

ANNUAL REPORT TO CONGRESS  
ON  
THE EQUAL CREDIT OPPORTUNITY ACT  
FOR THE YEAR 1978

Board of Governors of the Federal Reserve System

February 1, 1979

## TABLE OF CONTENTS

	<u>Page</u>
I. SPECIAL CIVIL RIGHTS ENFORCEMENT EFFORTS	1
II. COMPLIANCE	3
III. LEGISLATIVE RECOMMENDATIONS	10
IV. UNIFORM GUIDELINES FOR ENFORCING REGULATION B	11
V. COMPREHENSIVE REVIEW OF REGULATION B	12
VI. NEW INFORMATION	
A. Consumer Awareness Survey	13
B. Inquiry on Exercise of Rights under the Equal Credit Opportunity Act	14
VII. CONSUMER ADVISORY COUNCIL	14
VIII. ADMINISTRATIVE FUNCTIONS	
A. Amendments and Interpretations of Regulation B During 1978	15
1. Occurrence of Adverse Action at Point of Sale	15
2. Revised Procedures for Issuance of Official Staff Interpretations	16
3. Proposed Amendments to Regulation B	16
4. Official Staff Interpretations	17
B. Education	17
APPENDIX A - Selected Results of Consumer Awareness Survey	
APPENDIX B - Members of the Consumer Advisory Council	

APPENDIX A

1. Type of credit problem considered unfair

Problem mentioned <sup>1</sup>	Number	Per cent	
		Problems	Total respondents
Credit refusals, limits	172	18.2	6.7
Reason for refusal not given	1	.1	.0
High rates, charges	128	13.5	5.0
Other terms poor, short maturities, etc.	54	5.7	2.1
Contract sale to other creditor	27	2.8	1.0
Prepayment penalty	21	2.2	.8
Insufficient information about credit terms	35	3.7	1.4
Dunning, garnishment, embarrassment over bills	94	9.9	3.7
Repossession	54	5.7	2.1
Problem with handling of defective merchandise	70	7.4	2.7
Billing errors	10	1.0	.4
Improper identification (another's purchase, former spouse, stolen credit card)	66	7.0	2.6
Other mistakes, incorrect information, incompetence	8	.8	.3
Rudeness, unfriendliness	2	.2	.1
Family background or size, and credit	26	2.7	1.0
Sex, marital status, and credit	8	.8	.3
Age and credit	3	.3	.1
Race and credit	6	.6	.2
Other personal characteristics and credit	13	1.4	.5
Lack of assets, security, savings account, downpayment	17	1.8	.7
Insufficient credit history	33	3.5	1.3
Credit-rating problem	33	3.5	1.3
Requirement of certain financial characteristics, residence, or job	25	2.6	1.0
All other mentions	16	1.7	.6
Do not know or not ascertained			
<b>Total</b>	<b>947</b>	<b>100.0</b>	<b>...</b>

<sup>1</sup> The 947 problems were mentioned by 622 respondents, or by 24.3 per cent of the 2,563 total respondents.

2. Perceptions of credit criteria used by creditors

Criterion	Mentions	
	Number	Per cent (N=6,002)
<b>Personal</b>		
Family size	68	1.1
Marital status	69	1.1
Sex	27	.4
Age	110	1.8
Race	12	.2
Personal character reputation	228	3.8
Other	73	1.2
<b>Credit</b>		
Credit history, credit rating, credit bureau reports	1,583	26.4
Assets, collateral, security	556	9.3
Amount of other debt	646	10.8
Other	40	.7
<b>Financial</b>		
Type of employment, security of employment, time on job	1,033	17.2
Homeownership	94	1.6
Time of current address	102	1.7
Amount of income	1,089	18.1
Other	34	.6
<b>Other</b>		
Other responses	45	.7
Not known, not ascertained	193	3.2
<b>Total</b>	<b>6,002</b>	<b>100.0</b>

