The Federal Reserve System's Role in Protecting Consumers
July 16, 2009

Overview of the Federal Reserve's Consumer Protection Philosophy

The Board of Governors of the Federal Reserve System (Board) and the Federal Reserve Banks, collectively referred to as the Federal Reserve System (Federal Reserve), have demonstrated a strong dedication to consumer protection. They have worked collaboratively for decades for the benefit of consumers—writing rules to provide consumer protections, supervising and enforcing these regulations in state-member banks, and leading community economic development and consumer education programs throughout the country. These consumer protection roles are bolstered by the organization's unique structure, which enables the Board's dedicated consumer protection division to conduct its responsibilities by tapping a broad range of expertise available across the Federal Reserve in financial law, economics, prudential and consumer compliance examinations, payment systems, and other areas. Such connections provide strategic insight into the implications of policy decisions on consumers, the financial industry, and the broader economy. A detailed discussion of the Federal Reserve's extensive consumer protection program and how its various functions have expanded and adapted to meet the challenges presented by a rapidly-changing financial market place is provided in Appendix A.[1]

The Federal Reserve's Consumer Protection Program

The Board's Division of Consumer and Community Affairs (DCCA) has primary responsibility for developing consumer protection policy for the Federal Reserve. Recognizing the importance of strong rules and rigorous supervision and enforcement of consumer protection regulations, the Board established its consumer protection function and staffed it with specially trained experts who focus exclusively on consumer protection issues. The division applies a multi-disciplinary approach to achieve its mission "to develop regulations, policies, and programs designed to inform and protect consumers, to enforce federal consumer protection laws, to strengthen market competition, and to promote access to banking services in historically underserved markets," including:

- Rule-writing to implement legislation, update regulations to respond to the changing marketplace, and prohibit unfair or deceptive acts and practices;
- Consumer testing to develop effective disclosures that are meaningful to consumers;
- Supervision and enforcement to ensure that consumer protection rules are being followed;

[1] The detailed discussion of the Federal Reserve's consumer protection roles begins on page 16.

- Consumer complaint processing to assist consumers in resolving grievances with their financial institutions;
- Research to understand the implications of policy choices on consumer financial markets and unique regional differences in markets;
- Outreach to national and local government agencies, consumer and community groups, academia, and industry to gain a broad range of perspectives and to inform policy decisions and best practices;
- Consumer education to inform consumers about what they need to know when making decisions about their financial services options.

Contributions from Other Federal Reserve Functions

A more comprehensive consumer protection program is achieved from the strategic positioning of DCCA within the central bank. DCCA draws on extensive resources and expertise to gain understanding of consumer behaviors and interests, as well as banking markets and operations. Staff tap the expertise of their colleagues in research and prudential supervision functions and share their perspectives and expertise to increase understanding of how consumer protection matters impact safety and soundness supervision and national and regional economic issues. This dialogue across the organization contributes to informed, well-researched policy and activities that protect and educate consumers and expand knowledge in the marketplace.

Research Activities to Support Consumer Protection

The research divisions of the Board and the Reserve Banks conduct research, data collection and analysis that support the consumer and community affairs functions. Some activities are focused on the implementation of consumer protection rules and statutes, such as those pertaining to fair lending and substantive protections and disclosures in the areas of consumer and mortgage credit. Other activities are aimed at learning about market circumstances as they pertain to consumer finances, including the use of credit and wealth building. Economists throughout the Federal Reserve routinely monitor and assess data to learn about changing conditions that affect consumers, local communities and businesses. It is through this extensive process that the Board gains a nuanced understanding of the state of the economy as it considers policy actions.

Research contributes to the Board’s rulemaking in the consumer arena by gathering and analyzing relevant data and considering the effects on consumers, and the market more generally, of alternative options in proposed and final rules. For example, economists reviewed available data on mortgage pricing to help the Board determine the appropriate metric and threshold to be used in defining which loans in the higher-priced segment of the mortgage market should be subject to new rules concerning underwriting practices. These rules were issued using the Board's authority in the Home Ownership and Equity Protection Act to prohibit unfair practices in connection with mortgage loans.

Research economists also play a central role in assuring the integrity of data made available to the public by the Federal Financial Institutions Examination Council (FFIEC) under the Home Mortgage Disclosure Act (HMDA) and the regulations that implement the Community Reinvestment Act (CRA). Economists review the data for quality assurance and provide analytic assessments of the data each year. The economists further support fair lending enforcement activities by analyzing HMDA data and identifying lenders that may warrant supervisory follow up. This HMDA analysis is used within the Federal Reserve and shared with other state and federal regulators.

Economic research activities in support of the consumer and community affairs functions go beyond fair lending and related matters.[2] Economists routinely conduct research to learn more about the affect of various policies and market changes on consumers. Most recently, Federal Reserve economists conducted studies on various aspects of subprime lending, including research on gaps in mortgage servicers' capacity and incentives to conduct mortgage workouts[3] and an assessment of the relationship between the CRA and the subprime mortgage crisis.

Board researchers also collect and analyze data that help reveal trends in consumer financial matters that are important to policy-making decisions. In particular, the Board sponsors the Survey of Consumer Finances to gather unique data on the financial and other circumstances of a nationally representative sample of U.S. households. The results of this research provide one of the most important sources of information on the assets, debts and wealth of American consumers. The Federal Reserve also has gained great expertise in assessing how credit record data are used in the marketplace. For example, economists have conducted extensive research on the content and quality of credit records. The research includes the use and predictability of credit scoring and the effects of scoring on the availability and affordability of credit for the population at large and for different population segments.

The Nexus Between Consumer Protection and Safety and Soundness Supervision

The Federal Reserve has demonstrated its commitment to consumer protection oversight by establishing a team of dedicated examiners to conduct consumer compliance examinations, including fair lending reviews and institutions' performance under the Community Reinvestment Act. This team of professionals executes the Board's examination procedures to ensure that institutions are complying with consumer protection laws and regulations.

Given the interconnection between consumer protection and prudential supervision, staff in DCCA and the Board's Division of Banking Supervision and Regulation (BS&R) work closely in developing examination policy and industry guidance. In its supervision governance structure, the Board's directors of BS&R and DCCA have co-chaired the Supervision Committee, which consists of the heads of supervision from the twelve Reserve Banks. In

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[2] See Supplement E for a list of more than 175 studies on financial issues related to consumers and small businesses conducted by Federal Reserve researchers since 2004.

[3] Larry Cordell, Karen Dynan, Andreas Lehnert, Nellie Liang, and Eileen Mauskopf, *The Incentives of Mortgage Servicers: Myths and Realities,* 2008, http://www.federalreserve.gov/pubs/feds/2008/200846/200846abs.html.

addition, every three years, DCCA and BS&R staff conduct a coordinated operations review of a Reserve Bank's supervision function.

In the Reserve Banks, the two examination functions are housed under the same management structure, enabling coordination of the policies implemented through examinations, applications processing, and complaint resolution. This structure ensures that information about an institution's issues is shared and evaluated though the lens of both safety and soundness and consumer protection for the institutions supervised by the Federal Reserve. As one way to stay on top of emerging supervisory issues, Board staff and Reserve Bank leadership have regularly scheduled discussions of both prudential and consumer compliance supervisory matters. With their regional perspectives, the Reserve Banks provide a valuable early-warning system for emerging local risks that may have national implications.

In addition, to keep pace with regulatory changes and the changing complexity of the financial services industry, the Board has a supervisory program dedicated to consumer compliance at large financial institutions and large complex banking organizations, including large regional banks, bank holding companies, and nonbank subsidiaries of holding companies. Oversight of these companies is tightly coordinated with the Board's safety and soundness supervision for these companies. Each year, staff from the Reserve Banks develop a risk assessment for each of the institutions in the large bank portfolio that is used to plan the supervisory strategy, including consumer compliance. DCCA staff review the risk assessments to ensure that the documents appropriately capture the consumer compliance risk in each company and to ensure that consumer compliance examinations are sufficient both within each company and across the portfolio.

Federal Reserve Bank Activities

The Federal Reserve's twelve regional banks monitor the status of their region's economy, financial institutions, and communities. The Reserve Banks set their research priorities, with economists studying their District's markets to understand regional dynamics and to contribute to monetary policy. A cadre of specialized consumer compliance examiners implements the Board's supervisory policies under delegated authority, examining banks in their jurisdiction. Reserve Banks also conduct specific community development activities and research activities, which vary from District to District to respond to the unique circumstances of low- and moderate-income communities in its region. The following are a few examples of how specialized programs at the Reserve Banks contribute to informed, thoughtful consumer protection policy.

Federal Reserve Bank of Boston[4]

Research Center for Behavioral Economics and Decisionmaking

[4] For more information, see www.bos.frb.org

The Federal Reserve Bank of Boston established the Research Center for Behavioral Economics and Decisionmaking, which works to integrate insights from across the social sciences into standard economic research. This program produces research in this specialized discipline, with the objective of developing more effective economic policy. Such research can have important implications for consumer protection rules and supervisory policies, as well as financial education efforts. The Center also analyzes and interprets outside research that may bear on the Board's consumer protection policy responsibilities. These studies and analyses help inform Board research on issues related to how consumers manage and make decisions about their finances.

Federal Reserve Bank of Philadelphia [5]

Payment Card Center

The Payment Card Center provides meaningful insights into developments in consumer credit and payments that are of interest not only to the Federal Reserve but also to the industry, other businesses, academia, policymakers, and the public at large. The center was developed in response to the recent developments in payment options and helps inform policy in this rapidly-evolving area. It carries out its work through an agenda of research and analysis as well as forums and conferences that encourage dialogue incorporating industry, academic, and public-sector perspectives. Staff from the payment card center provided valuable input for the Board's recent credit card rulemakings and are involved in current efforts to develop rules on stored-value cards.

Reserve Bank of San Francisco

Community Development Investment Center[6]

The Center for Community Development Investments is an online clearinghouse of investment resources that also encourages collaboration, innovation and research in the community development investment industry. With the mission to support the long-term growth of the community development investment industry, the Center serves as a national center for research, training, pilot initiatives, and policy-making discussions. The Center is sponsored and staffed by the Community Development unit of the Federal Reserve Bank of San Francisco with direction from an Advisory Committee of industry practitioners and researchers. It has produced several key publications that have served as a catalyst for further discussion of emerging issues and trends in the community development industry.

Delivering Results: The Federal Reserve's Comprehensive Approach to Consumer Protection

[5] For more information, see www.phil.frb.org

[6] See www.sf.frb.org/cdinvestments

With this multi-faceted, multi-disciplinary approach to consumer protection, the Board can respond effectively to consumer protection issues in the marketplace. The following section highlights recent examples of important new policies and program enhancements by DCCA that were developed with input from experts throughout the Federal Reserve System.

Mortgage Credit

HOEPA Rule-writing

The Federal Reserve has primary rulewriting responsibility for many consumer protection laws, including the Truth in Lending Act (TILA) and the Home Ownership and Equity Protection Act (HOEPA), which amended TILA. The Board recently revised Regulation Z, which implements these statutes by issuing final rules to establish sweeping new regulatory protections for consumers in the residential mortgage market. Importantly, the Board's HOEPA rules apply to all mortgage lenders, not just the depository institutions that are supervised by the federal banking and thrift agencies.

The rules are designed to protect consumers from unfair or deceptive acts or practices in mortgage lending, while supporting sustainable home ownership. The rules respond to some of the most troublesome practices in the mortgage industry that contributed to the recent subprime market meltdown. In response to specific problems, some restrictions in the final rules apply only to higher-priced mortgage loans. Other provisions apply to all mortgage loans secured by a consumer's principal dwelling. The Board also adopted rules governing mortgage advertisements to ensure they provide accurate and balanced information and do not contain misleading or deceptive representations.

The Board's final rules resulted from a process that involved extensive research and outreach to consumer groups, industry representatives, and other government agencies at the state and federal levels. The Board held a series of public hearings on consumer protection in the mortgage market in four cities across the country during the summer of 2006. In light of the information received at the 2006 hearings and the rise in defaults that began soon after, the Board held an additional hearing in June 2007 to explore how it could use its authority under HOEPA to prevent abusive lending practices without unduly constricting credit. At the 2007 hearing, and in hearing-related public comments, the Board received input from individual consumers, lenders, mortgage brokers, state government officials, and academicians. The Board's rulemaking was also informed by the comments received in connection with the development of interagency supervisory guidance on nontraditional mortgage products issued in September 2006 and interagency guidance on subprime lending that was issued in June 2007. These guidance pieces addressed both consumer protection and prudential supervision matters. Throughout the process, Board staff also drew upon the expertise and perspectives resident in the members of the Board’s Consumer Advisory Council.[7] Moreover, Board’s economists and prudential supervision personnel were involved in developing and implementing policy options for the Board’s consideration for the HOEPA rules, drawing on numerous data and their understanding of mortgage markets.

[7] The Board’s Consumer Advisory Council meets with the Board members three times each year to provide advice about emerging risks and solutions for consumer protection issues.

In response to the proposed rules that were issued in December 2007, the Board received and considered approximately 4,700 comment letters that represented a broad spectrum of views. After listening carefully to commenters, collecting and analyzing data, and undertaking consumer testing, the Board issued more effective and improved final rules that include the following restrictions for "higher-priced mortgage loans" mortgages:

- Prohibiting a lender from making a loan without regard to the borrower's ability to repay the loan from income and assets other than the home's value.
- Requiring creditors to verify the income and assets they rely upon to determine repayment ability.
- Banning any prepayment penalty if the payment can change in the initial four years. For other higher-priced loans, a prepayment penalty period cannot last for more than two years.
- Requiring creditors to establish escrow accounts for property taxes and homeowner's insurance for all first-lien mortgage loans.

For all mortgage loans secured by a borrower's principal dwelling, the rules establish that:

- Creditors and mortgage brokers are prohibited from coercing a real estate appraiser to misstate a home's value.
- Companies that service mortgage loans are prohibited from engaging in certain practices, such as pyramiding late fees. In addition, servicers are required to credit consumers' loan payments as of the date of receipt and provide a payoff statement within a reasonable time of request.
- Creditors must provide a good faith estimate of the loan costs, including a schedule of payments, within three days after a consumer applies for any mortgage loan secured by a consumer's principal dwelling, such as a home improvement loan or a loan to refinance an existing loan.

