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Statement by

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Member, Board of Governors of the Federal Reserve System

before the

Committee on Banking, Housing and Urban Affairs

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I appreciate the opportunity to participate on behalf of the Board of Governors of the Federal Reserve System in these hearings. For purposes of brevity, I will not repeat the answers previously furnished to the Committee in response to its questions. These answers outline the nature and extent of the Board's Office of Saver and Consumer Affairs which acts on consumer complaints. They describe the enforcement activities in the consumer credit area of both the Board of Governors and the Federal Reserve System as a whole. They also speak to the rationale and need for the complex regulatory scheme under the Consumer Credit Protection Act.

In discharging its responsibilities under the Consumer Credit Protection Act, the Board of Governors must fulfill the role of writer and promulgator of regulations under the statute, as well as that of enforcer of the statute for State-member banks. Thus, the Board's Office of Saver and Consumer Affairs not only responds to consumer complaints, but drafts regulations and interpretations to implement the statute and assists our Division of Banking Supervision and Regulation in its enforcement responsibilities.

Our past enforcement efforts under the Consumer Credit Protection Act, primarily concentrated on the Truth in Lending Act, have utilized the standard bank examination technique. However, the recent rapid growth of consumer credit laws in general is leading us toward changes in this approach. These laws encompass such a broad range of highly technical subjects that examiners understandably have

difficulty keeping up with the many details involved. We have also found that the techniques needed for examination of bank practices and policies in the consumer credit area are quite different from the approach which is appropriate for determining the safety and soundness of banks.

In recent months, a committee of the Board of Governors has been studying various approaches to the enforcement of consumer credit laws. This committee is striving to determine the best approach toward this type of enforcement activity and to provide for uniform techniques throughout the System.

Several Reserve Banks have already established special teams and procedures for enforcement of consumer credit regulations. These teams consist of experts and provide helpful information to banks, particularly small banks where the burdens of technical compliance are disproportionately large. These specialists are also working to develop new techniques for examination that will meet the demands for the more contemporaneous concepts of compliance with the new regulations. Generally, these Reserve banks are finding it appropriate to separate enforcement for compliance under consumer credit legislation from standard examinations on safety and soundness.

The Board shares the Committee's concern about the complexity of the regulatory scheme that has arisen as a consequence of the Consumer Credit Protection Act. In recent weeks, we have made some recommendations to this Committee for statutory simplification of those aspects of the

Truth in Lending Act applicable to closed end credit. As soon as more practical experience is gained under the Fair Credit Billing Act, similar recommendations for potential simplification applicable to open end credit may be in order. One of the recommendations made earlier -- the possible limitation of creditor liability to acts that significantly injure or mislead consumers -- offers some hope of a major change toward simplicity in the statute and its implementation.

In the Board's view, the principal reason that these statutes and regulations are complex is that the credit system in America is complex beyond the ability of any one person or organization to completely understand. Ours has become such a credit-oriented society that the purchase of practically any kind of good or service may directly or indirectly involve the use of credit. It is thus axiomatic that any statute or implementing regulation which is applicable to credit in general will tend to be as complex as the system it is designed to regulate. We feel the best solution to this problem for the future is to limit legislative corrective action to those particular fields where significant public abuse has developed.

The Board was pleased that the Congress recently authorized establishment of a Consumer Advisory Council which has the responsibility to advise it on a broad range of consumer matters. We are also pleased that, following public notice, a large number of qualified people has

indicated a willingness to serve on the Council. Final selection of Council members is now being made. This Council should prove to be beneficial in assisting the Board in its commitment toward effective action in the regulatory and enforcement aspects of consumer credit legislation.

I will be happy to answer any of your questions.