3. Closed-end question about credit criteria used by creditors

Criterion	Number of mentions	Per cent of respondents (N=2,563)
Length of time on present job	1,478	57.7
Length of time at present address	358	14.0
Race	57	2.2
Having a checking account or not	251	9.8
Homeownership (own or rent)	726	28.3
Sex	74	2.9
Amount of other monthly payments (including rent or mortgage)	1,022	39.9
Age	219	8.5
Income	1,592	62.1
Marital status (married, single, separated, divorced)	143	5.6
Size of family	77	3.0
Previous credit experience	1,634	63.8

4. Closed-end question about credit criterion used by creditors

Group	Per cent of respondents	
	Mentioning	Not mentioning
<b>Race</b>		
Caucasian	1.9	98.1
Non-Caucasian	4.5	95.5
All	2.2	97.8
<b>Sex</b>		
Male	2.2	97.8
Female	4.3	95.7
All	2.9	97.1
<b>Age</b>		
Under 50 years	5.4	94.6
50 years and over	12.4	87.6
All	8.5	91.5
<b>Marital status</b>		
Married	5.0	95.0
Separated	2.4	97.6
Divorced	9.4	90.6
Widowed	7.9	92.1
Single, never married	4.8	95.2
All	5.6	94.4

APPENDIX B  
CONSUMER ADVISORY COUNCIL  
Board of Governors of the Federal Reserve System

William D. Warren, Chairman  
Los Angeles, California  
12-31-80

Percy W. Loy  
Portland Oregon  
12-31-79

Marcia A. Hakala, Vice Chairman  
Omaha, Nebraska  
12-31-80

R. C. Morgan  
El Paso, Texas  
12-31-80

Roland E. Brandel  
San Francisco, California  
12-31-80

Florence M. Rice  
New York, New York  
12-31-81

James L. Brown  
Milwaukee, Wisconsin  
12-31-81

Ralph J. Rohner  
Washington, D.C.  
12-31-81

Mark E. Budnitz  
Boston, Massachusetts  
12-31-81

Raymond J. Saulnier  
New York, New York  
12-31-79

John G. Bull  
Fort Lauderdale, Florida  
12-31-79

Henry S. Schechter  
Washington, D.C.  
12-31-81

Robert V. Bullock  
Frankfort, Kentucky  
12-31-80

E. G. Schuhart  
Dalhart, Texas  
12-31-80

Carl Felsenfeld  
New York, New York  
12-31-79

Blair Shick  
Cambridge, Massachusetts  
12-31-79

Jean A. Fox  
Pittsburgh, Pennsylvania  
12-31-79

Thomas R. Swan  
Portland, Maine  
12-31-79

Richard H. Holton  
Berkeley, California  
12-31-79

Anne Gary Taylor  
Alexandria, Virginia  
12-31-79

Edna DeCoursey Johnson  
Baltimore, Maryland  
12-31-79

Richard A. Van Winkle  
Salt Lake City, Utah  
12-31-81

Richard F. Kerr  
Cincinnati, Ohio  
12-31-81

Richard D. Wagner  
Simsbury, Connecticut  
12-31-80

Robert J. Klein  
New York, New York  
12-31-80

Mary W. Walker  
Monroe, Georgia  
12-31-81

Harvey M. Kuhnley  
Edina, Minnesota  
12-31-81

Leonor K. Sullivan, Chairman Emeritus  
St. Louis, Missouri  
12-31-80

The third Annual Report on the Equal Credit Opportunity Act (ECOA) describes the enforcement of the act and Regulation B by the Board of Governors of the Federal Reserve System and the other Federal enforcement agencies. It presents the findings of a major survey of consumers, which gathered information about consumer perceptions, and a smaller inquiry of creditors, which sought data on the use by consumers of consumer credit legislation. This report also discusses the uniform guidelines proposed jointly by the financial regulatory agencies for enforcing Regulation B, assesses the extent to which compliance with the act is being achieved, and outlines the Board's administration of its functions under the act.