The rules also set additional advertising standards that apply to all mortgages, requiring additional information about rates, monthly payments, and other loan features. Further, the final rules ban seven deceptive or misleading advertising practices, including representing that a rate or payment is "fixed" when it can change.

Pilot Review of Targeted Non-bank Mortgage Subsidiaries

The recent problems in the subprime mortgage market revealed gaps in the federal agencies' supervisory authority. While supervisory guidance was issued in 2005 and 2006 to address areas of concern in the mortgage industry, the Board had limited authority to conduct loan file reviews in segments of the industry where the loans were being made to verify adherence to the guidance. The Boards' authority to conduct examinations of state-member banks is clear. However, the Federal Reserve's authority to examine non-bank subsidiaries of bank holding companies was made less clear by the passage of the Gramm-Leach-Bliley Act of 1999, which vested clear enforcement authority for these entities to their primary functional regulators (the Federal Trade Commission and the States). This represented a challenge because the vast majority of subprime lending was undertaken by independent brokers and mortgage banks, supervised by state banking agencies, and non-bank subsidiaries of banks and bank holding companies.

Recognizing the critical need to conduct on-site reviews of credit practices of non-bank lenders, in July 2007, the Board initiated a multiagency partnership to conduct targeted consumer compliance reviews of selected non-bank lenders that had significant subprime mortgage operations. The joint effort is the first time multiple agencies have collaborated to plan and conduct consumer compliance reviews of independent mortgage lenders and non-bank subsidiaries of bank and thrift holding companies, as well as mortgage brokers doing business with, or working for, these entities.

The agencies involved—the Federal Reserve, the Office of Thrift Supervision (OTS), the Federal Trade Commission (FTC), state agencies represented by the Conference of State Bank Supervisors, and the American Association of Residential Mortgage Regulators—developed detailed work plans for the targeted consumer compliance reviews. Federal Reserve consumer compliance examiners, assisted by representatives from the FTC and the states, led reviews of entities supervised by the Federal Reserve System. The consumer compliance examiners also received assistance from Federal Reserve credit risk subject matter experts to ensure a broad understanding of the companies that were reviewed. At the same time, state regulators conducted a coordinated review of an independent state-licensed subprime lender and associated mortgage brokers, and the OTS conducted a review of a mortgage subsidiary of a thrift holding company.

The reviews evaluated the companies' underwriting standards, as well as senior management's oversight of the risk-management practices the companies used to ensure compliance with state and federal consumer protection regulations and laws, including the Home Mortgage Disclosure Act, the Equal Credit Opportunity Act, the Truth in Lending Act, the Real Estate Settlement Procedures Act, the Federal Trade Commission Act, and the Home Ownership and Equity Protection Act. The agencies shared information about the reviews and investigations to ensure that similar issues were treated consistently.

In addition, the Federal Reserve System sent surveys to the consumers whose loan files were analyzed during the on-site reviews. The surveys were designed to learn how well consumers understood the terms of their mortgage loans. While the survey responses did not indicate that violations of the relevant consumer protection laws and regulations had occurred, the responses confirmed information that DCCA obtained through consumer testing – that disclosure alone is not enough to explain complex loan products to consumers.

As a result of this pilot, the Board is introducing a framework for routine consumer compliance supervision of non-bank subsidiaries of the largest bank holding companies. These supervisory activities will be risk-focused and done in coordination with the prudential supervision program for these entities. They will include continuous monitoring, discovery reviews, examinations with transaction testing, as appropriate, and the investigation of consumer complaints. As the program is implemented the effectiveness of the framework will be assessed and adjusted as necessary.

Responding to the Home Mortgage Crisis – Collaboration, Local Solutions and National Policy Outcomes

While implementing regulatory and supervisory actions to address issues in the mortgage market, the Federal Reserve also mobilized to respond to the alarming rate of foreclosure throughout the country. As foreclosures mounted and projections worsened throughout 2008, nonprofit organizations, governments, lenders, and mortgage servicers worked to respond to the needs of borrowers and communities confronting defaulting mortgages and foreclosures. The Federal Reserve System's unique ability to respond at both a national and regional level allowed the Federal Reserve to take an active leadership role in shaping a public policy response as the crisis deepened. The Federal Reserve responded by hosting policy forums, conducting extensive outreach, filling a critical information gap and acting as a central source of accurate, timely data on foreclosures nationwide.

In doing so, the Federal Reserve tapped its extensive resources throughout the country – twelve regional banks and twenty of their branch offices and the Board of Governors in Washington, D.C. – to apply research, supervision, and community development expertise in identifying strategic inputs for informing local and regional responses to economic conditions. The Federal Reserve coalesced these resources and created the Homeownership and Mortgage Initiative (HMI), a comprehensive strategy to provide information and solutions toward helping to stem unnecessary foreclosures and to help stabilize communities and prevent negative spillovers at the neighborhood level. The HMI coordinated the various functional areas of the System to improve access to data, information, and policy relating to foreclosures. This strategy capitalized on the following areas of expertise:

- *Research and Analysis* to provide community groups, counseling agencies, regulators, financial institutions, and others with detailed analysis to support efforts to help troubled borrowers and communities.
- *Supporting Informed Public Policy* to bring experts together to discuss the deepening foreclosure crisis and pose policy responses to prevent unnecessary foreclosures and address community stabilization efforts.
- *Financial Education* to help consumers make informed personal financial decisions, including those about home ownership.

With respect to research and analysis, the Federal Reserve has provided community coalitions, counseling agencies, fellow regulators, financial institutions, and others with detailed analyses identifying neighborhoods at high risk of foreclosures. By understanding those areas with concentrations of subprime mortgages, delinquencies, and foreclosures, community leaders, local and state governments can better target their scarce resources to borrowers in need of counseling and other interventions that may help forestall foreclosure.

To support needed research and analysis, the Federal Reserve System launched several initiatives to provide studies, data, and other resources related to foreclosures. With access to reliable data being a significant challenge to communities grappling with foreclosures, the Federal Reserve System provided online data concerning subprime lending patterns and performance, posted on the Federal Reserve Bank of New York's website. [8] These dynamic maps and data illustrate subprime and alt-A mortgage loan conditions that can assist community groups, policymakers, and local governments as they prioritize the use of their resources for these efforts and develop plans to lessen the impacts that delinquencies and foreclosures may have on local economies. In addition, a Federal Reserve System workgroup, consisting of some of the System's top economists and community development experts, have prepared overviews of the current state of knowledge about housing and mortgage markets, as well as about foreclosures. The System continues to conduct research on a wide range of topics to fill analytical gaps and better understand the effects of foreclosure on neighborhoods, the economy, and the housing and mortgage markets.

As the crisis unfolded, housing experts began identifying critical issues that needed immediate attention. The Federal Reserve hosted a series of policy forums in five different cities to explore the impact of the foreclosure crisis on different real estate markets; develop strategies that address both the negative impact of foreclosures in high-cost markets and the challenge of strengthening neighborhoods in weak-market communities; and how recent research on foreclosure and vacancy and abandonment might be actualized as public policy. Through this series, "Recovery, Renewal, Rebuilding: A Federal Reserve Foreclosure Series," attendees in Atlanta; Los Angeles; Columbus, Ohio; St. Louis, and Washington, D.C., worked to clarify the challenges and the strategies for moving toward solutions by examining best practices, creative solutions, and innovative ways to prepare for the future.[9] The Community Affairs Offices at each of the twelve Reserve Banks filled an information gap by launching online Foreclosure Resource Centers, which include a Community Foreclosure Mitigation Toolkit, to provide information to homeowners, prospective home buyers, and community groups on preventing foreclosures and lessen their negative influence on neighborhoods.[10]

In the interest of supporting borrowers experiencing difficulty in meeting their mortgage obligations, the Board has provided outlets for mortgage-related consumer financial education materials. In addition, through the HMI, the Federal Reserve has posted internal and external resources on each of the 13 Federal Reserve websites to help improve consumers' access to information that can assist them as they work to address their mortgage challenges.[11] Staff also revised *Consumer's Guide to Mortgage Refinancing*, providing a link to a to a mortgage refinancing calculator.[12] For consumers who have questions about banking procedures and rules, or feel they may have been unfairly treated by their bank, the Federal Reserve Consumer Help

[8] See "Dynamic Maps of Nonprime Mortgage Conditions in the United States," www.newyorkfed.org/mortgagemaps/.

[9] See additional information on the conferences, http://stlouisfed.org/RRRseries/ and www.clevelandfed.org/Our_Region/Community_Development/Events/Seminars/2008/20080827/Overview_4Forums.pdf.

[10] See Mortgage Foreclosure Resources at www.federalreserve.gov/consumerinfo/foreclosure.htm.

[11] See Mortgage Resources for Consumers, www.federalreserve.gov/consumerinfo/foreclosure_consumers.htm.

[12] See "5 Tips for Protecting Your Home from Foreclosure," www.federalreserve.gov/pubs/foreclosuretips/default.htm and www.federalreserve.gov/consumerinfo/mortgages.htm.

Center feeds queries directly into the various regulatory agencies so that a consumer has only one stop to make to ask questions or file complaints.[13]

With the completion of the HMI in March 2009, the Federal Reserve System launched the Mortgage Outreach and Research Efforts (MORE) initiative in May 2009 that builds on the knowledge and experiences from the HMI. MORE is coordinating and facilitating the Federal Reserve System's response to mortgage delinquencies and foreclosures with the goal of: 1) mitigating the impact of the mortgage crisis on individuals and communities; 2) deepening understanding of the incidence, causes, and impact of foreclosures; and 3) enhancing communications strategy on mortgage-related issues. Knowledge acquired through the HMI helped to refine the scope of MORE's objectives, which focuses primarily on: 1) reducing preventable foreclosures; 2) promoting effective neighborhood stabilization; and 3) enhancing consumer protection efforts. Anticipating the development of germane ideas and analysis that would contribute to policy makers and local stakeholders, MORE includes a strategic approach to enhancing external outreach and messaging such as effective dissemination of maps, analysis, reports; convening public forums for researchers, policy analysts, and practitioners; and creating and disseminating toolkits for local stakeholders.

To support neighborhood stabilization efforts, the Federal Reserve forged a partnership with NeighborWorks America, a national nonprofit, to identify strategies to address the challenges that foreclosed homes can present, such as decreased home values and vacant properties that can deteriorate from neglect. This collaboration is focused on finding ways to mitigate the impact of foreclosures and vacant homes across the country and help stabilize neighborhoods. As a result of this partnership, information on community stabilization best practices, new resources, and strategies has reached thousands of community development practitioners. Impacts of this effort include:

- the development of the first national neighborhood stabilization curriculum which resulted in the training of 640 community development professionals nationwide;
- 22,400 professionals who have benefitted from the information on a newly created neighborhood stabilization web-site[14];
- twelve workshops across the country highlighting neighborhood stabilization best practices that reached 820 practitioners.

The partnership, which included personnel, analytical, and financial support by the Federal Reserve, included the development and deployment of training resources, the development of web-based materials for the benefit of local leaders, convening various key actors, and the provision of data and analysis to inform intervention strategies. When Congress approved funding for HUD's National Stabilization Program (NSP), the Board assisted HUD in the development of allocation formulas and qualifying criteria, and is conducting a series of case studies using the first wave of NSP grants to identify promising approaches and to assist HUD in targeting future rounds of awards. The Federal Reserve has also hosted or co-hosted a number of

[13] See www.federalreserveconsumerhelp.gov.

[14] See http://www.stablecommunities.org/.

training events for local leaders pursuing community stabilization efforts in general, and NSP funding in particular.

Policy Analysis, Emerging Risk Monitoring, and Community Reinvestment Activities

Recognizing the critical need to analyze and understand the broad range of policy that affects consumers' economic and financial well-being, DCCA created a policy analysis group in 2007. This unit gathers, creates, and interprets a range of information relevant to current and emerging public policy issues relevant to consumer protection and community development. In particular, the policy analysis group systematically scans information from across the Federal Reserve System, including such disparate sources as trends in consumer complaints, analysis from research economists, warning signs from bank examiners, new developments for Reserve Banks, and state-level legal changes to anticipate and analyze upcoming issues. It uses this information and analysis to advise Board members, DCCA staff, and other stakeholders on appropriate courses of action as warranted.

This function has been fully integrated into the Board's response to the recent wave of foreclosures. In addition to assisting the attorneys, examiners, and community development teams in responding to the crisis, staff has worked across sectors and agencies to collect relevant data and understand the concerns of various stakeholders. As part of this effort, DCCA engages regularly with a diverse group of stakeholders, including consumer groups, housing counselors, nonprofit intermediaries, lenders, loan servicers, mortgage insurers, investor groups, elected officials, and other federal and state agencies. This interaction has informed the Board as it has advised regulated institutions on dealing with delinquencies, developed tools for consumers, worked with the HOPE NOW Alliance and other industry efforts, collaborated with the Department of Housing and Urban Development (HUD) on the implementation of "Hope for Homeowners" and with the Department of Treasury on "Making Home Affordable" programs, and generally leveraged public and private sector resources where possible to inform public policy decisions.

To stay ahead of the curve on new policies and practices as they emerge, DCCA has established a committee to actively assess emerging risks and issues affecting consumers and communities, and identify possible responses. This cross-disciplinary group includes attorneys, economists, consumer compliance managers, data specialists, policy analysts, and others, and draws information from across the Federal Reserve System. This early warning system researches a range of budding topics of potential concern and assesses their impact on consumers. The committee has vetted, and provided policy recommendations, on a diverse set of issues. For instance, this group identified the need for additional attention to be paid to reverse mortgages, likely to increase in scale due to demographic trends and other factors, and mobile banking, growing in size due to recent technological advancement; these issues are now staffed with multidisciplinary teams monitoring trends and recommending courses of action.[15] The

[15] This group has also analyzed possible consumer concerns related to such varied topics as auto loans, overdraft protection, debit cards, fallout from mortgage delinquencies, life settlement transactions, foreclosures, mortgage rescue scams, loan servicing abuses, remotely created checks, rental housing, retirement annuities, stored value cards, student loans, transactional mortgages, 401(k) debit cards, and home equity lines of credit.

intent of the effort is to continuously scan the horizon for potential threats or concerns for the economic well-being of consumers and the communities in which they live, and take effective steps to anticipate problems before they emerge.

