

Research Department  
Federal Reserve  
Bank of  
San Francisco

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## Consumers and Regulators

A generation ago, indebtedness was viewed as the mark of an imprudent person who was either lazy or a poor manager. Today, however, instalment buying is an integral part of the American way of life. Growing by leaps and bounds, consumer instalment credit outstanding has risen from \$4 billion in 1946 to over \$185 billion at mid-1977. Credit has become almost indispensable for purchasing autos, housing, health care, and numerous other things, so that the public has come to view credit not as a privilege, but as a right.

Within the past decade, Congress has responded to these changing social and economic conditions with a flurry of credit laws designed to protect consumers. The key pieces of legislation include the Truth in Lending Act (including Consumer Leasing and Fair Credit Billing), the Fair Credit Reporting Act, and the Equal Credit Opportunity Act. To implement these laws, Congress directed the Federal Reserve Board of Governors to write substantive and enforceable regulations. This mandate cast the Federal Reserve System into an active role in the area of consumer protection.

While the Fed is no stranger to consumer-credit activities, its present role differs markedly from its former involvement in this area. Regulation W, for example, was instituted in 1942 as a war-time effort to help curb inflationary pressures and re-allocate resources

to war uses, by restricting the amount of instalment credit available for consumer durable-goods purchases. The Regulation required lenders to register with the government, and limited the amount of credit which could be offered. Moreover, it prescribed the conditions under which credit could be offered, dictating terms such as minimum downpayment, maximum maturity, and payment intervals. At the end of World War II, Regulation W was rescinded amid heated public discussion, including the argument by some critics that it was "economically unsound to encourage people to go deeper and deeper into debt on increasingly easy terms."

Consumer-credit regulations today are based on a somewhat different philosophy, centering around the belief that consumers (and creditors) will make wise credit decisions provided they have ample information and access to credit facilities. The Truth in Lending Act, implemented in 1969 by Regulation Z, was designed to boost credit competition by providing consumers with the knowledge necessary to shop effectively for credit. Further amendments to Regulation Z, in the form of the Consumer Leasing and Fair Credit Billing provisions, were premised on the consumer's right to detailed credit information. Perhaps most indicative of changing social conditions, though, was the Equal Credit Opportunity Act, which was designed

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to open the credit market to people who had previously been denied credit, frequently despite ability to repay.

### **Equal credit**

The Equal Credit Opportunity Act (ECOA) was implemented by Regulation B in late 1975, as a means of guaranteeing that credit would be equally available to creditworthy applicants without regard to sex or marital status. In March of this year, its scope was broadened to encompass other prohibited bases of discrimination—race, color, religion, national origin, receipt of income from public assistance programs, and exercising of rights under the Consumer Credit Protection Act.

The revised regulation also stipulates that a creditor who refuses to grant a loan must inform the customer of the adverse action within thirty days of receiving a completed application. Furthermore, upon discovering that an application is incomplete, the creditor must make a good-faith effort to obtain information necessary to complete the application. The written adverse-action notice must contain a notice of rights under the ECOA, the name and address of the Federal agency responsible for compliance, and a statement of the specific reasons for the adverse action (or notification of the applicant's right to receive such a statement).

### **Credit herstories**

Perhaps one of the most significant provisions of revised Regulation B

covers the right of married women to establish credit histories in their own names. Prior to June 1, 1977, most credit accounts were kept solely in the name of the husband, and only he developed a credit history. Yet most married women at some time in their lives want individual credit, and will thus need an independent credit history.

Therefore, a creditor henceforth must designate new accounts to reflect the participation of both wife and husband. On existing accounts, a creditor must designate joint and user accounts so that credit information can be accessed in both names of married account holders. If the creditor is unable to find this information in a record review, each couple must be informed in writing of their right to have credit information reported in the names of both spouses. Those who wish to have individual credit histories must sign and mail the notice back to the creditor. Either spouse's signature is sufficient, and signing the notice does not change the liabilities of either spouse.

### **Enforcement of equal credit**

Equal Credit Opportunity provisions are enforced by a number of Federal agencies. At the Federal Reserve Bank of San Francisco, problems are handled by a Consumer Banking Affairs Unit which acts as a consumer complaint clearinghouse. The Unit investigates complaints regarding state-chartered banks which are members of the Federal Reserve System, and forwards other complaints to the proper enforcement agency:

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the Federal Deposit Insurance Corporation for state-chartered non-member banks; the Comptroller of the Currency for nationally-chartered banks; the Federal Home Loan Bank Board for savings and loan associations; and the Federal Trade Commission for most other creditors.