This report does not contain recommendations of the Board for statutory amendments. Such recommendations, if any, will be made in the Board's Annual Report to the Congress.

#### I. SPECIAL CIVIL RIGHTS ENFORCEMENT EFFORTS

A preliminary review by the Board's staff at the end of 1977 of the specialized consumer affairs enforcement program that was established earlier in that year showed that although examinations frequently revealed procedural violations, they had not been as successful in uncovering evidence of banks engaging in substantive violations of Regulation B and the Fair Housing Act. The question arose whether existing procedures and training were adequate to enable examiners to detect unlawful discrimination readily.

To supplement research conducted by the staff on this question, the Board engaged a consultant to study the Board's procedures and materials for enforcing the ECOA and Fair Housing Act and to make recommendations

for changes. The consultant's report, which was published in May 1978, suggested a redirection of emphasis in the System's enforcement efforts with respect to credit discrimination. On the basis of this report and independent research, a task force of Board and Reserve Bank staff redrafted examiner manuals and examination procedures for Regulation B and the Fair Housing Act. In light of the field test results, the manuals and procedures are being revised. The staff expects to present the revised civil rights enforcement program to the Board early in 1979.

Meanwhile, in August 1978 the Division of Consumer Affairs augmented its compliance staff by designating three members of its legal staff as civil rights specialists. These persons, in conjunction with the compliance staff, were primarily responsible for drafting new examiner manuals and examination procedures. Each Federal Reserve Bank also appointed a member of its staff to assume primary civil rights responsibilities.

The Board's civil rights specialists conferred with the staff of the Department of Justice on recent civil rights enforcement developments and in September 1978, the Board's staff arranged for the Department of Justice to conduct a special 1-day seminar for all staff in the Division of Consumer Affairs and for the Reserve Bank civil rights specialists. The Board also conducted a 3-day training seminar for 12 examiners and 8 Board staff members on the subject of civil rights enforcement.

Three other Federal agencies reported special activities in the area of civil rights. The Federal Deposit Insurance Corporation (FDIC) established a Civil Rights Branch within its Office of Consumer Affairs and Civil Rights to provide leadership in administering the FDIC's enforcement of civil rights laws and regulations. The Federal Home Loan Bank Board

(FHLBB) adopted a new Nondiscrimination Regulation effective July 1, 1978, which enhances Regulation B by prohibiting discrimination in housing lending on all of the bases prohibited by the ECOA as well as on two additional bases--age and location of the dwelling. The Federal Trade Commission (FTC) commissioned a report concerning discrimination in real estate finance, which reviews the FTC's enforcement options and provides recommendations about litigation strategies and possible rulemaking proceedings.

## II. COMPLIANCE

During the past year the Federal Reserve System and other Federal enforcement agencies continued to enforce the Equal Credit Opportunity Act and Regulation B through a variety of methods. This section summarizes the compliance activities in 1978 of the Federal Reserve System and the compliance reports of the other Federal enforcement agencies.

Many compliance efforts feature specialized examinations conducted by examiners versed in consumer law and regulations. In the past year, Federal Reserve System examiners have conducted special examinations of approximately 800 State member banks to determine compliance with consumer credit regulations, including equal credit opportunity.

Training of examiners remains a major activity among those agencies that enforce the act by means of an examination process. The Comptroller of the Currency, for example, held six 2-week schools to train 300 of its examiners in consumer regulations, and joined the FDIC and the Board in conducting a 1-week seminar for supervisors and senior examiners.

Most of the enforcement agencies handle consumer complaints by investigating creditors and resolving complaints. During the first 10 months

of 1978, the Federal Reserve System received 304 complaints relating to the act or Regulation B against State member banks. Of these, 260 charged unfair denial, termination, or change in terms of credit. Over half of these (138 complaints) claimed discrimination on a basis the act does not define as discriminatory, such as credit history, level of income, and length of employment. On the other hand, 28 complainants felt that marital status or sex was the reason for the creditor's adverse action, 11 charged discrimination because of age, and 11 because of race, color, or national origin.