One result of this work has been new consumer education and awareness campaigns around foreclosure assistance and scams. In the spring of 2009, in response to the increasing number of foreclosure rescue scams identified by non-profits, lenders, and others, the Federal Reserve Board took the proactive step to purchase 30-second advertisements in movie theaters to raise awareness of these scams and other fraudulent schemes aimed at consumers. The advertisements, which played before movie previews in 18 cities with high foreclosure rates, warn consumers about foreclosure scams and direct them to the Board's website for tips on avoiding fraud and for information about other resources available to them through the Federal Reserve System. Perhaps even more effective than the advertisements themselves was the broader media coverage on this effort. Several major newspapers, wire services, and radio and television news programs reported on the movie theater strategy, further extending the reach of the message and raising public awareness of this critical issue.[16] The campaign has been further leveraged through the Federal Reserve Banks, which plan to air, and in some cases, locally tailor, the PSA at additional theaters in their markets. Posters derived from the PSA campaign, as well as the Board's consumer education publication, *5 Tips to Avoiding Foreclosure*, are being used by the National Association of Realtors and mortgage servicers.

To further support policy evaluation regarding community development and financial services to traditionally underserved consumers, the Federal Reserve is leading a robust discussion on Community Reinvestment Act (CRA) modernization. The Boston and San Francisco Federal Reserve Banks earlier this year published *Revisiting the CRA: Perspectives on the Future of the Community Reinvestment Act,* in which some twenty experts shared their ideas, opinions and research regarding CRA's history and possible areas in need of reform.[17] The publication was rolled out at a Washington, D.C. policy forum, co-sponsored by the Board and keynoted by Federal Reserve Governor Elizabeth Duke. CRA was also the principal focus of the Cleveland Federal Reserve Bank's policy summit. As part of this process, the Board has solicited views on CRA reform from a wide range of stakeholders, including financial services industry representatives, community organizations, non-profit community development practitioners, and other experts.

Credit Card Rules

As the most common consumer financial services credit product, credit cards represent an important tool for facilitating transactions for both consumers and businesses. Advances in technology (such as credit scoring) and the expansion of the financial services marketplace have contributed to a significant increase in competition in the credit card market over the last decade.

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[16] Additional information is provided in Supplement C.

[17] *Revisiting the CRA: Perspectives on the Future of the Community Reinvestment Act*, A Joint Publication of the Federal Reserve Banks of Boston and San Francisco, February 2009, http://www.frbsf.org/publications/comm.unity/cra/index.html.

However, in recent years, as credit card terms and features have become more complex, the risk that consumers will not understand or notice key terms that affect a plan's cost has increased. In addition, over time, lenders began employing aggressive, and sometimes deceptive, marketing, pricing, and billing practices. These abuses elevated concerns about the transparency and adequacy of consumer disclosures for credit cards.

The Federal Reserve is committed to enhancing consumers' ability to use credit cards in a responsible and informed manner. In December 2008, the Board issued sweeping rules to enhance protections for consumer credit card accounts. These rules are the most comprehensive changes to regulations that govern consumer credit cards ever adopted by the Board. These rules affect nearly all aspects of consumer credit card accounts, including marketing and advertising, disclosures given with applications and at account opening, billing statements, and issuers' ability to change account terms. In fashioning these rules, Board staff drew upon extensive data about credit card usage, including the use of so-called “teaser” rates, balance transfer programs, penalty pricing, and other practices. Board economists and others were involved with this effort to seek to ensure that issues about access to credit, innovations, and new products were carefully considered along with card issuer practices and policies.

The Board drew on several sources of data and information in developing improved disclosures to communicate key information to consumers in ways that they would be more likely to pay attention to, understand, and use in their decisionmaking. Board economists and attorneys used the services of a professional consumer testing firm to conduct extensive consumer testing, using focus groups and several dozen one-on-one interviews with consumers.[18] The testing first identified what information consumers currently use in making decisions about their credit card accounts, and how they use existing disclosures. The Board used these insights to develop revised credit card disclosures, which also were tested with consumers. Prior to issuing final rules, the Board conducted quantitative testing with over 1,000 consumers nationwide to gauge consumers' comprehension of the newly developed disclosures compared to existing disclosures and formats. In addition, in response to proposed revisions to Regulation Z issued in June 2007 and May 2008, the Board received and considered over 60,000 comment letters representing a broad spectrum of views. The Board used lessons learned from testing and input from those commenting in order to develop a final rule and model disclosures that would enhance consumer understanding of credit card terms.

Conclusion

These are but a few examples of the Federal Reserve’s commitment to consumer protection and its ability to apply a comprehensive approach to improving disclosures, imposing substantive consumer protections, banning unfair and deceptive practices, and addressing consumer education needs. This work is designed to ensure that families are well served by

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[18] See *Design and Testing of Effective Truth in Lending Disclosures: Findings from Qualitative Consumer Testing Research*, submitted to the Federal Reserve Board of Governors by Macro International, Inc. (December 15, 2008), www.federalreserve.gov/newsevents/press/bcreg/bcreg20081218a7.pdf, and *Design and Testing of Effective Truth in Lending Disclosures: Findings from Experimental Study*, submitted to the Federal Reserve Board by Macro International, Inc. (December 15, 2008), www.federalreserve.gov/newsevents/press/bcreg/bcreg20081218a8.pdf.

financial services products to the betterment of their individual goals and to the ultimate benefit of the broader economy.

Given today's difficult economic times and complex consumer financial marketplace, consumers and communities require unprecedented protection. The Federal Reserve is an institution that is well positioned to respond vigorously and swiftly to the issues that require immediate remedy. Further discussion of the Federal Reserve's consumer protection program is provided in Appendix A.

Appendix A

Federal Reserve Roles in Consumer Protection and Community Development

Rulewriting Responsibilities

The Board has sole responsibility for issuing rules to implement a number of consumer financial services and fair lending laws, including the Truth in Lending Act (TILA), Truth in Savings Act (TISA), Electronic Fund Transfer Act (EFTA), Consumer Leasing Act, Equal Credit Opportunity Act (ECOA), and Home Mortgage Disclosure Act (HMDA). In addition to the statutes for which the Board has exclusive rulewriting responsibility, the Board shares rulewriting responsibility with other agencies under certain laws, such as the Community Reinvestment Act (CRA) and the Fair Credit Reporting Act (FCRA).[19] The Board and other federal financial regulators sometimes lend expertise by serving in a consulting role in the development of consumer regulations issued by other agencies such as the Department of Housing and Urban Development, and the FTC. For example, most recently, the Board has consulted with the Department of Defense (DOD), with respect to DOD's development of regulations governing loans to members of the armed services and their families.

The Board has a committed team of attorneys within DCCA who are solely dedicated to fulfilling these responsibilities. These professionals possess the specific legal expertise and experience for interpreting legislation and crafting consumer regulations that strive to provide meaningful consumer protection without impeding the innovation that improves consumer choice, convenience, and service in financial products. With this knowledge, these attorneys effectively tap information resources within the Federal Reserve, such as market information from economists and business practices data from prudential and consumer compliance examiners. In addition to these valuable inputs, the DCCA attorneys also review consumer complaints, examination reports, and public comment letters and solicit the views of other federal and state regulators who have valuable insights based on their own experience and expertise in supervising financial institutions and protecting consumers. The views of state agencies through such organizations as the Conference of State Bank Supervisors (CSBS), the American Association of Residential Mortgage Regulators (AARMR), and the National Association of Attorneys General (NAAG), as well as from individual state regulatory agencies are also sought in order to gain a broad perspective to inform the rulewriting process.

In addition to its rulemakings to implement statutory changes, the Board updates its regulations in response to the changing marketplace and emerging issues. As markets change and products evolve, questions arise about how existing rules apply in new circumstances. These matters are often addressed through amendments that specifically target a particular issue, or by updating the interpretations published in the commentaries to our regulations. As a matter of policy, the Board periodically conducts a comprehensive review of each regulation. For the

[19] See Supplement A.

consumer financial services laws, one goal of these regulatory reviews is to develop more effective consumer disclosures. Writing regulations always involves the challenge of crafting rules that are, on the one hand, clear and specific enough to facilitate compliance and promote consistency among financial institutions but, on the other hand, flexible enough to accommodate market developments. By balancing these interests, the Board seeks to avoid imposing undue regulatory burdens that could hinder innovation and raise costs without producing offsetting benefits in consumer protection. Toward this end, the Board actively seeks the input of a wide range of stakeholders through various processes that are elemental to the rule-writing effort, including conducting consumer testing, soliciting public comment, and enlisting the Board's Consumer Advisory Council.

Consumer Testing

Many of the consumer protection laws for which the Board writes regulations are based on ensuring that consumers receive adequate information in the form of disclosures about the features and risks of a particular product. When consumers are well informed, they are in a better position to make decisions that are in their best interest. Information helps and empowers individual consumers by improving their ability to compare products and to choose those that will help them meet their personal goals.

Since 1996 the Board has engaged in extensive consumer surveys and testing to assess consumers' needs and develop effective disclosures for regulatory proposals using the services of a professional testing firm. Consumer testing provides critical insight into consumers' understanding of financial products and their decision-making process. Given the complexity of certain products, such as credit card products with multiple features and nontraditional mortgages, there is significant danger of information overload that can undermine consumers' decision-making processes. Comprehensive consumer testing enables the Board to design disclosures that are articulated and presented in a manner that conveys essential information to consumers.

Consumer testing provides insights that are vital to learning more about how consumers use information and how disclosures can be simplified to enhance consumers' understanding. The Board made a valuable investment in developing and testing revised credit card disclosures and is currently engaged in testing mortgage disclosures to make them more effective. Through the consumer testing process, staff gained valuable insight in three key areas: 1) what information consumers find useful when making credit decisions and what information they ignore, 2) what information consumers comprehend and what information they do not, and 3) the impact that different formats and presentation can have on consumers' ability to notice and use the information.

To ensure that new disclosures are useful to consumers, the Board has increased its use of consumer testing. Exploring how consumers process information and come to understand--or sometimes misunderstand--important features of financial products has proven eye-opening. The lessons learned from consumer testing have resulted in improved required disclosures. For example, the Board's new rules on credit card disclosures require certain key terms to be included in a conspicuous table provided at account opening because field testing indicated that consumers were often already familiar with and able to interpret such tables on applications and solicitations, but were unlikely to read densely written account agreements.

The Board will continue to use qualitative cognitive testing with individuals to help develop clear disclosures and quantitative validation testing to ensure the new disclosures represent an improvement over those currently in the marketplace. Currently, the Board is conducting extensive consumer testing for disclosures for mortgages, home equity lines of credit and overdraft protection products. Additional insights are also gained from the field of behavioral economics and consumer testing as the Board continues to explore ways to provide disclosures that consumers will pay attention to, comprehend, and use in their decision making.

Consumer testing efforts have also revealed that even the best disclosures do not offer the best protection to consumers in all cases. Some aspects of increasingly complex products simply cannot be fully understood or evaluated by consumers, no matter how well-educated the consumer or how clear the disclosure. Because of the complexity of certain products and terms, it may be difficult for consumers to weigh their costs and benefits or make informed choices. Some products posing a high degree of risk to consumers, especially those targeted at vulnerable populations, are often offered through aggressive or misleading marketing. Thus, there remains a need for effective regulation and enforcement that are responsive to market changes and that protect consumers from practices that are unfair and detrimental to consumers. In those cases, direct regulation, including the prohibition of certain practices, is necessary. In these cases, the Board has limited the discretion of lenders or prohibited certain practices. For example, the failure to require escrow accounts for homeowners' insurance and property taxes led borrowers to underestimate the costs of homeownership. The Federal Reserve restricted this practice and others through new mortgage rules adopted in July 2008. Similarly, the Board's credit card rules issued in December 2008 will protect consumers from unexpected interest charges, including increases in the interest rate during the first year after account opening and increases in the rate charged on pre-existing credit card balances.

Public Comment and Outreach

Each regulatory proposal is submitted to the public for critique and comment. This process provides the opportunity for all stakeholders—from large, well-organized interest groups to individual consumers—to offer their perspectives on the impact of the proposal. As concern over consumer protection has gained considerable attention by lawmakers, media, and individuals in recent years, participation in the public comment process has increased, particularly in the areas of mortgage lending and credit cards. For example, the Board's proposal to amend rules related to mortgage credit under its authority granted by Home Ownership and Equity Protection Act, issued in December 2007, generated approximately 4,700 comment letters. The Board's proposal on credit cards, published in May 2008, yielded more than 60,000 comment letters from the public, most of which were from individual consumers in addition to trade associations, financial institutions, and consumer and community groups. These comment letters were reviewed and their issues considered in drafting the final rules.

In addition to the public comment process, the Board also actively seeks input from a range of leaders in the consumer finance industry, including lenders, advocates, researchers, government officials and other regulators. To gather input from these stakeholders, the Board convenes hearings or special forums on the issues. The Board's mortgage rulemaking was also informed by the comments received in connection with the development of interagency supervisory guidance on nontraditional mortgage products issued in September 2006 and interagency guidance on subprime lending that was issued in June 2007.

With respect to drafting rules for credit cards, the Board convened a forum of lenders, consumer advocates, and researchers to discuss issues relating to industry practices on loss mitigation and pricing and consumer financial education. The forum provided valuable insights into the issues and impacts of various credit card practices and changes in the Federal Reserve’s proposed regulations. These perspectives augmented the information gathered through consumer testing and focus groups, the Board’s Consumer Advisory Council, and the public comment process and contributed to a final rule that will enhance consumer understanding of credit card terms.

Consumer Advisory Council

The Consumer Advisory Council (CAC), whose thirty members represent consumer and community organizations, the financial services industry, academic institutions, and state agencies, advises the Board on matters concerning laws and regulations that the Board administers and on other issues related to consumer financial services. In considering potential members, the Board seeks individuals with significant knowledge of various aspects of consumer financial services and products, consumer regulations, the Community Reinvestment Act, affordable housing, and community development. The Board also seeks individuals with backgrounds that complement those of returning Council members in terms of experience, affiliation, and geographic representation.[20] Meetings are held three times a year, in March, June, and October, and are open to the public.