Yet consumers frequently are not knowledgeable enough about their rights to exercise them, nor are creditors always cognizant of their responsibilities to consumers.

Another important facet of enforcement, then, is the dissemination of information. Staff members at various Reserve Banks handle thousands of telephone calls a month from consumers and lenders. Copies of Federal Reserve regulations, amendments and proposals, and explanatory pamphlets also are provided to the public. Speakers conversant with the Board's consumer regulations are available to interested groups upon request, as is an advisory service for member banks. The advisory service is part of the "Consumer Compliance and Education Program" instituted by the Fed this past March. Intended to assure that banks both understand and comply with consumer regulations, the program has two parts: special compliance examinations for state-chartered member banks, and an educational/advisory service available to all Federal Reserve member banks.

#### **Cost of enforcement?**

Congress' attempt to make credit more accessible to consumers has

created some new problems, according to Federal Reserve Governor Philip C. Jackson, Jr., in testimony before the Consumer Affairs Subcommittee of the House Banking Committee. "While it supports the basic public purpose of consumer-credit legislation, the Board of Governors has become increasingly concerned about the degree of complexity and overlap of existing laws and hopes the situation can be clarified and simplified," he said.

Jackson listed several Federal Reserve actions designed to deal with this problem. The Board of Governors last year established a Consumer Advisory Council representing a broad spectrum of consumer and creditor interests. Council study groups are now making on-site investigations of large and small creditors, to analyze the ramifications of consumer-credit laws. In addition, the University of Michigan is conducting a survey for the Board to evaluate consumers' perceptions of these laws, and thus to determine how regulations can be made more responsive to consumer needs. Again, the Board has issued sample forms to assist creditors—especially small businesses—in dealing with consumer-credit problems. And the "Consumer Compliance and Education Program" has been set up to reduce complexity through increased public understanding of the impact of consumer-credit statutes and regulations.

**Kathleen Quenneville**

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**BANKING DATA—TWELFTH FEDERAL RESERVE DISTRICT**  
(Dollar amounts in millions)

Selected Assets and Liabilities Large Commercial Banks	Amount Outstanding 8/24/77	Change from 8/17/77	Change from year ago	
			Dollar	Percent
Loans (gross, adjusted) and investments*	100,240	- 113	+ 11,311	+ 12.72
Loans (gross, adjusted)—total	77,493	+ 110	+ 10,668	+ 15.96
Security loans	2,312	+ 177	+ 922	+ 66.33
Commercial and industrial	23,506	- 76	+ 2,000	+ 9.30
Real estate	25,104	+ 74	+ 4,523	+ 21.98
Consumer instalment	13,504	+ 69	+ 2,034	+ 17.73
U.S. Treasury securities	8,633	- 182	- 1,025	- 10.61
Other securities	14,114	- 41	+ 1,668	+ 13.40
Deposits (less cash items)—total*	97,168	+ 110	+ 9,159	+ 10.41
Demand deposits (adjusted)	27,289	- 68	+ 2,538	+ 10.25
U.S. Government deposits	212	- 79	- 127	- 37.46
Time deposits—total*	67,817	+ 228	+ 6,345	+ 10.32
States and political subdivisions	5,248	- 11	- 383	- 6.80
Savings deposits	31,818	- 30	+ 4,906	+ 18.23
Other time deposits‡	28,727	+ 262	+ 2,099	+ 7.88
Large negotiable CD's	11,115	+ 225	+ 266	+ 2.45
Weekly Averages of Daily Figures	Week ended 8/24/77	Week ended 8/17/77	Comparable year-ago period	
<b>Member Bank Reserve Position</b>				
Excess Reserves (+)/Deficiency (-)	- 7	+ 77	+ 60	
Borrowings	223	46	0	
Net free(+)/Net borrowed (-)	- 230	+ 31	+ 60	
<b>Federal Funds—Seven Large Banks</b>				
Interbank Federal fund transactions				
Net purchases (+)/Net sales (-)	+ 755	+ 798	- 383	
Transactions with U.S. security dealers				
Net loans (+)/Net borrowings (-)	+ 465	+ 563	+ 186	

\*Includes items not shown separately. †Individuals, partnerships and corporations.

Editorial comments may be addressed to the editor (William Burke) or to the author. . . .  
Information on this and other publications can be obtained by calling or writing the Public  
Information Section, Federal Reserve Bank of San Francisco, P.O. Box 7702, San Francisco 94120.  
Phone (415) 544-21184.