With respect to the 304 complaints regarding State member banks, 168 investigations have been completed, 60 are still under investigation, and 76 were handled by furnishing information or an explanation. In the 168 completed investigations, the bank was found to be legally correct in 139 cases (in 36 of which it nevertheless reached an accommodation with the complainant); to have made an error, which has since been corrected, in 19 cases; to be in possible violation, since resolved, in 7 cases; and in possible violation, still unresolved, in 1 case. In two cases, the credit applicant was in error.

For this same 10-month period, the Office of the Comptroller reported 625 consumer complaints received, 280 of which alleged discrimination on the basis of sex or marital status. In addition, 58 complainants felt that they had been discriminated against due to race, color, or national origin, 30 cited age as the perceived reason for denial, and 16 charged discrimination due to receipt of public assistance, and 2 because of religion.

The FHLBB noted 211 complaints received during this period. Over 25 per cent of these (56 complaints) alleged discrimination on the basis of sex

or marital status and nearly 25 per cent more (52 complaints) charged redlining. Complainants also charged discrimination due to race, color, or national origin in 34 cases, age in 16 cases, and religion in 1 case.

During fiscal year 1978, the FDIC reported receiving 215 complaints and 17 inquiries concerning equal credit opportunity. Of these, approximately 30 per cent involved the notice of adverse action, 28 per cent alleged discrimination on the basis of sex or marital status, and 8 per cent on the bases of race and age.

The National Credit Union Administration (NCUA) stated that during this same period it received 91 complaints about discrimination, the largest number of which (30 complaints) alleged discrimination on the basis of race, color, or national origin. Sex or marital status was considered the reason for discrimination in 20 instances, age in 4 instances, and receipt of public assistance in 3 instances.

During fiscal year 1978, the Federal Trade Commission (FTC) responded to over 11,000 consumers with complaints or inquiries pertaining to the ECOA, an increase of approximately 4,000 from 1977. The FTC staff stated that it continues to rely heavily on information provided by consumers in identifying suspected violators of the act for ECOA enforcement actions. For this reason, the FTC staff is developing a computerized system -- similar to those currently used by the Board, the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board, and the National Credit Union Administration -- to aid in the retrieval of information about consumer complaints.

The Farm Credit Administration (FCA) reported receipt of 7 complaints of discrimination on the basis of race, color, or national origin, and 5 on the basis of sex or marital status. No complaints involving farm credit lending institutions are known to have resulted in litigation. However, the Department of Justice is investigating, under the ECOA, practices of a Federal land bank and a Federal land bank association due to a complaint that the FCA explored.

The Civil Aeronautics Board (CAB) reported that it received approximately 150 complaints from the public involving the ECOA and Regulation B. The CAB indicated that virtually all of these complaints have been processed informally by contacting the carrier or supplying information to the complainant, and that several major investigations of consumer credit practices in the airline industry have been initiated as a result of the complaints.

During fiscal year 1978, 44 complaints of discrimination based on race, national origin, or sex were made against Small Business Administration (SBA) program offices and recipients, but SBA investigations found no violations.

Neither the Securities and Exchange Commission nor the Agricultural Marketing Service (Packers and Stockyards) received complaints alleging discrimination under the ECOA during 1978.

The agencies responsible for enforcing the Equal Credit Opportunity Act have reported varying assessments of the extent to which creditors are complying with the act. During the past year, two agencies noted substantial increases in levels of creditor noncompliance. NCUA's preliminary results show that 63 per cent of the credit unions examined were not in compliance, more than double the 28 per cent for 1977. Many of the violations involved noncomplying forms. Similarly, the proportion of FDIC examination reports indicating apparent violations rose from 26.6 per cent in fiscal year 1977 to 51.3 per

cent in fiscal year 1978. These reported violations related primarily to failures to provide proper notifications in the event of adverse action, and improper requests for the signature of a spouse. Both agencies attributed the reports of increased noncompliance to the additional staff training and improved examination techniques that followed special emphasis on civil rights enforcement.