The CAC provides the Board with diverse viewpoints about its administration of the consumer financial protection laws and regulations. For example, the CAC has considered the Board's rule-writing authority for laws such as the Community Reinvestment Act, the Electronic Fund Transfer Act, the Equal Credit Opportunity Act, the Home Mortgage Disclosure Act, the Truth in Lending Act, and the Home Ownership and Equity Protection Act. Among the consumer-protection issues that the CAC has discussed recently are:

- the Board's rules to prohibit unfair or deceptive acts or practices by banks in connection with credit card accounts;
- the Board's proposed amendments to Regulation E relating to the use of overdraft services and the assessment of overdraft fees;
- possible changes to the Community Reinvestment Act in light of developments in the financial services industry;
- the availability and quality of credit for consumers and small businesses; and
- proposed regulations relating to risk-based pricing notices that are provided to consumers under the Fair and Accurate Credit Transactions Act.

[20] See Supplement B for a current list of members.

The Council has found that committees are an effective way to facilitate full consideration of complex issues. The three standing CAC committees and their areas of coverage are:

- **Consumer Credit Committee** -- All forms of credit and related issues, such as credit cards, mortgages, home equity loans and lines of credit, auto loans, student loans, consumer leasing, TILA, RESPA, consumer credit reporting, and consumer debt.
- **Depository and Delivery Systems Committee** -- Banking services, products, and fees, electronic and mobile banking, electronic fund transfers, expedited funds availability, financial privacy, and Truth in Savings.
- **Housing and Community Development Committee** -- Affordable housing and community development finance, foreclosures, community stabilization, CRA, mortgage lending discrimination and red-lining, fair housing, HMDA, and financial literacy.

In 2009, the CAC also established a Special Issues Working Group, which provides an opportunity for members to focus in an in-depth, comprehensive way on topics that may cut across the various committees.

Supervisory Responsibilities

The Federal Reserve System's supervision responsibilities related to consumer protection are carried out by DCCA staff and the Federal Reserve Banks through several inter-related programs. These include: (1) program administration, oversight, and policy development; (2) consumer compliance examinations of state member banks; (3) supervision of large banking organizations and nonbank subsidiaries of bank holding companies; (4) fair lending enforcement; (5) administration of the Community Reinvestment Act; (6) consumer complaint processing and resolution; and, (7) examiner training.

The consumer compliance supervision program has evolved a great deal over the years, with today's program being a comprehensive approach to supervision structured to further DCCA's mission to develop regulations, policies, and programs designed to inform and protect consumers, to enforce federal consumer protection laws, to strengthen market competition, and to promote access to banking services in historically underserved markets."

1. Program Administration, Oversight and Policy Development

The Board has staff in DCCA dedicated to ensuring that supervisory procedures and policies are regularly updated to reflect changes in laws and regulations, as well as to address variations in the state member bank portfolio as they relate to asset size, product innovations, and organization structures. To ensure timely, appropriate, and consistent implementation of the Board's consumer compliance examination program, the Board conducts vigorous oversight of Reserve Bank work products, and annually assesses the Reserve Banks' performance. Oversight activities include on-site visits to Reserve Banks, participating with examiners on consumer compliance examinations, and conducting horizontal reviews of subject matter areas.

The Division also has a comprehensive oversight program related to the large banking organization portfolio. As is the case with oversight of state member banks, staff in DCCA with particular expertise in large complex financial services organizations review Reserve Bank work products and recommend changes as needed. These staff also participate in consumer compliance reviews of the companies in their portfolios and provide input into the Division's annual assessment of the Reserve Banks' performance.

In addition, every three years, DCCA staff conduct, together with the Board's Division of Banking Supervision and Regulation (BS&R), an operations review of a Reserve Bank's supervision function. The Reserve Banks also have formalized quality assurance programs to self-assess the strength of their programs.

The work done by DCCA staff compliments that done by prudential supervisors in BS&R. The recognition of the close relationship between consumer compliance and prudential supervision is not a recent phenomenon for the Board. Over the years, the Board has coordinated and integrated supervisory policy development related to state member banks as well as the largest and most complex banking organizations. In its supervision governance structure, for many years the Board's directors of BS&R and DCCA have co-chaired the Supervision Committee, which consists of the heads of supervision from the twelve Reserve Banks.

2. Consumer Compliance Examinations of State Member Banks

The Federal Reserve's consumer compliance examination program is implemented by a team of specially trained examiners. These examiners are responsible for examining state member banks for compliance with consumer protection laws, including the Truth in Lending Act, the Real Estate Settlement Procedures Act, the Home Mortgage Disclosure Act, the Equal Opportunity Act (ECOA), the Community Reinvestment Act, and more than 20 other federal consumer protection laws and regulations.[21] Federal Reserve consumer compliance examiners are required to complete a comprehensive training program prior to being eligible to lead a consumer compliance examination. Examiners are provided ongoing training on consumer protection laws and regulations, emerging products and issues, as well as supervisory trends and related matters.

Consumer compliance examinations conducted by the Federal Reserve follow a risk-focused approach. This approach directs resources to banks and to the activities within those banks, commensurate with the level of risk to both the bank and to consumers. The approach is designed to reasonably ensure that all banks supervised by the Federal Reserve comply with consumer protection laws and regulations. It is founded on the expectation that consumer compliance risk management is an integral part of the corporate-wide risk management function of each state member bank.

The frequency of consumer compliance examinations follows an established schedule. Adherence to this schedule is continuously monitored by both Reserve Bank and Board staff.

[21] See Supplement A for a listing of all the laws and regulations that are reviewed by Federal Reserve examiners as part of consumer compliance examinations.

The length of the examination interval is based on the consumer compliance examination rating of the bank; those with satisfactory or better ratings are examined less frequently than those that exhibit poor performance. Examination frequencies can be accelerated when offsite monitoring, the review of Home Mortgage Disclosure Act (HMDA) data, emerging issues, or consumer complaints, for example, indicate a need for supervisory intervention.

Examination findings are communicated to a bank's Board of Directors through a separate report of examination. This report contains a supervisory rating that assesses the bank's compliance performance and the level of supervisory concern represented by that performance on a scale of "1" to "5" with "1" representing an outstanding performance level, and a "5" indicating significantly poor performance. When examiners identify violations of law or weaknesses in a bank's compliance management program, the bank is required to take swift and appropriate corrective action. When necessary, enforcement actions, both formal (e.g., cease and desist orders, civil money penalties) and informal (e.g., memoranda of understanding), are imposed to compel needed corrective actions. Further, referrals to the U.S. Department of Justice are made by the Federal Reserve, as required by law, when examinations reveal a pattern or practice of lending discrimination.

3. *Supervision of Large Banking Organizations and Nonbank Subsidiaries of Bank Holding Companies*

To keep pace with regulatory changes and the changing complexity of the financial services industry, the Board has a supervisory program dedicated to consumer compliance at large financial institutions and large complex banking organizations, including large regional banks, bank holding companies, and nonbank subsidiaries of holding companies. There are 25 companies in the large bank portfolio, many of which have substantial consumer lending operations, and therefore, substantial consumer protection risks.

Because of the close relationship between consumer compliance and prudential supervision, the Board's consumer compliance supervision of these large companies is tightly coordinated with the Board's safety and soundness supervision for these companies. For example, each year the Reserve Banks develop a risk assessment for each of the companies in the large bank portfolio. The risk assessments are used to plan the supervisory strategy for each company, including work related to consumer compliance. DCCA staff review the risk assessments to ensure that the documents appropriately capture the consumer compliance risk in each company. In addition, DCCA staff review the supervisory plans to ensure that planned consumer compliance examinations are sufficient both within each company and across the portfolio.

As a result of the pilot program targeting the subprime mortgage lending subsidiaries of bank holding companies, which is discussed on page 7 of this document, the Board introduced a program to conduct routine consumer compliance examinations of nonbank subsidiaries of those entities that are subject to the consumer protection laws that the Board has the authority to enforce (such as the Truth in Lending Act, the HMDA, and the Equal Credit Opportunity Act). This program will result in specially trained consumer compliance examiners conducting on-site reviews of the operations of the nonbank subsidiaries of the largest bank holding companies. These examinations will be planned based on the results of the risk assessments.

4. Fair Lending Enforcement

The Board's longstanding commitment to the enforcement of the fair lending laws, namely the Equal Credit Opportunity Act (ECOA) and the Fair Housing Act, is reflected in DCCA's organizational structure which includes a specialized Fair Lending Enforcement Section. This section was recently expanded to include economists, as well as fair lending attorneys. In addition to its resource commitment to fair lending, the Federal Reserve expects banks to devote significant resources to fair lending and examines them routinely for fair lending compliance.

Fair lending is an integral part of supervisory regimen. For example, Federal Reserve examiners begin every consumer compliance examination by evaluating the bank's fair lending risk across all business lines, using Interagency Fair Lending Examination Procedures. Examiners have long analyzed HMDA data as part of this process. Based on this evaluation, examiners identify specific business lines on which to focus, and in every examination at least one product or class of products is evaluated in detail. Additionally, examiners conduct fair lending reviews outside the usual examination cycle when warranted by heightened fair lending risk at both state member banks and bank holding company subsidiaries.

When conducting fair lending examinations, consumer compliance examiners perform two distinct functions. First, examiners evaluate the institution's overall fair lending compliance program. In essence, examiners make sure that management is committed to fair lending and has put in place the appropriate systems, policies, and staff to prevent violations. Examiners assess whether the institution devotes a level of resources to consumer compliance that is commensurate with its size, the complexity of its business lines, and the fair lending risk of its business practices. Of course, the level of resources dedicated to fair lending will vary across institutions, but examiners require that every institution make fair lending a high priority, from the loan officer to the board of directors. If an institution's staff or systems fall short, examiners direct the institution to take corrective action.

Second, examiners determine if the bank has violated the fair lending laws. To that end, they review lending policies and practices to make sure they are not discriminatory. Examiners also test the institution's actual lending record for specific types of discrimination, such as underwriting discrimination in consumer loans, or pricing discrimination in mortgage or automobile lending. This testing for discrimination may use statistical techniques, manual reviews of loan files, or both. When examiners find evidence of potential discrimination, they coordinate closely with the Board's Fair Lending Enforcement Section, which brings additional legal and statistical expertise to the examination and ensures that fair lending laws are enforced consistently and rigorously throughout the Federal Reserve System.

Because the Federal Reserve expects institutions to devote significant resources to fair lending and examines them routinely for fair lending compliance, fair lending violations--especially those involving a pattern or practice of discrimination—tend to be rare among the banks it supervises. However, when violations do occur, strong action is taken. If there is reason to believe that there is a pattern or practice of discrimination under ECOA, the Board, like the other federal banking agencies, has a statutory responsibility under that Act to refer the matter to the Department of Justice (DOJ), which reviews the referral and decides if further investigation is warranted. A DOJ investigation may result in a public civil enforcement action or settlement. DOJ may decide instead to return the matter to the Federal Reserve for administrative enforcement to correct the problems and make amends to the victims. During 2006-08, the Board referred fifteen institutions to the Department of Justice for a wide range of issues after concluding that they had engaged in a pattern or practice of discrimination in violation of the ECOA. These issues included mortgage pricing discrimination, auto pricing discrimination, redlining, underwriting discrimination, and discrimination based on marital status.

Most lenders readily agree to correct fair lending violations. In fact, lenders often take corrective steps as soon as they become aware of a problem. Thus, the Federal Reserve generally uses informal supervisory tools, such as Memoranda of Understanding between the bank's Board of Directors and the Reserve Bank, or Board Resolutions, to ensure that violations are corrected. If necessary to protect consumers, however, the Federal Reserve can and does bring public enforcement actions. For example, in 2004, we publicly assessed a $70 million civil money penalty against CitiFinancial Credit Company and also ordered restitution to borrowers.

5. Administration of the Community Reinvestment Act (CRA)

Enacted in 1977, the CRA states that federally insured banks and thrifts have an obligation to help meet the credit needs of the communities in which they are chartered, including low- and moderate-income neighborhoods, consistent with safe and sound operations. The act also directs the federal bank and thrift regulatory agencies, including the Federal Reserve, to implement the CRA through regulations, to assess during examinations the records of federally insured depository institutions in meeting their obligation under the law, and to take those records into account when evaluating proposals for expansion.

CRA Examinations

CRA examinations have been at the core of the Federal Reserve's efforts to encourage state member banks to help meet the credit needs of their communities since the first set of CRA regulations was adopted in 1978. The agencies have adjusted the CRA examination process over the years on their own initiative and in response to statutory changes, some of which have been significant.

The 1978 CRA regulations focused CRA examinations on factors related to the process used by institutions to determine the credit needs of their community and to their responses to those needs. The evaluation of an institution's performance was based on the application of twelve assessment factors, including the ascertainment of community credit needs, marketing and the types of credit offered, the geographic distribution of loans, the record of opening and closing branches and providing services, participation in local community development projects, and the financial and legal capability of the institution.

Until the passage of the Financial Institutions Reform, Recovery and Enforcement Act (FIRREA) in 1989, CRA examinations culminated in a confidential examination report and rating that was provided only to the bank or thrift. FIRREA amended the CRA to require the agencies to issue public CRA ratings and written performance evaluations describing institutions' CRA performance using facts and data to support the agencies' conclusions. This requirement makes CRA examinations unique among other supervisory activities, which are otherwise confidential matters. In the absence of any statutory authority for the agencies to address poor CRA performance through enforcement actions, public disclosure of CRA ratings and evaluations may well serve to motivate an institution to improve a weak CRA record, or encourage an institution to maintain an otherwise favorable record.

Also in FIRREA, Congress amended the CRA to require the current four-tiered CRA examination rating system with descriptive performance levels of Outstanding, Satisfactory, Needs to Improve, or Substantial Noncompliance in place of the five-tiered system in use by the agencies at the time. In response to these statutory changes, the agencies amended the CRA regulations and examination procedures accordingly to prescribe the method for assigning an institution's rating, and preparing and issuing public evaluations. Each rating encompasses a wide range of potential performance outcomes.

