addition, we are currently working on four additional consumer leaflets which would be distributed by the Board and in conjunction with the General Services Administration's consumer information program. These leaflets will deal with such problems as credit cards, savings accounts, car loans, and the benefits of prepaying a loan.

Office of Saver and Consumer Affairs

The Board's Office of Saver and Consumer Affairs was formed as a new division on August 5 of last year in anticipation of the responsibilities that Congress was expected to give the Board under the Equal Credit Opportunity Act, Fair Credit Billing Act, and the Federal Trade Commission Improvements Act. The new division assumed existing staff functions under the Truth in Lending Act and the Securities Exchange Act of 1934. My former duties as the member of the Board with primary responsibility for Truth in Lending were expanded to include all the activities of the Office of Saver and Consumer Affairs.

The first priority was to recruit a staff to draft regulations under the new legislation. Our recruitment effort is now virtually complete, and I am glad to say that we have been able to assemble a group of effective and dedicated people with excellent backgrounds in both the consumer credit and the anti-discrimination areas.

Even before the new division was formally established, the staff had begun preliminary work at the Board's direction on regulations covering Equal Credit Opportunity and improved real estate settlement procedures. In anticipation of legislation passing Congress, work began shortly after August 5 on regulations to implement the Fair Credit Billing Act and on regulations as to unfair or deceptive acts or practices by commercial banks which would parallel regulations expected to be adopted by the Federal Trade Commission.

In December, the Board assigned the new division the task of carrying out the Board's responsibilities under Title VIII of the Civil Rights Act of 1968. Title VIII forbids discrimination in the extension of housing credit and is enforced by the Board as to State member banks. The Division's first project was to process the information collected for the Board under a pilot survey program. The program, undertaken last spring, is a joint effort by the four Federal supervisors of financial institutions to develop a means of ascertaining the extent of discrimination in residential housing credit.

The public law mandating the Equal Credit Opportunity and Fair Credit Billing regulations becomes effective on October 28, 1975. It is essential that the public be informed of the new requirements well in advance of that date, so that creditors can adjust their operations accordingly and consumers can be informed of their new rights. Inasmuch as a minimum of ninety days should be allowed between final adoption of the regulation and October 28, 1975, for consumer education and adjustments by lenders, only about eight or nine months were available for drafting the regulations, obtaining public comment, and revising the regulations prior to their adoption by the Board. A special task force was created in the Division and draft regulations are already nearing completion.

Because of this priority the staff has of necessity concentrated on meeting with consumer and creditor groups in order to inform itself as to the problems to be covered, and on the actual work of drafting the regulations. Also, the very heavy continuing responsibility for interpreting and explaining the truth in lending and securities credit regulations could not be neglected. Nevertheless, staff has had a primary focus from the beginning on the question as to how consumers can best be equipped with the tools they will need to shop intelligently for credit and to resist credit discrimination that is based on factors other than individual creditworthiness.

Two obvious tools are consumer education and consumer information as to the cost of credit. I have already described the educational efforts the Board has undertaken to make consumers aware of Truth in Lending, and similar efforts are in a preliminary planning stage as to the regulations implementing the Equal Credit Opportunity and Fair Credit Billing Acts.

In July of last year, the Board submitted to the Senate Committee on Banking, Housing and Urban Affairs at the request of

Senator Sparkman, the then-Chairman of that committee, an extensive report concluding that it would be preferable to enact legislation requiring disclosure to consumers of sufficient information to permit comparison of the relative merits of the various savings account plans offered rather than to select and impose a uniform method of interest calculation for savings accounts. In this area, as well as in the area of credit costs, our consumer protection staff has recently begun to evaluate the extent to which information in addition to that already required under the Truth in Lending Act and Regulation Z, or under a Truth in Savings Act, might be useful to enable the consumer to shop more effectively for credit or for a return on his savings.

Staff will be considering, among other things, the kinds of information which would facilitate the consumer's comparison of credit costs or returns on savings among lenders or savings institutions in a given market area, the feasibility of accumulating and insuring the accuracy of such information, and the extent to which the Board's existing statutory authority would allow it to impose such requirements.

Statistical Information

In order for the Board to carry out its many functions with the best possible regard for the public interest, it has become necessary over the years to develop a very extensive system of data collection.

For example, some of the data collected regularly from specially selected samples of banks include a weekly balance sheet report from large commercial banks, commercial and industrial loans by industry, a maturity distribution of large certificates of deposit, nondeposit sources of funds, ownership of demand deposits, federal funds transactions, the volume of consumer loans to individuals for household, family or other personal expenditures, auto instalment loans by dealers, banker's acceptances, time and savings deposit rates, debits to demand deposits, interest rates on loans to business, changes in bank lending practices, and foreign branch assets and liabilities. All of these data are used for the compilation of the many tables published each month in the Federal Reserve Bulletin. These data are of critical importance to the Federal Reserve System in carrying out its statutory responsibilities for the formulation and implementation of monetary policy, and they are also important to an extensive array of outside users, including other Government agencies, banks and other businesses, research organizations, and individual academicians and other scholars. I might add that, as far as I know, the data we release exceeds that published by any other central bank in the world.

Additional data are collected for regulatory and supervisory purposes, and the Federal Reserve Banks collect information and data from banks in their districts often for research use, such as for studies of regional economic and financial trends.

Data also are collected for published statistical releases from nonbank sources, such as finance companies on the volume of various types of loans outstanding and new loans made, and electric power information from electric utilities and industrial plants for use in the industrial production index calculations.

This data collection program is based in large measure on the voluntary provision of information, not only by member banks but also in many cases by nonmember banks and other financial and nonfinancial businesses. Insofar as possible, the Board has attempted to rely on voluntary reports rather than on statutory authorization, because we believe the comprehensiveness and accuracy of the data received are superior to what can be obtained by bureaucratic mandate.

A key element in eliciting this cooperation is the confidential treatment accorded the individual bank or firm data submitted to the Board. This is particularly true in the case of data collected on the basis of sampling procedures, which the System uses extensively in order to minimize processing costs and respondent burden. In the case of sampling, individual respondents are at best reluctant to participate in data collection surveys when they know that some of their competitors are not being covered, and it seems clear that many would refuse to participate if they felt that there was risk of disclosure of the data they reported, since disclosure could reveal and compromise the competitive position of the reporting institution. Accordingly, the policy of the Board has been to treat unpublished statistical information submitted in confidence as exempt from public disclosure, and also to treat as confidential the identities of the individual banks and other institutions that participate in sample surveys.

Viewed from the standpoint of overall public benefit, there is no doubt that the Board's present data collection program pays substantial dividends. The reliability and scope of the data assist not only the Board, but many government agencies, businesses, and scholars. We believe it is extremely important that, in searching for new ways in which these data may be utilized to serve the public, we do not lose sight of the great value that already accrues to all Americans from the present statistical information program. In any event, the Board intends, as it designs and conducts its statistical operations, to look for opportunities to make relevant data available in appropriate form to the consuming public.

The Board's consumer-related programs, as I have outlined here today, are and will remain a high priority. In addition, I want to emphasize that, although my discussion has focused on our Office of Saver and Consumer Affairs and our responsibilities with regard to consumer credit, our vision is not so narrowly limited and looks beyond to the welfare of consumers generally. Policies adopted by the Board benefit the consumer by striving for stable prices, a sound financial system and a high level of employment and production.

Thank you, Mr. Chairman; I shall be glad to answer any questions you or the other members of the Subcommittee may have.