Since many creditors supervised by the NCUA were found to be using improper forms, the NCUA has developed a set of model loan application forms written in plain English and designed to meet the special needs of credit unions. After the forms are reviewed, their optional use by credit unions should result in a decrease in this kind of violation.

From July 1977 through June 1978, 89 per cent of national banks examined by the Comptroller of the Currency (OCC) were found to be in violation of the regulation compared with 97 per cent during the previous report period. Patterns of substantive violations of the regulation were reported for 66 per cent of banks examined. Roughly two-thirds of these involved requests for and subsequent consideration of certain prohibited information with regard to applicants, and 30 per cent concerned requests for signature of a spouse or other person. When a national bank is alleged to be discriminating on a prohibited basis, the OCC conducts a special investigation. Such an investigation, which may be triggered by a consumer complaint or by preliminary evidence discovered in the examination, entails use of a larger sample of loan files, and provides for a detailed review of appraisal practices and other data.

The Comptroller's office said it believes that substantial compliance with the act is achieved by national banks after a consumer

examination occurs and the required corrective action is taken. It noted the following three enforcement problems: the lack of uniform guidelines for required corrective action for banks found to be in violation; the difficulty of detecting illegal discouragement of credit applications by a review of loan application files; and the lack of written lending policies in banks, which can be overcome only partially by interviews with loan officers and bank management.

The Federal Reserve System's first round of special consumer examinations revealed approximately 78 per cent of State member banks in noncompliance with the regulation. Of those banks undergoing a second consumer examination, 28 per cent repeated violations previously cited although 73 per cent continued to have violations of one kind or another. The overwhelming majority of violations continue to relate to the use of noncomplying application forms, while other frequent violations involve the notification requirements of Regulation B and failure to request information for monitoring purposes.

The Federal Home Loan Bank Board reported that violations were found in 53 per cent of institutions examined from July 1977 through June 1978. Major concentrations of violations concerned improper requests for information on marital status, failure to notify about adverse action, and failure to obtain monitoring information.

The FHLBB said that enforcement of the ECOA was complicated by the difficulty of identifying and correcting practices that are neutral on their face but have the effect of discriminating against a protected class. The legal theory under which such practices are identified holds that practices having a greater negative impact on some protected classes may, if not justified by business necessity, be illegal because of their

discriminatory effect, even though they are not intentionally discriminatory and are applied equally to all credit applicants. The FHLBB further indicated that, without clearer standards and guidance from Congress or the courts, determinations as to how business necessity and discrimination relate to mortgage lending will remain extremely difficult to make.

The Federal Trade Commission stated that the level of compliance with the ECOA varies greatly among creditors subject to its jurisdiction. Although many violations are apparently confined to narrow segments of an industry, certain unlawful practices appear to occur more frequently. Such practices include requesting information about an applicant's spouse, and obtaining the signature of the spouse or other person on a promissory note; disregarding or treating less favorably income derived from sources other than employment, such as alimony, child support, pension, and public assistance payments; relying on ZIP codes as criteria of creditworthiness; misusing the Statement of Credit Denial, Termination, or Change sample form in Regulation B; failing to disclose that sensitive factors, such as age, are considered by the creditor; and providing vague, rather than specific, reasons for rejecting applicants.

The FTC described the following four enforcement problems encountered in fiscal year 1978 as significant: failure of creditors to provide the principal specific reasons for adverse action; difficulties in detecting and remedying racial steering in real estate financing; difficulties in documenting business credit discrimination; and difficulties in dealing with discriminatory telephone and mail solicitation techniques.