The CRA regulations were substantially revised again in 1995, in response to a directive to the agencies from President Clinton to review and revise the CRA regulations to make them more performance-based, and to make examinations more consistent, clarify performance standards, and reduce cost and compliance burden. This directive addressed criticisms that the regulations, and the agencies' implementation of them through the examination process, were too process-oriented, burdensome, and not sufficiently focused on actual results. The agencies also changed the CRA examination process to incorporate these revisions.

Since 1995, the agencies' CRA regulations have tailored the examination approach to the institution's size or its business operations. Currently, for depository institutions with assets greater than $1.061 billion, CRA performance is evaluated based on a lending test, an investment test, and a service test. Institutions with assets between $265 million and $1.061 billion are designated as "intermediate small institutions" and are evaluated on their record of lending in low- and moderate-income areas and to lower-income people in the institutions' assessment areas. A community development test is also included in the review of these institutions. This test encourages institutions to engage in a range of community development lending, investment, and services but provides the flexibility to target their resources where they will produce the most community benefit. Currently, institutions with assets less than $265 million are evaluated primarily on their lending performance in their communities, including low- and moderate-income areas and populations. Given their more limited capacity and resources, small institutions are not expected to engage in more complex community development activities.

The regulations also provide a different evaluation method for institutions designated as "wholesale" or "limited purpose." This examination method focuses on evaluating an institution's community development lending, services, and investments. In addition, any institution can opt to develop a CRA "strategic plan" and be evaluated under that plan, if it is approved.

The frequency of CRA examinations is determined by, and in some cases limited by, an institution's size and prior CRA rating. The Federal Reserve conducts CRA examinations of state member banks with assets greater than $250 million and favorable ratings on a two-year cycle; a one-year cycle applies if the rating is less than satisfactory. By statute, the examination cycle is significantly longer for banks with assets less than $250 million and ratings of Satisfactory or Outstanding. Under the CRA, the agencies are prohibited from examining these entities for CRA purposes any more frequently than every four or five years if the bank is rated Satisfactory or Outstanding, respectively, for CRA. Congress added this limitation to the statute as part of the Gramm-Leach-Bliley Act in 1999 as a way to reduce regulatory burden. We may, however, examine these banks on shorter cycles if the rating is below satisfactory, and under other very narrow and limited exceptions.

During the CRA examination, examiners assess an institution's performance within the context of all relevant factors, such as its business strategy, capacity and constraints, the overall economic conditions and credit needs in its assessment area, and the availability of community development activities appropriate to the institution. This performance context recognizes that while insured depository institutions have an affirmative obligation to meet the credit needs of the communities in which they are chartered, they must engage only in activities that are safe and sound.

To ensure a broad and balanced CRA assessment, examiners routinely conduct interviews with local business people, government officials, housing and consumer advocates, realtors, trade association representatives, and many others. The purpose of these interviews is to obtain information about, among other things, general credit needs of the community, the availability or the lack of availability of credit, and how different institutions respond to those credit needs. The comments of these individuals are factored into the examiners' CRA rating.

The community also has other opportunities to participate in the CRA evaluation process. The public can offer comments on an institution's CRA performance and those comments are publicly available. Examiners review the institution's public comment file and take comments into account when evaluating an institution's overall CRA performance. To assist the public, and to encourage public comments, the agencies inform the public every calendar quarter of upcoming CRA examinations.

Under the CRA regulations, the Federal Reserve's evaluation of a bank's CRA performance takes into account evidence of illegal lending discrimination or other illegal credit practices. Federal Reserve examiners conduct a fair lending review concurrently with, or close in time to each CRA evaluation, and the findings from that review are factored into the CRA evaluation.

CRA and the Applications Process

As directed by the Bank Merger Act and the Bank Holding Company Act, the Federal Reserve takes into account a number of factors when it reviews applications for expansion from financial institutions. These include the competitive effects of the proposal in the relevant markets; the financial and managerial resources and future prospects of the bank holding company and its banking subsidiaries; and the convenience and needs of the communities affected.

When an application is filed, the public is notified and interested parties may comment on any of the statutory factors. It is not uncommon for the Federal Reserve to receive comment letters as part of the application process; most are in protest of the application. For applications involving very large banking organizations, it is not uncommon for the Federal Reserve to receive several hundred comment letters. Substantive comments are always given a high degree of consideration in the evaluation of the application proposal, sometimes resulting in the Federal Reserve holding public meetings to gather additional input from the public when information cannot be effectively obtained from written comments, other sources, or the supervisory processes. The Federal Reserve has held thirteen public meetings since 1990.[22]

When evaluating an application proposal, the Board's approach is very comprehensive. It takes into account the following information:

- CRA and compliance examination reports
- CRA record of lending to small businesses and small farms
- Home Mortgage Disclosure Act data reports by the financial institutions
- Recent actions taken to improve CRA and/or compliance performance weaknesses
- Enforcement actions, and/or any identified fair lending referrals or investigations
- Comments submitted by interested parties and the financial institution's response to those comments and
- Any additional information requested by the Federal Reserve from the applicant to complete the record or to address concerns raised by the public.

Additionally, any commitments that the financial institution makes to the Board for specific actions or improvements are monitored through appropriate supervisory follow-up.

6. Consumer Complaints

The Federal Reserve established a consumer complaint program in 1976. Drawing on the resources of the Federal Reserve Banks, the purposes of the program are to investigate complaints made by consumers against state member banks (those institutions under the Federal Reserve's supervisory authority), answer consumers' questions about banking practices, and refer consumers to other federal or state agencies when appropriate to assist them in getting their issues addressed. In addition, the Board responds to issues raised by congressional representatives on behalf of their constituents. Consumer complaints are an important source of information for the Board because they can reveal emerging consumer-protection issues and trends in banking practices. In addition, complaints often identify areas of concern that the Board considers when writing regulations or preparing supervisory guidance for bank examiners.

Over the last decade, the consumer financial services marketplace has changed dramatically. Technological developments and increased access to technology have also changed both the way institutions operate and how consumers want to communicate with

[22] Transcripts are available for all meetings since 1998 at www.federalreserveboard.gov

financial institutions and others. In response to these changes, in 2007, the Federal Reserve launched its Federal Reserve Consumer Help call center (FRCH). FRCH consolidated the intake of consumer complaints, both written and telephone, by providing a single mailing address, website, and toll-free number for consumers that want to file a complaint against a financial institution or want to inquire about a particular financial service, product, or their consumer protection rights. Complaints against banking institutions supervised by the Federal Reserve continue to be investigated by the Reserve Bank responsible for examining the institution in question. This approach ensures that complaints are investigated by examiners who are knowledgeable about an institution and its regional banking market--and who can leverage the bank-supervisor relationship to resolve an issue. If a consumer has a complaint against an institution not supervised by the Federal Reserve, FRCH can seamlessly connect the consumer with the appropriate agency.

In 2008, the majority of complaints against state member banks concerned checking accounts (28 percent) and credit cards (26 percent). Not surprisingly, the percentage of complaints against state member banks related to real estate loans jumped in 2008 to 18 percent (compared to only 5 percent in 2007). Complaints against state member banks in 2007 were also related primarily to credit cards and deposit accounts, 61 percent and 19 percent, respectively. In 2006, the majority of complaints against state member banks related to credit cards (54 percent) and deposit accounts (28 percent).

All complaints and inquiries received by the Federal Reserve, along with information about how the issue was resolved, are stored in a database. The database is used by: examiners when scoping an examination; rule-writers to get data about practices consumers are complaining about; staff responsible for consumer education to focus their efforts; and policy staff in determining if additional guidance to the industry is required about a particular practice or to identify an emerging issue that may be potentially harmful to consumers.

7. Examiner Training

A well-trained, highly-skilled consumer compliance examination staff is a high priority for the Board, and integral to the ultimate success of our consumer compliance supervisory programs. As such, the Board has had an examiner training curriculum and examiner commissioning process for many years. In 1991, the Board made significant revisions to its training program and commissioning process. In particular, a core curriculum of courses and knowledge was identified that System staff members, training to be commissioned examiners, are expected to master. This mastery is demonstrated through successful completion of a proficiency check at the end of the core curriculum. After assistant examiners successfully completes the proficiency check and demonstrates the ability to apply the learning obtained in the classroom in the field, the Reserve Bank may submit their names to Board staff with a request for them to be commissioned as examiners.

The Board's consumer compliance examiner training curriculum consists of six courses focused on various consumer protection laws, regulations, and examination concepts. Instructors for the training courses are seasoned experts in compliance supervision from across the Federal

Reserve System. In 2008, courses were offered in 12 sessions where nearly 200 consumer compliance examiners, System staff, and state examiners participated.

As with other supervision related programs, the examiner training curriculum and course content are reviewed regularly, with the core curriculum being reviewed every three years for the purpose of updating subject matter and instructional methods, as appropriate. Additionally, when appropriate, the training program takes advantage of alternative methods to classroom training such as offering courses via the Internet or using other distance-learning technologies. For example, with the assistance of the St. Louis Federal Reserve Bank's Center for Online Learning, the program developed several computer-based training modules, with some providing online pre-coursework and others online self-study courses.

It takes more than a predefined course curriculum and online course modules to keep our examiners on top of regulatory changes, updated examination procedures, or newly released interagency guidance. The examiner curriculum emphasizes the importance of continuing professional development. To better meet this need, in 2008 the System initiated a powerful training delivery method, entitled Rapid Response. In contrast to more traditional training development and delivery model, which takes time to develop, technical and instructional content on time-sensitive or emerging topics are designed, developed, and presented to System staff within days or weeks of the perceived need. This "just-in-time" training is invaluable in the current environment; and it is extremely cost effective. To date, the training program has conducted 45 sessions with an average attendance of 149 System staff. Recently, attendance at this training was offered to state examiners. Six sessions have been directly related to consumer compliance issues. The sessions are audio conferences with supporting documentation available on the web; the sessions are recorded and archived for ready access for those unable to attend the live session.

Community Affairs

The Federal Reserve's Community Affairs Offices (CAOs), a function initially established in 1984, were established to assist financial institutions meet their obligations under the Community Reinvestment Act (CRA) by helping them to identify the credit needs and lending opportunities in low- and moderate-income communities in their market areas. Over time, the function has grown considerably, expanding its mission to promote fair and informed access to financial markets for all consumers, recognizing the particular needs of underserved populations. It does this through collaborative work across the Federal Reserve System and through outreach to and partnerships with financial institutions, community development organizations, federal, state and local governments, academic institutions, think tanks, and others interested in promoting community and economic development. Through their outreach, publications, conferences, and research activities, the CAOs provide vital information and technical assistance to lenders, government officials, and community developers at the national, regional and local level. These efforts are designed to inform these institutions and their constituencies of programs and funding strategies that play a vital role in realizing viable community economic development in distressed communities.

Each Reserve Bank and the Board has a Community Affairs function staffed by professionals with a range of experiences including the financial industry, non-profit organizations, as well as urban planning and regulatory agencies. Because of the economic diversity of the various regions, each Reserve Bank program sets its own priorities based on the community development needs of its District. The Federal Reserve Board has an oversight function, and it also promotes more effective communications and collaboration between the programs in the Reserve Banks to address issues of mutual interest and importance.

The objectives of the Board's Community Affairs program are as follows:

- Foster the active engagement of depository institutions in providing credit and other banking services to their entire communities; promote cooperation among community organizations, government agencies, financial institutions, and other community development practitioners to their mutual benefit; and promote better understanding among policymakers, community leaders, and private-sector decision makers of the processes and resources that support successful community development programs;

- Provide educational and technical assistance to financial institutions, government agencies, and community groups on developing and implementing effective community lending programs; represent the Board at conferences dealing with community development, urban lending, and rural investment; and develop and maintain a national network of contacts in the field of community development;

- Participate in outreach programs that provide information to the public on matters relating to community development issues; and produce and distribute brochures, newsletters, and other publications to increase public awareness of the System's Community Affairs program resources;

- Conduct oversight of Reserve Bank Community Affairs activities through ongoing contact with Reserve Bank officials and staff; and conduct operations reviews and annual performance evaluations of Reserve Bank Community Affairs programs;

- Provide technical assistance to financial institutions seeking regulatory approval for bank and bank holding company community development investments; coordinate applications analysis on these issues with appropriate Board divisions; and develop greater public awareness of the risks and benefits of various financial service products that foster community development and increase access to credit;

- Provide ongoing support to the Board on community development issues through advice on related policies, preparation of testimony and speeches, and briefings; support Board member's service on the NeighborWorks America® Board of Directors; and

- Represent the Board on interagency projects and task forces that are related to community development and other pertinent issues; work with other federal agencies including the Department of Housing and Urban Development, Small Business Administration, Government Accountability Office, Department of Treasury, Department of Justice, and Bureau of Indian Affairs; and act as a liaison to national community organizations and financial intermediaries.

One example of how the Federal Reserve fulfills these objectives is a recent research effort that was undertaken in 2006 in partnership with the Brookings Institution to examine the issue of concentrated poverty. The project was motivated by the recognition that the problems faced by many of the poor communities devastated by Hurricane Katrina in 2005 were shared by residents of neighborhoods across the United States. While concentrations of poor people living in poor neighborhoods have been observed in large Midwestern and Northeastern cities, concentrated poverty also exists in smaller cities, immigrant gateways, suburban municipalities and rural counties. The need for a deeper understanding of the relationship between poverty, people, and place led the Federal Reserve to join with the Brookings Institution's Metropolitan Policy Program. The resulting report, *The Enduring Challenge of Concentrated Poverty in America: Case Studies from Communities Across the U.S.*, features case studies, undertaken by the Federal Reserve System's Community Affairs Offices, of 16 high-poverty communities across the country, including immigrant gateway, Native American, urban, and rural communities. Through these case studies, the report contributes to our understanding of the dynamics of poor people living in poor communities, and the policies that will be needed to bring both into the economic mainstream.[23] The report was rolled out in December 2008 at a conference sponsored by the Federal Reserve Board to highlight the findings of the paper and discuss opportunities for policymakers, community developers, lenders, and academics to consider for addressing the issues that contribute to concentrated and enduring poverty. Some Federal Reserve Banks have continued the work in case study cities such as Springfield, Massachusetts, and Fresno, California by expanding the analysis and engaging local stakeholders to develop solutions to the problems highlighted by the report. For example, in Springfield, the Federal Reserve Bank of Boston will publish a series of discussion papers that identifies current and potential employment opportunities; barriers to accessing these opportunities, including barriers to local business formation and entrepreneurship; and successful models of training, job development, and job matching.