During the past year, the FTC issued two final Commission Interpretations of the Fair Credit Reporting Act, designed to reconcile the goals of that statute with the goals of the ECOA. Interpretation 600.7 facilitates access to credit by women while preserving the privacy of their spouses. Interpretation 600.8 permits creditors to obtain reports on the nonapplicant spouse in certain circumstances. These interpretations are statements of FTC enforcement policy for all creditors subject to FTC jurisdiction.

The agencies enforcing the ECOA and Regulation B reported that they have taken the following formal administrative actions. During fiscal year 1978 the Federal Deposit Insurance Corporation initiated one cease-and-desist order, made final four previously issued orders, and terminated three outstanding orders. During this same period, the Federal Trade Commission accepted one consent order and obtained one consent judgment. The Federal Home Loan Bank Board and the Civil Aeronautics Board each issued one cease-and-desist order during 1978.

Each enforcement agency, with the exception of the Securities and Exchange Commission (SEC) and the Interstate Commerce Commission (ICC), submitted a cost estimate of its compliance effort in connection with the Equal Credit Opportunity Act. While these figures are not strictly comparable, the total estimated expenditure was approximately \$7.6 million in 1978.

### III. LEGISLATIVE RECOMMENDATIONS

Although the Board is not making legislative recommendations in this report, two of the other enforcement agencies made suggestions for amending the Equal Credit Opportunity Act. The Small Business Administration

requests that the Congress transfer to it (from the FTC) the responsibility for monitoring Regulation B and the ECOA in its programs. SBA said it believes this would avoid duplicative administrative hearings when certain violations are alleged. The Office of Equal Opportunity within the Department of Agriculture recommends that discrimination because of a handicap be included among the prohibited bases under the ECOA.

#### IV. UNIFORM GUIDELINES FOR ENFORCING REGULATION B

The five Federal agencies that supervise Federally insured financial institutions--the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board, the Federal Reserve Board, and the National Credit Union Administration -- have jointly proposed uniform guidelines for enforcement of the Equal Credit Opportunity Act, its implementing Regulation B, and the Fair Housing Act. The guidelines were issued for public comment in June 1978. They are intended to promote improved and uniform enforcement of the equal credit opportunity and fair housing laws among Federally regulated financial institutions, by requiring corrective action for violations discovered during examinations and through investigation of complaints.

The enforcing agencies would encourage voluntary correction and compliance, and take the actions noted in the guidelines to correct violations. These violations include discouraging applications on a prohibited basis, using discriminatory elements in credit evaluation systems, charging a higher rate of interest on a prohibited basis or requiring insurance in violation of fair housing or equal credit opportunity laws, requiring a cosigner on a prohibited basis, failing to provide notices of adverse action, failing to maintain and report separate credit histories

where required, failing to collect information for monitoring purposes, and terminating or changing the terms of accounts on a prohibited basis. In each case, the circumstances would be considered in determining the suitability of the remedy provided in the uniform guidelines. If violations remain uncorrected, the enforcing agencies would take administrative actions to ensure correction. The agencies have reviewed the comments received and are working toward final guidelines.

V. COMPREHENSIVE REVIEW OF REGULATION B

In June 1978 the Board announced that it was embarking on a comprehensive review of all its regulations, to determine whether they needed modernization or improvement. The style and format of existing regulations are receiving special attention in an attempt to make Federal Reserve regulations more understandable and to reduce the burden of compliance. The Federal Reserve Bank of Philadelphia, which was assigned responsibility for reviewing Regulation B, submitted its report to the Board at the end of 1978. The Board's staff will review the report and make recommendations to the Board.

VI. NEW INFORMATION

During the past year, the Board published the results of two studies--a major survey of consumers and a less extensive collection of data from creditors.<sup>1</sup> Both inquiries were undertaken to learn more about credit use and consumer needs and to provide information about consumer awareness and use of consumer credit legislation.

1

Thomas A. Durkin and Gregory Elliehausen, 1977 Consumer Credit Survey (Board of Governors of the Federal Reserve System, 1978); "Exercise of Consumer Rights under the Equal Credit Opportunity and Fair Credit Billing Acts," Federal Reserve Bulletin, vol. 64 (May 1978), pp. 363-66.

A. Consumer Awareness Survey

In the summer of 1977 the Survey Research Center of the University of Michigan conducted a survey of consumer awareness under the joint sponsorship of the Board, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency. The survey, which involved interviews with a nationwide sample of 2,563 consumers, included several questions pertaining to the act and Regulation B.

Nearly one-quarter of the consumers surveyed experienced problems or treatment they considered unfair in their credit transactions; 622 respondents mentioned 947 problems. However, relatively few of them considered credit discrimination to be among their problems. They reported only 26 problems because of sex or marital status, 8 because of age, 3 because of race, and 6 because of other personal characteristics--a total of only 4.4 per cent of all problems (See Table 1 in appendix A).

The survey further asked respondents what information they thought creditors use in deciding whether to make a loan. As shown in Table 2, 9.6 per cent of the responses related to personal characteristics such as age or race, while the rest related to credit history or financial characteristics. In response to a question that focused on personal characteristics protected by the ECOA, personal factors were mentioned very infrequently (Table 3), even by minority, female, elderly, and nonmarried respondents (Table 4).

The survey did not attempt to measure consumers' awareness of the ECOA directly because at the time of the interviews the law had only recently taken effect. Survey research with respect to other credit laws indicates that public awareness of them tended to develop very slowly.

B. Inquiry on Exercise of Rights under the Equal Credit Opportunity Act

In November 1977 the Board surveyed eight large creditors to determine the extent to which consumers exercise certain rights under the ECOA and the cost to creditors of complying with this law. Two areas covered in the inquiry were the right to a separate credit history for married persons, and notification by creditors of specific reasons for denial of credit.

Creditors enclosed with billing statements the initial notices regarding the right to a separate credit history. Approximately 11 per cent of customers requested the maintenance of separate credit histories. The average cost to the creditors of printing and processing each notice in such a mailing was less than 1 cent, and the average cost of processing the return requests and initially reporting the new information to the credit-reporting agencies was about 9 cents per request.

A substantial proportion of rejected credit applicants requested the reasons for denial if they had not been given reasons at the time of rejection; many applicants subsequently provided additional information sufficient to warrant the granting of credit. Similarly, many applicants who were initially given reasons for credit denial supplied more information, and a high proportion of these were then granted credit. The cost of providing reasons for the denial of credit to the rejected applicants varied widely--ranging from 22 cents to \$5.25 per account.

VII. CONSUMER ADVISORY COUNCIL

The Consumer Advisory Council, whose members include a broad representation of consumer and creditor interests, was established in late

1976 to advise on the Board's responsibilities in the field of consumer credit protection laws. During 1978, the Council met four times and discussed various issues, including the uniform guidelines for enforcing Regulation B. In addition, the Council reviewed the efforts of the Federal Reserve System in achieving member bank compliance with the ECOA and Fair Housing Act, and explored approaches the Board should consider in its consumer education efforts.

In February 1978, the Board expanded the Council membership to 28 by appointing 2 additional members. In December, 8 new members were appointed to the Council for terms of 3 years to replace those whose terms expired at the end of 1978. A list of members currently serving on the Council, and their terms, is attached as appendix B.

#### VIII. ADMINISTRATIVE FUNCTIONS

##### A. Amendments and Interpretations of Regulation B During 1978

##### 1. Occurrence of Adverse Action at Point of Sale

Under Regulation B, in each instance of adverse action, a creditor must either give a written explanation to the customer of the reason for such action or inform the customer of the right to receive an explanation upon request. In March 1978 the Board amended the definition of adverse action to exclude most point-of-sale or loan denials from the adverse action requirements. Under the revised definition a refusal to authorize a point-of-sale or loan transaction is not adverse action unless a creditor unfavorably changes the terms of an account, such as by lowering the customer's credit limit; closes an account; or turns down an application to increase the credit limit of an account made in accordance with the creditor's procedures at the point of sale.