Oversight of Reserve Bank Programs

In carrying out its oversight responsibilities, the Board staff conducts annual evaluations of the Reserve Bank Community Affairs programs in addition to operations reviews once every four years. The Board uses the Community Affairs (CA) annual evaluation process to highlight areas of success and potential improvements to improve the capacity of each Reserve Bank to meet the needs of underserved communities and individuals in its region.

This oversight provides a process for identifying issues requiring attention, sharing best practices (outreach/tracking performance, etc), growing the function such as the expansion of the program into research.

[23] *The Enduring Challenge of Concentrated Poverty in America*, The Federal Reserve System Community Affairs Offices and the Brookings Institution, 2006, http://www.frbsf.org/cpreport/index.html.

Research Conference

The Community Affairs Officers of the Federal Reserve System host a biennial research conference to encourage objective research into financial services issues affecting low- and moderate-income individuals, families, and communities. The conference has been held in Washington, DC. This year's conference explored the role, processes, and outcomes of innovation in financial services for low- and moderate-income consumers and underserved populations. Leading researchers presented original and objective research that can inform innovative market and product development through a framework that moved from:

- individual consumer preferences and behaviors with focus on consumer finance products, to
- influences that affect market participation such as financial education and institutional structures, to
- effects of mortgage products on both performance and wealth creation, to
- approaches for shaping market participation.

As with previous conferences, the 2009 System Community Affairs Research Conference succeeded in sharing relevant and timely research related to consumer and community development issues with practitioners in an accessible format, the lessons of which can be easily applied in the field. The conference also provides a valuable catalyst for new research to inform policies that affect low- and moderate-income consumers and communities.[24]

Leadership on Issues Related to Foreclosures and Neighborhood Stabilization:

- **Rental Housing Forums** -- Recognizing that large numbers of renters are impacted by the foreclosure crisis, the Board’s Community Affairs staff hosted a series of forums to explore various rental housing issues. The first forum, outlined the rental housing challenges created by the foreclosure crisis and detailed industry-led policy initiatives to address them, including REO rental policies, such as rent-to-own policies, designed by Freddie Mac and Fannie Mae. The second forum focused on issues related to small multifamily properties (less than 50 units) and the third featured a discussion of the challenges of managing scattered-site rental units. Plans are underway for future forums to discuss low-income housing tax credits.

  These forums have focused attention on how the market for affordable rental housing has been affected by the high rates of foreclosure. The forums have helped promote understanding of the policy issues that need to be addressed in order to ensure sufficient supplies of affordable rental housing while also promoting constructive dialogue on possible solutions and best practices.

- **Website Centers**: In 2008, Community Affairs helped lead the effort to develop online foreclosure resource centers for each Reserve Bank and the Board to customize for their various constituents. In addition, the Board launched a page on the Board's public Web site, *Resources for Stabilizing Communities*, which highlights System conferences,

[24] See http://www.chicagofed.org/cedric/cedric_index.cfm for additional information.

discussion papers, and other resources relating to community stabilization. This new page and the Foreclosure Resources for Consumers page are cross-linked. This is part of an ongoing System-wide effort to address and mitigate the impacts of foreclosures on communities. As part of the MORE initiative described above, this year the System will be working to improve the availability and coordination of its data resources and analysis, address the continuing need to improve foreclosure mitigation efforts, and add additional toolkits for post-foreclosure consumer concerns, among other things.[25]

- **New CRA Publication:** The Federal Reserve System's Community Affairs function has been a leader in helping financial institutions to understand and comply with the requirements of the Community Reinvestment Act. In 2009, the Federal Reserve Banks of Boston and San Francisco released a publication, *Revisiting the CRA: Perspectives on the Future of the Community Reinvestment Act*, offering a range of perspectives on the past and future of the CRA. The publication provides history, research, and highlights policy options for amending the Act, through articles from academic researchers, current and former regulators, community development practitioners, and financial services representatives that have experience working with the CRA. To launch the publication and foster discussion on the future of CRA, the Federal Reserve Banks of Boston and San Francisco, in partnership with the Board of Governors, hosted a forum, "Revisiting the CRA: A Policy Discussion." At the Board, Community Affairs has held a number of meetings with community organizations and financial institutions to better understand how the CRA is working in practice and gather recommendations for future changes[26].

- **Foreclosure Rescue Scams:** The Community Affairs function has coordinated efforts to warn consumers about the prevalence of foreclosure rescue scams which present a danger to consumers already struggling to pay their mortgages. A new information piece, *5 Tips for Avoiding Foreclosure Scams*, is the latest in the "5 Tips" series of consumer information published by the Board. Reserve Banks developed local and regional communication to complement the Board's messaging on this issue. The Board is also coordinating with NeighborWorks America to learn from their experience with implementing an Ad Council campaign for foreclosure mitigation this year and apply those lessons to this effort.[27]

- **Rapid Response Training**: The Board and FRB-San Francisco teamed up to lead a Rapid Response examiner training on Real Estate Owned (REO) Disposition and Neighborhood Stabilization. In addition to giving examiner's background on the issues involved in dealing with neighborhood stabilization from a financial institution's

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[25] For additional information see http://www.federalreserve.gov/consumerinfo/foreclosure.htm

[26] For additional information see http://www.frbsf.org/publications/community/cra/index.html

[27] For additional information see http://www.federalreserve.gov/pubs/foreclosurescamtips/default.htm

perspective, the session covered how CRA influences a bank's participation in community stabilization efforts.

- **Research Coordination on Neighborhood Stabilization Program (NSP) –** Board Community Affairs leads a System task force that has completed a research protocol to conduct local case studies regarding the implementation of the NSP. Participants will conduct survey research during July and August in selected cities.

- **Collaboration With Consumer Advocacy Groups –** In response to inquiries made by national consumer advocacy groups, the Board has helped to organize collaborative efforts between consumer advocacy groups and their local affiliates and Federal Reserve Banks to address local challenges and identify potential solutions related to the foreclosure crisis. For example, at the request of National People's Action (NPA), the Board is participating in a series of regional public forums with local NPA affiliates and the Federal Reserve Banks. The first of these meetings was held in June 2009 in Richmond, California and included a public meeting, a small group discussion with local leaders, and a property tour of foreclosed properties. Additional regional forums are being planned in several other communities, including Buffalo, New York, Cincinnati, Ohio, and Decatur, Illinois. The Board has also organized efforts in collaboration with the Greenlining Institute around various dimensions of foreclosure challenges, with the most recent meeting held in May at the San Francisco Federal Reserve Bank on the impact of foreclosure on minority communities. The senior research manager presented detailed analysis of the impact of foreclosures in California on the African American, Hispanic, and Asian communities.

Consumer Education and Research

The Federal Reserve has a long history of providing useful consumer information. A major line of defense in consumer protection is self-defense--in other words, a well-informed consumer. Educated consumers can serve as their own advocates and better protect themselves from unnecessarily expensive and abusive financial products, practices, and scams by asking good questions about products and practices, especially those that "seem too good to be true." Consumers look to the Federal Reserve for unbiased, research-based financial information--and it intends to keep it that way. Over the years, the Federal Reserve Board has worked with other agencies and organizations on consumer information resources, both in print and on the Internet.

By using a variety of strategies to address the continuum of consumer needs--from making consumers aware of an issue, to providing reliable information and clear disclosures that allow a meaningful evaluation of financial choices, to prohibiting certain egregious products and practices--the Federal Reserve can empower consumers to make informed financial decisions. We believe that all of these approaches are essential for ensuring that consumers can successfully navigate an increasingly complex financial marketplace. In so doing, we aim to promote the economic well-being of consumers and their families.

Raising Awareness and Providing Tools

One of the most important roles the Federal Reserve plays is to make consumers aware of emerging issues and trends in the financial marketplace and to help them understand how those trends will affect them personally. For example, the Board has a contract with a distributor of brief consumer news stories, in print and radio format, to daily and weekly media subscribers. We have used this approach for several years and have found it to be an effective means of directing consumers to our website (www.federalreserve.gov) for more information and resources. For example, a recent article on tips for protecting homeowners from foreclosure appeared in 398 newspapers in 26 states. Another article on refinancing mortgages appeared in 444 newspapers in 22 states. Audience penetration for these articles is estimated at 44.6 million and 45.4 million, respectively.

The Board also has a history of identifying strategic partnerships to enhance its consumer outreach. For example, it is working to expand consumer awareness of foreclosure scams through a partnership with NeighborWorks America and the Conference of State Bank Supervisors (CSBS). The Federal Reserve Board and the Federal Reserve Banks also continue to partner with the "America Saves" program, the American Savings Education Council, Operation Hope, the "Bank On" program, and the Jump$tart Coalition for Personal Financial Literacy to promote financial education and asset-building strategies.

The Board also participates in outreach events, such as the Congressional Black Caucus, Financial Literacy Day in Washington, D.C., professional development conferences, and similar events to raise awareness of the Board's materials and website, and to direct concerned consumers to Federal Reserve Consumer Help, the System's central consumer complaint and inquiry intake center.

The Board's Consumer Information website (www.federalreserve.gov/consumerinfo) includes 23 consumer topics ranging from bank accounts to consumer credit to mortgages; 13 of these are also available in Spanish. The materials are designed for consumers who prefer varying levels of detail. Using the "layering" that web links offer, resources range from the sound-bite "5 Tips" series to the more comprehensive consumer's guide series.

In addition to the consumer information that Congress has mandated the Federal Reserve to provide to consumers, such as the *Consumer Handbook on Adjustable Rate Mortgages* and *What You Should Know about Home Equity Lines of Credit*, the Board has also developed web-based information such as calculators to help consumers explore mortgage choices and mortgage refinancing and a data base of credit card interest rates and fees. It also provides English and Spanish versions of our credit card repayment calculator, which allows consumers to estimate how long it will take to pay off their credit card bills if they only make minimum payments. Consumers can also estimate the monthly payments needed to pay off a balance in a specific number of years or the amount of time it will take to pay off their balance if they pay a specific amount each month.

Building Capacity in Partnership with Educators and Practitioners

While Board staff work diligently to enhance consumer awareness and provide useful financial tools and information, the Federal Reserve is aware that some consumers would benefit from a more structured approach to learning how to make sound and informed choices in the financial marketplace. And sometimes they need coaching, advice, or counseling to help them develop and implement a personal financial plan. The Federal Reserve is committed to empowering consumers and increasing their financial capability by building the capacity of financial educators in schools and community-based organizations.

Across the country, the Federal Reserve System hosts teacher-education workshops for kindergarten through grade 12 teachers. These efforts focus on activity-based constructivist learning approaches, such as computer games, in contrast to more traditional information transfer education models. The goals are to incorporate more experiential learning and to foster the development of critical thinking and problem-solving skills.

The Federal Reserve also hosts training workshops and conferences for community-based educators working with young adult and adult learners. These events provide updates on emerging issues and resources, as well as ideas for outreach via social media. While many of these are face-to-face sessions, some have also used webinars, online training, and other distance-learning strategies to reach audiences that may not be able to travel to conferences or meetings.

As an example, the Board is actively involved in financial education outreach with the military. Staff attended the first Worldwide Work and Family Life Professional Skills Symposium held by the Navy. The purpose of this symposium was to educate Navy staff - including the Certified Ombudsman Trainers - on the resources available as they work with base personnel. The Board was the only government agency to participate in this event. Staff will also attend and present a workshop in the Department of Defense's Financial Fair as part of its annual Human Resources Worldwide Conference this summer.

The Board's support of education and capacity building goes beyond these train-the-trainer efforts. Many Reserve Bank staff members serve as key members of local Jump$tart coalitions that encourage states and localities to set standards of learning that include financial decision making skills. Board staff also serves on the advisory council for NeighborWorks America's Center for Homeownership Education and Counseling (NCHEC), which has developed industry standards for quality homeownership education and counseling, including foreclosure mitigation counseling. NCHEC certifies nonprofit organizations as well as individual counselors. A more fulsome listing of Reserve System initiatives is attached.[28]

At the same time that Federal Reserve works to make sure that quality financial information reaches consumers, the Federal Reserve System is evaluating the impacts of financial education in an effort to better understand what approaches work the best. For example, Board staff, working with the Department of Defense, Army Emergency Relief, and San Diego City College, conducted a longitudinal study involving two groups of soldiers--one receiving a two-day financial education course as part of their advanced individualized training, and a second comparison group that did not receive any financial education. This addresses two

[28] For a detailed listing relevant research, see Supplement E.

common criticisms of financial education program evaluation literature: lack of a comparison group and documenting changes over time.[29]

Broader Efforts in Support of Financial Education

In addition to the Federal Reserve's efforts to promote consumer education and protection, the Board has supported the Financial Literacy and Education Commission (FLEC) in meeting its mandates and implementing its national strategy. Since its inception in 2004, Board staff has served on the MyMoney.gov website working group and the national strategy working group.

Beyond work with FLEC, Federal Reserve Board staff has also been engaged with colleagues internationally. In particular, the Board has been the only U.S. federal agency to represent U.S. financial education efforts with the International Network for Financial Education sponsored by the Organization for Economic Cooperation and Development (OECD). Federal Reserve Board staff serves on a subcommittee to create research and evaluation criteria that will allow cross-cultural comparisons of the impacts of financial education programs. Since 2002, the Federal Reserve Board has met with other international financial regulators to share best practices with respect to financial consumer protection and education issues. In these international settings, staff have learned that while on the forefront of many consumer education and protection efforts, there is much to learn from others.