The amendment superseded Official Staff Interpretation EC-0008, which was rescinded.

2. Revised Procedures for Issuance of Official Staff Interpretations

In April 1978 the Board amended Regulation B to revise the procedure for issuing official staff interpretations. Under the new procedure, official staff interpretations are issued with an effective date 30 days after publication in the Federal Register, which enables the public to review them before they become effective and permits interested parties to request the opportunity for public comment. If a request is received, the effective date of the interpretation is suspended and its text republished for public comment together with the request for a comment period or a summary of the arguments presented in the request. After the comments are reviewed, a final interpretation is issued.

3. Proposed Amendments to Regulation B

In response to certain recommendations from the staff of the Federal Trade Commission and the President's Task Force on Women Business Owners, the Board, in October 1978, proposed for comment several changes to Regulation B that would broaden its scope. The proposed amendments would (1) bring under the regulation arrangers of credit--for example, real estate brokers who choose the creditors with which a credit application will be filed; (2) eliminate the exemption of business credit from the record-keeping and notification requirements in certain transactions under \$100,000; and (3) eliminate the exemption of business credit from the general bar against asking for an applicant's marital status. The proposed amendment regarding business credit incorporates Official

Staff Interpretation EC-0009, which requires creditors to give applicants for business credit written or oral notice of action taken on an application or an existing account within a reasonable time.

The comment period ended December 26, 1978.

#### 4. Official Staff Interpretations

During 1978, the staff issued three official staff interpretations of Regulation B and withdrew two previously issued. In March 1978, the Board instructed its staff to withdraw Official Staff Interpretation EC-0007 dealing with the collection, for marketing purposes, of information otherwise prohibited under the regulation, and to issue a new interpretation, EC-0010, limiting the applicability of the interpretation. Official Staff Interpretation EC-0008, which concerned whether adverse action can occur at the point of sale, was superseded by the March 1978 amendment to the regulation.

The remaining two official staff interpretations, EC-0011 and EC-0012, deal, respectively, with the applicability of Regulation B to certain lending operations conducted outside the United States, and with the revised application forms for residential mortgage loans prepared by the Federal Home Loan Mortgage Association and the Federal National Mortgage Association. Both were issued under the revised procedures, but were not challenged.

#### B. Education

An integral part of any enforcement program is educating both creditors and consumers of their rights and responsibilities. During the past year, the enforcement agencies participated in a number of educational efforts, including speeches and seminars involving consumers,

creditors, school groups, professional associations, and others.

Explanatory pamphlets remain a popular method of consumer education. This past year, the Federal Reserve Board announced two new brochures, one of which, The Equal Credit Opportunity Act and ... Credit Rights in Housing, provides information about how the major provisions of the ECOA affect mortgage lending. Another, the Board's Consumer Handbook to Credit Protection Laws, is a compilation of consumers' rights under credit laws and regulations. The Small Business Administration reports that pamphlets concerning its "Women in Business Program" are available for distribution in all SBA program offices.

The Federal Reserve Bank of Philadelphia has recently produced a film entitled To Your Credit. The film is being distributed to various consumer and civic groups. It depicts common problems faced by consumers in credit transactions and offers solutions by informing consumers of their rights under the many consumer credit protection laws. The FTC and the Federal Reserve Bank of San Francisco have each developed public service announcements for television and radio.

Education of creditors often occurs during the examination process. Most agencies report that this procedure enables one-to-one guidance in the areas in which it is most needed. As a supplement to this on-site education, the Federal Reserve System continued its program of advisory visits to member banks with approximately 450 visits during 1978. In addition, several new publications have been developed for creditors in 1978, such as the Federal Reserve Bank of New York's Consumer Regulations Checklist and the NCUA's Manual of Laws Affecting Federal Credit Unions.