Research on Consumer Issues

Over the years, the Board has conducted a wide range of applied, consumer-focused research to inform rule-writing, consumer education, and community affairs functions. In addition, research and community development economists at the Reserve Banks as well as staff at centers, such as the Payment Card Center at the Philadelphia Reserve Bank, provide insight and assistance. The Board funds research via consumer testing and occasional surveys. One of the major consumer data collection efforts is the triennial Survey of Consumer Finances (SCF). The SCF provides detailed information on the finances of U.S. families. No other study for the country collects comparable information. Data from the SCF are widely used, from analysis at the Federal Reserve and other branches of government to scholarly work at the major economic research centers. The study is sponsored by the Federal Reserve Board in cooperation with the Department of the Treasury. Since 1992, data have been collected by the National Organization for Research at the University of Chicago (NORC).

Staff use existing data sets, such as the Board's SCF, and collect primary data (original research) through surveys, focus groups, and interviews. Examples of research conducted and published over the past five years include the following:[30]

[29] Bell, Catherine; Gorin, Daniel; Hogarth, Jeanne M., "Does Financial Education Affect Soldiers' Financial Behaviors?", Division of Consumer and Community Affairs, Federal Reserve Board of Governors presented at the Federal Reserve Community Affairs Research Conference, April 16-17, 2009, http://www.kansascityfed.org/carc2009/program.cfm.

Electronic banking

2009 U.S. Households Access to and Use of Electronic Banking, 1989-2006
2008 Consumer Payment Choices: Paper, Plastic, or Electrons?
2004 The Adoption of Electronic Banking Technologies by U.S. Consumers
2004 U.S. Consumers and Electronic Banking, 1995 to 2003
2004 Are Families Who Use E-Banking Better Financial Managers?
2004 The Adoption of Electronic Banking Technologies by U.S. Consumers
2004 Closing the Digital Age Divide: Adoption of Electronic Financial Services by Consumers Age 60+

Financial access and inclusion

2006 ¡Cuidado! Remittances and Consumer Protection
2005 Banking on Remittances: Increasing Market Efficiencies for Consumers and Financial Institutions
2005 Who Has a Bank Account? Exploring Changes Over Time, 1989 - 2001
2005 Promise and Potential: The State of Financial Affairs of Hispanic Families
2004 Why Don't Households Have a Checking Account?

Credit and mortgages

2009 Changes in U.S. Home Equity Lending: Evidence from the 1989 through 2007 Survey of Consumer Finances
2007 Unlocking the Risk-Based Pricing Puzzle: Five Keys to Cutting Credit Card Costs
2006 Who Moved the LTV? Examining the Increase in Home Leverage
2006 The Geography of Mortgage Delinquency
2006 Cohort Analysis of Consumer Credit Card Behaviors: Will Consumers Be Ready for Retirement?

Consumer complaining behaviors

2004 Numbers versus Words: Quantitative and Qualitative Satisfaction Data
2004 Consumers' Resolution of Credit Card Problems and Exit Behaviors

Financial education and capability

2009 Does Financial Education Affect Soldiers' Financial Behaviors?
2007 The Federal Reserve System's Role in Economic and Financial Literacy – Rationale, Activities, and Impact
2006 Is More Always Better? Information Search for Financial Products

Community development

2008 Economic Development Incentives: Research Approaches and Current Views
2005 Financial Education and Community Development Finance

In addition, since 1996 the Board has used consumer-testing research to develop disclosures. Within the past five years, disclosure research has included privacy notices, payroll

[30] An additional list of research references is available in Supplement E.

cards, credit cards, mortgages, home equity lines of credit, overdraft protection, and student loans.

Supplement A

Regulatory Responsibilities for the Division of Consumer and Community Affairs

The Federal Reserve Board's Division of Consumer and Community Affairs is primarily responsible for implementing consumer financial services and fair lending laws administered by the Board. Consumer financial services and fair lending laws that are administered by other agencies are enforced by the Board for entities subject to its jurisdiction. The laws for which the Division has responsibility and the implementing regulations are listed below.

Laws for which the Board has sole rule-writing authority

For the following laws, the Board's regulations apply to the particular entities designated in the respective statutes.

- The **Consumer Leasing Act of 1976**, which is implemented by **Regulation M,** requires lessors to provide lessees with standardized disclosures about the cost and terms of consumer leases of personal property with a term of more than four months (such as automobile leases). The disclosures must be given before a consumer becomes obligated for a lease. They also require the uniform disclosure of leasing terms in advertisements.

- The **Electronic Fund Transfer Act of 1978**, which is implemented by **Regulation E,** establishes the rights, liabilities, and responsibilities of consumers who use electronic fund transfer (EFT) services and of financial institutions that offer those services. Among other things, financial institutions must disclose the costs and terms of EFT services and provide documentation of EFTs on periodic statements. The act limits a consumer's liability for the unauthorized use of a debit card, restricts the unsolicited issuance of debit cards by financial institutions, and establishes procedures for error resolution. The act covers transactions at automated teller machines; point-of-sale terminals in stores; phone bill-payment plans; and preauthorized transfers to and from a customer's account, such as direct deposit of salary and Social Security benefits.

- The **Equal Credit Opportunity Act of 1974**, which is implemented by **Regulation B,** prohibits creditors from discriminating in any aspect of a credit transaction on the basis of gender, marital status, age, religion, national origin, race, color, the receipt of public assistance benefits, and the exercise of any right under the Consumer Credit Protection Act. Among other things, the act requires creditors to inform unsuccessful applicants in writing of the reasons that credit was denied and to grant credit to qualified individuals without requiring spouses to co-sign the credit agreement.

- The **Expedited Funds Availability Act of 1987,** which is implemented by **Regulation CC,** specifies how quickly depository institutions must give consumers access to deposited funds. Institutions are required to disclose to their customers their policies on funds availability. Regulation CC also implements the Check Clearing for the 21st Century Act of 2003 ("Check 21"), which authorizes a new negotiable instrument called a "substitute check" to facilitate check truncation and electronic check exchange. Check 21 provides that a properly prepared substitute check is the legal equivalent of the original check for all purposes. The act includes new warranties, an indemnity, and expedited recrediting procedures that protect consumers who receive substitute checks.

- The **Home Mortgage Disclosure Act of 1975,** which is implemented by **Regulation C,** requires mortgage lenders in metropolitan areas to disclose to the public data about the home purchase and home improvement loans (including refinancings) that lenders originate or purchase and about the disposition of applications for those loans. Lenders must provide geographic information about the property to which the loans relate and the income, gender, race, and national origin of applicants and borrowers. Effective in 2004, Regulation C requires lenders to report additional data, including pricing information on loans above certain rate thresholds and whether a loan is subject to the Home Ownership and Equity Protection Act amendments to the Truth in Lending Act.

- The **Truth in Lending Act of 1968**, which is implemented by **Regulation Z,** requires uniform methods for computing the cost of credit and for disclosing terms and conditions on a broad range of credit products: credit cards and other lines of credit, automobile loans, student loans, and home-purchase and other home-secured loans. The act prohibits the unsolicited issuance of credit cards, limits cardholder liability for unauthorized use, and establishes procedures for handling billing error disputes. It also gives borrowers the right to rescind certain loans secured by their principal residence.

The Home Ownership and Equity Protection Act of 1994 (HOEPA) amended the Truth in Lending Act to require additional disclosures and protections for home-secured loans having rates and fees above a specified amount. Under HOEPA, the Board is also responsible for prohibiting acts or practices in connection with mortgage loans that the Board finds to be unfair or deceptive. Rules issued by the Board under HOEPA apply to all mortgage lenders, including independent mortgage companies. However, the Board enforces HOEPA only for the institutions it supervises. The Federal Trade Commission (FTC) enforces HOEPA for independent mortgage companies.

- The **Truth in Savings Act of 1991,** which is implemented by **Regulation DD,** requires depository institutions to provide consumers with information about the fees, interest rates, and other features on their deposit accounts, including savings and checking accounts and certificates of deposit. The act also prohibits certain methods of calculating interest.

<u>Laws for which the Board shares rule-writing authority</u>

For the following laws, the Board's regulations apply only to state-chartered banks that are members of the Federal Reserve System ("state member banks"). Other federal financial agencies have adopted similar regulations for those entities under their jurisdiction.

- The **Community Reinvestment Act of 1977,** which is implemented by **Regulation BB,** is intended to encourage financial institutions to help meet the credit needs of their communities, particularly low- and moderate-income neighborhoods, while preserving the flexibility necessary for the institutions to operate in a safe and sound manner. Institutions are required to specify the services they offer and to identify their lending areas. The Board assesses a bank's performance in meeting its obligations to its community and takes that assessment, along with other factors, into account when considering applications for mergers, acquisitions, and the formation of financial holding companies.

- The **Community Reinvestment Act "sunshine"** provisions of the Gramm-Leach-Bliley Act of 1999 are implemented by **Regulation G**. Annual reporting and public disclosures are required for certain written agreements that are entered into between insured depository institutions (or their affiliates) and non-governmental entities or persons.

o The **Fair Credit Reporting Act of 1970**, which is implemented in part by **Regulation V,** regulates the consumer reporting industry. The act governs the retention, use, and exchange of information about consumers, primarily information about consumers' credit histories. Among other things, it places restrictions on the use of consumer reports and requires credit reporting agencies to allow consumers to correct erroneous reports. The act was substantially amended by the Fair and Accurate Credit Transactions Act of 2003.

o The **Flood Disaster Protection Act of 1973** is implemented by **Regulation H.** The act prohibits federally regulated lending institutions from making any loan secured by improved real estate or a mobile home located or to be located in a flood hazard area of a community participating in the National Flood Insurance Program unless the property securing that loan is covered by flood insurance.

o The **Insurance Sales** provisions of the **Gramm-Leach-Bliley Act of 1999** are implemented by **Regulation H**. The insurance rules require that certain disclosures be made to consumers in connection with the sale of insurance products and annuities by depository institutions. Institutions are prohibited from conditioning an extension of credit on the consumer’s purchase of insurance or an annuity from the institution or any of its affiliates.

o The **Privacy of Consumer Financial Information** provisions of the **Gramm-Leach-Bliley Act** are implemented by **Regulation P**. The law requires institutions to disclose their privacy policies and provide consumers with notice and an opportunity to opt out of the sharing of their nonpublic personal financial information with unaffiliated entities, subject to certain exceptions.

o The **Federal Trade Commission Act** authorizes the Board to identify unfair or deceptive acts or practices by banks and to issue regulations to prohibit them. Rules issued by the Board under **Regulation AA** apply to all banks, but not to thrifts, credit unions, or nonbank lenders. (The Office of Thrift Supervision and National Credit Union Administration are given the same authority with respect to thrifts and credit unions, respectively.) If the FTC issues a rule under the act, the Board is required to issue a substantially similar rule, to the extent applicable.

Regulation AA’s Subpart A establishes consumer complaint procedures. Subpart B contains the Credit Practices Rule (CPR), which is the corollary to a rule issued by the FTC in 1985. The CPR restricts certain practices in the collection of delinquent consumer debts (for example, practices related to late charges, the responsibilities of cosigners, and wage assignments). In 2008, the Board amended Regulation AA to prohibit certain credit card practices.

Other consumer financial services laws

The following laws are enforced by the Board for state member banks but do not involve Board regulations.

o The **Fair Debt Collection Practices Act of 1977,** which is administered by the Federal Trade Commission, prohibits abusive debt collection. The act applies to banks that function as debt collectors for other entities, but does not apply to creditors who attempt to collect only debts owed to them. There is no implementing regulation.

- The **Fair Housing Act of 1968** prohibits discrimination on the basis of race, color, gender, religion, national origin, handicap, or familial status, in connection with the sale or rental of housing, including housing finance. The U.S. Department of Housing and Urban Development (HUD) writes the rules for the act. (Note: The Board writes the rules for the Equal Credit Opportunity Act (ECOA), which prohibits credit discrimination in all types of credit transactions, not just housing credit. Also, ECOA prohibits credit discrimination on the basis of age but does not cover handicap or familial status. See above.)

- The **Real Estate Settlement Procedures Act of 1974,** implemented by HUD's **Regulation X,** seeks to protect consumers from unnecessarily high real estate settlement costs by providing them with the cost information required to close a mortgage loan transaction and by prohibiting certain business practices. Under the act, lenders must disclose to borrowers the costs of real estate settlement services (such as points, title insurance, appraisal fees, and other closing costs) in connection with home-mortgage loans. These disclosure requirements are closely related to the Truth in Lending Act disclosures required for home-secured loans. The act also protects borrowers against certain abusive practices, such as kickbacks between settlement service providers, and regulates the use of escrow accounts.

Supplement B

2009 Consumer Advisory Council Members

Chair
Edna Sawady
Consultant
New York, New York
Term expires December 31, 2009

Vice Chair
Michael Calhoun
President,
Center for Responsible Lending
Durham, North Carolina
Term expires December 31, 2010

Paula Bryant-Ellis
Senior Vice President and Manager of the Community Development Banking Group
BOK Financial Corp
Tulsa, Oklahoma Term expires December 31, 20112

Alan Cameron
President and CEO
Idaho Credit Union League
Boise, Idaho
Term expires December 31, 2010

John P. Carey
Executive Vice President and Chief Administrative Officer
Citi Cards, Citigroup, Inc.
Long Island City, New York
Term expires December 31, 2011

Jason Engel
Vice President and Chief Regulatory Counsel
Experian
Costa Mesa, California
Term expires December 31, 2009

Kathleen Engel
Leon M. and Gloria Plevin Associate Professor
Cleveland-Marshall College of Law, Cleveland State University
Cleveland, Ohio
Term expires December 31, 2010

Joe Falk
Consultant
Akerman Senterfitt
Miami, Florida
Term expires December 31, 2009

Carolyn E. “Betsy” Flynn
President and Vice Chairman
Community Financial Services Bank
Benton, Kentucky
Term expires December 31, 2011

Patricia Garcia Duarte
President and CEO
Neighborhood Housing Services (NHS) of Phoenix
Phoenix, Arizona
Term expires December 31, 2011

Louise Gissendaner
Senior Vice President and Director of Community Development
Fifth Third Bank
Cleveland, Ohio
Term expires December 31, 2009

Ira J. Goldstein
Director of Policy and Information Services
The Reinvestment Fund
Philadelphia, Pennsylvania
Term expires December 31, 2011

Greta Harris
Vice President-Southeast Region
Local Initiatives Support Corporation
Richmond, Virginia
Term expires December 31, 2010

Patricia Hasson
President
Consumer Credit Counseling Service of Delaware Valley, Inc
Philadelphia, Pennsylvania
Term expires December 31, 2009

Thomas James
Senior Assistant Attorney General
Office of the Illinois Attorney General
Chicago, Illinois

Term expires December 31, 2009

Kirsten Keefe
Senior Staff Attorney
Consumer, Housing, and Community Economic Development, Empire Justice Center
Albany, New York
Term expires December 31, 2011

Lorenzo Littles
Director
Enterprise Community Partners
Dallas, Texas
Term expires December 31, 2010

Larry B. Litton, Jr.
President and CEO
Litton Loan Servicing LP
Houston, Texas
Term expires December 31, 2011

Saurabh Narain
Chief Fund Advisor
National Community Investment Fund (NCIF)
Senior Managing Director
ShoreBank Corporation
Chicago, Illinois
Term expires December 31, 2010

Andres L. Navarrete
Senior Vice President and Chief Counsel for National Lending and Regulatory
Capital One
McLean, Virginia
Term expires December 31, 2011

Jim Park
President
Asian Real Estate Association of America
CEO
New Vista Asset Management
San Diego, California
Term expires December 31, 2011

Ronald Phillips
President
Coastal Enterprises, Inc.
Wiscasset, Maine

Term expires December 31, 2010

Kevin Rhein
Division President and Business Manager
Wells Fargo Card Services
Minneapolis, Minnesota
Term expires December 31, 2010

Shanna Smith
President and CEO
National Fair Housing Alliance (NFHA
Washington, District of Columbia
Term expires December 31, 2010

H. Cooke Sunoo
Director
Asian Pacific Islander Small Business Program
Los Angeles, California
Term expires December 31, 2009

Jennifer Tescher
Director
Center for Financial Services Innovation
Chicago, Illinois
Term expires December 31, 2010

Stergios "Terry" Theologides
Executive Vice President and General Counsel
Saxon Mortgage Services, Inc.
Irving, Texas
Term expires December 31, 2009

Mary Tingerthal
President, Capital Markets Companies
Housing Partnership Network
Saint Paul, Minnesota
Term expires December 31, 2011

Linda Tinney
Vice President, Community Development-West Metro Region
U.S. Bank
Denver, Colorado
Term expires December 31, 2009

Luz Urrutia
President

El Banco de Nuestra Comunidad,
The Peoples Bank
Roswell, Georgia
Term expires December 31, 2009

Supplement C

Foreclosure Rescue Scam Theatre Ads

PSA Theatre Distribution and timeframe
<u>April 10 through 16:</u>

- AZ - Phoenix -- Ahwatukee 24
- CA - Los Angeles/Riverside -- Temecula 15
- CA - San Francisco -- Daly City 20
- CA - Sacramento -- Sacramento Green 16
- CA - Stockton-San Joaquin -- Stockton City Stadium 16
- CA - Merced -- Hollywood Mainplace Stadium Cinema 1
- CO - Denver -- Pavillions 15
- FL - Ft. Lauderdale -- Sawgrass Stadium 23
- FL - Miami -- Kendall Village 16
- FL - Orlando-Daytona -- Waterford Stadium 20
- GA - Atlanta -- Atlantic Station 16
- MD - Waldorf -- St. Charles Town Center 9
- MD - Largo -- Magic Johnson Capital Center 12
- MI - Detroit -- Livonia 20
- NV - Las Vegas -- Santa Fe Station
- OH - Valley View -- Cinemark 24
- VA - Manassas -- Manassas 14
- VA - Woodbridge -- Potomac Mills 18

Supplement D

COMMUNITY AFFAIRS

PUBLICATIONS AND SIGNATURE CONFERENCES

The following is a list of Federal Reserve publications and signature conferences produced by the Community Affairs Offices to keep financial institutions, community development organizations, state and local governments as well as individual consumers informed of issues and trends important to promoting sustainable communities.

FEDERAL RESERVE SYSTEM:

The Enduring Challenge of Concentrated Poverty in America: Case Studies from Communities Across the U.S., a joint project of the Federal Reserve System and the Brookings Institution, contributes to our understanding of the dynamics of poor people living in poor communities, and the policies that will be needed to bring both into the economic mainstream. http://www.frbsf.org/cpreport/index.html.

BOSTON
Publications:

Communities and Banking
Published four times per year;
Recent issue (Summer 2009): Neighborhood Stabilization and Land Banking, Green Space and Affordable Housing, Financial Burden of Health Care
http://www.bos.frb.org/commdev/c&b/index.htm

New England Community Developments
Published three times per year;
http://www.bos.frb.org/commdev/necd/index.htm

Revisiting the CRA: Perspectives on the Future of the Community Reinvestment Act
Joint publication of the Federal Reserve Banks of Boston and San Francisco; Research papers and essays documenting industry changes since the passage of CRA in 1977, including proposals for future CRA reforms.
http://www.bos.frb.org/commdev/cra/index.htm

NEW YORK
Data:

Regional Economic Data on LMI areas
Demographic, housing, social, and economic data for select regions in the Second District provide background information on low- and moderate-income (LMI) areas to

support presentations on the region and community discussions. The library of charts, tables and maps profile conditions in LMI census tracts for:

- New York State
- New York City
- Upstate New York -- defined as the 48 northern and western NYS counties
- Long Island
- Fairfield County, CT
- Greater Newark, NJ -- defined as northern NJ including Essex, Union, Hunterdon, Morris, and Sussex counties

The Facts and Trends Series
Provides analytical summaries intended to present key facts on topical issues to assist governments, community advocates and others to better understand, monitor and address specific economic concerns within the Second District.

Foreclosure Prevention Flyers
Customized by region to help borrowers find free and reliable foreclosure prevention resources. Flyers are currently available for New York State, New York City, Newark, and Connecticut. Available on the Bank's website for consumers to download, print, and distribute as needed.

PHILADELPIA
Publication:

Cascade
Cascade is a community development publication produced three times a year by the Community Affairs Department. Cascade has a primary readership in financial institutions, nonprofits, and government agencies in the Third Federal Reserve District. http://www.phil.frb.org/community-development/publications/cascade/

Signature Conference:

Reinventing Older Communities **–** A biennial conference that has become a major meeting ground for policymakers, community developers, lenders, funders, planners, and government representatives who want to learn from leading practitioners and researchers around the country. The 2008 conference theme, *"How Does Place Matter?"* was cosponsored with The Brookings Institution's Metropolitan Policy Center, the William Penn Foundation, the Reinvestment Fund, and LISC. The conference included a research track developed with the University of Pennsylvania's Institute for Urban Research.

CLEVELAND
Publication:

CR Report
Community Affairs Magazine
http://www.clevelandfed.org/Our_Region/Community_Development/Publications/CRReport/CRReport_Winter2008.pdf

Signature Conference:

Annual Policy Summit – The Cleveland Policy Summit is a one-day forum focused on the most relevant community development issues facing the Fourth District. The most recent Summit (June 2009) featured a lively debate over topics as varied as whether the country should promote home ownership as much as it has in the past, whether the Community Reinvestment Act should be expanded to include more organizations or become more limited in scope, and whether there should be more or less government involvement in returning the housing industry to health.

RICHMOND
Publication:

MARKETWISE
Community Affairs magazine; published three times a year
http://www.richmondfed.org/publications/community_development/marketwise/index.cfm

ATLANTA
Publication:

Partners in Community and Economic Development
This magazine, published three times each year, features articles addressing community development trends, issues, and events.
http://www.frbatlanta.org/publica/pubs_pubrouter.cfm?pub_type=PARTNERS%20IN%20COMMUNITY%20AND%20ECONOMIC%20DEVELOPMENT

CHICAGO
Publication:

Profitwise News and Views
Community Affairs Magazine
Published three times per year
http://www.chicagofed.org/community_development/files/PNV_June2009_ReEd_WEB.pdf

ST. LOUIS
Publications:

Bridges is a quarterly review of regional community development issues, projects and regulatory changes for lenders and community groups.
http://www.stlouisfed.org/publications/br/

Regional Economic Development
A journal of local and regional economic development, with particular focus on the Eighth Federal Reserve District.
http://research.stlouisfed.org/publications/red/

Signature Conference:
Exploring Innovations **–** A biennial conference dedicated to the most innovative trends and developments in community development.

MINNEAPOLIS
Publication:
Community Dividend
Quarterly publication of the Community Affairs department at the Minneapolis Fed.
http://www.minneapolisfed.org/publications_papers/issue.cfm?id=297

KANSAS CITY
Publication:
Subprime Loan Reports: A series of subprime loan reports for selected Tenth District cities.
http://www.kc.frb.org/home/subwebnav.cfm?level=3&theID=10576&SubWeb=3

DALLAS
Publication:
Banking and Community Perspectives
Articles and case studies about community development issues, interviews with policymakers and announcements on related upcoming events.
http://dallasfed.org/ca/bcp/2009/bcp0901.pdf

Building Wealth
A personal finance education resource for schools, nonprofit community organizations, financial services providers and consumers to help young people, adult consumers, families and others develop a plan for building personal wealth. *Building Wealth* presents an overview of personal wealth-building strategies that includes setting financial goals, budgeting, saving and investing, managing debt, and understanding credit reports and credit scores.
http://dallasfed.org/ca/wealth/index.cfm

SAN FRANCISCO
Publications:
Community Development Investments Review

A publication of the Center for Community Development Investment at the FRB-San Francisco created to bridge the gap between theory and practice by bringing experts together to write about various community development investment topics including finance, collaborations, public policy, and best practices.
Current Issue: Real Estate Owned
http://www.frbsf.org/publications/community/review/vol5_issue1/index.html

Community Investments Online
Community Affairs Magazine
Published three times each year
Current Issue: Unemployment in Low Income Communities
http://www.frbsf.org/publications/community/investments/0905/index.html

Revisiting the CRA: Perspectives on the Future of the Community Reinvestment Act
Joint publication of the Federal Reserve Banks of Boston and San Francisco; Research papers and essays documenting industry changes since the passage of CRA in 1977, including proposals for future CRA reforms.
http://www.frbsf.org/publications/community/cra/index.html

Signature Conference:

***National Interagency Community Reinvestment Conference* –** This conference provides participants with the unique opportunity to learn about the regulations underpinning the Community Reinvestment Act, as well as to share emerging challenges and best practices in community development with colleagues from across the country. Through interactive panels and plenary sessions, participants learn not only about the nuts and bolts of CRA, but also about other emerging community development issues.

Supplement E

Publications by Board Economists Relating to Consumer Protection, 2004-2009

Aaronson, Stephanie, and Julia Coronado (2005). "Are Firms Or Workers Behind the Shift Away from DB Pension Plan?" Finance and Economics Discussion Series 2005-17. Board of Governors of the Federal Reserve System (U.S.).

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Agarwal, Sumit, John C. Driscoll, Xavier Gabaix, and David Laibson (2007). "The Age of Reason: Financial Decisions Over the Lifecycle," NBER Working Papers 13191. National Bureau of Economic Research, Inc.

Agarwal, Sumit, John C. Driscoll, and David Laibson (2007). "Optimal Mortgage Refinancing: A Closed Form Solution," NBER Working Papers 13487. National Bureau of Economic Research, Inc.

Aizcorbe, Ana, Martha Starr, and James T. Hickman (2004). "Vehicle Purchases, Leasing, and Replacement Demand," *Business Economics,* vol. 39, no. 2, pp. 7-17.

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Amel, Dean F., Arthur B. Kennickell, and Kevin B. Moore (2008). "Banking Market Definition: Evidence from the Survey of Consumer Finances," Finance and Economics Discussion Series 2008-35. Board of Governors of the Federal Reserve System (U.S.).

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Amromin, Gene, Jennifer Huang, and Clemens Sialm (2006). "The Tradeoff between Mortgage Prepayments and Tax-Deferred Retirement Savings," NBER Working Papers 12502. National Bureau of Economic Research, Inc.

Amromin, Gene, and Steven A. Sharpe (2008). "Expectations of Risk and Return among Household Investors: Are their Sharpe Ratios Countercyclical?" Finance and Economics Discussion Series 2008-17. Board of Governors of the Federal Reserve System (U.S.).

Anguelov, Christoslav E., Marianne A. Hilgert, and Jeanne M. Hogarth (2004). "U.S. Consumers and Electronic Banking, 1995-2003," *Federal Reserve Bulletin,* vol. 90, no. 1, pp. 1-18.

Apgar, William C., and Allen J. Fishbein (2005). "Changing Industrial Organization of Housing Finance and Changing Role of Community-Based Organizations," in Retsinas, Nicolas,P., Eric Belsky S. eds., *Building Assets, Building Credit: Creating Wealth in Low-Income Communities.* James A. Johnson Metro Series. Washington, D.C: Brookings Institution Press; Cambridge, Mass.: Joint Center for Housing Studies of Harvard University, pp. 107-137.

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Avery, Robert B., Raphael W. Bostic, and Glenn B. Canner (2005). "Assessing the Necessity and Efficiency of the Community Reinvestment Act," *Housing Policy Debate,* vol. 16, no. 1, pp. 143-172.

Avery, Robert B., Kenneth P. Brevoort, and Glenn B. Canner (2008). "The 2007 HMDA Data," *Federal Reserve Bulletin,* vol. 94, pp. A107-46.

Avery, Robert B., Kenneth P. Brevoort, and Glenn B. Canner (2007). "The 2006 HMDA Data," *Federal Reserve Bulletin*, vol. 93, pp. A73-109.

Avery, Robert B., Kenneth P. Brevoort, and Glenn B. Canner (2007). "Opportunities and Issues in using HMDA Data," *Journal of Real Estate Research*, vol. 29, no. 4, pp. 351-379.

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Berger, Allen N., and Astrid A. Dick (2007). "Entry into Banking Markets and the Early-Mover Advantage," *Journal of Money, Credit, and Banking,* vol. 39, no. 4, pp. 775-807.

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