CFAnews
JANUARY–FEBRUARY 2003, VOLUME 29, NO. 1, ISSN #0732-8281
CONSUMER FEDERATION OF AMERICA

Millions Jeopardized By Faulty Credit Scores

Millions of Americans could pay more for, or be denied, credit, insurance, or utilities because of inaccurate credit scores, according to a study released in December by CFA and the National Credit Reporting Association (NCRA).

A credit score is a single number, ranging from approximately 400 to 800, which is based on an analysis of information contained in a credit report and is used to provide an indication of how likely a person is to repay his or her debts.

Credit scores, and the credit reports on which they are based, increasingly influence consumer access to credit, housing, insurance, basic utility services, and even employment.

"The growing use of credit scores has increased the speed with which many credit decisions can be made, the potential for customized pricing of credit, and the overall efficiency of credit granting," said CFA Executive Director Stephen Brobeck.

"However, in consumer lending, inaccurate scores can result in unfair treatment of borrowers who are denied or charged high prices for credit," he added.

Research for the study, undertaken for CFA by Brad Scriber, analyzed the credit scores of more than 500,000 consumers and extensively reviewed the files of more than 1,700 individuals maintained by the three major credit repositories — Equifax, Experian, and TransUnion.

The analysis revealed that 29 percent of these consumers had scores with a range of at least 50 points, while four percent had score ranges of at least 100 points.

Errors of Omission and Commission Found

A further analysis of 51 representative files found numerous "errors of omission." For example, 78 percent were missing a revolving account in good standing, while 33 percent were missing a mortgage account that had never been late.

More serious "errors of commission" also appeared in a significant portion of files, including widespread inconsistencies about delinquencies, which have a large effect on credit scores.

"While the sample of 51 is too small to generalize reliably to all credit files, the frequency of errors in these files strongly suggests that errors of omission and commission exist in the credit files of millions of consumers," said NCRA Executive Director Terry W. Clemans. "These errors or inconsistencies are being factored into decisions made via automated underwriting models and credit scoring systems."

"This frequent huge discrepancy in scores reveals the importance of consumers' being able to quickly learn and correct inaccuracies," noted CFA's Director of Insurance J. Robert Hunter.

Focusing particular attention on consumer credit risks, especially in the purchase of mortgage loans, the report found that, for first or second mortgage loan purchasers, a score of 620 is necessary to qualify for a prime loan at conventional rates.

Consumers with scores below this level are likely to be charged subprime rates, which can add tens or even hundreds of thousands of dollars in extra interest rate costs over the life of a mortgage. Some may be denied the loans altogether.

For this reason, the study paid particular attention to consumers with scores between 575 and 630 where there was at least a 30-point range between low and high credit scores or whose high and low scores were, respectively, above and below 620.

Among these consumers, at least one-fifth would be harmed, and one-fifth would benefit, from score inaccuracy if they tried to purchase a mortgage loan, the study found.

"Equal numbers of those harmed by and benefiting from inaccurate credit scores are not a wash," Brobeck said. "The allocation of consumer credit should not be a lottery where one has to be lucky to receive fairly priced loans."

The report further concluded that consumers who are informed about the reasons for their credit score are not given useful and timely information, such as the precise cause or the specific account responsible for a low score.

Policy Reforms Advocated

CFA and NCRA recommended several policy changes to address problems revealed by the report, including:

- requiring creditors to immediately provide consumers who experience adverse actions (such as a higher rate or no loan) as a result of credit reports or scores with a free copy of the credit reports serving as the basis for the decision and quick reconsideration of the decision if inaccuracies are found;
- requiring creditors who based decisions with adverse actions on the credit report or score from a single repository to re-evaluate the decision using information from all three major repositories;
- strengthening requirements for complete and accurate reporting of account information to credit repositories, and maintenance of consumer data by the repositories, with adequate oversight and penalties for non-compliance; and
- having appropriate federal agencies, such as the U.S. Department of Housing and the Federal Trade Commission (FTC), conduct regular, comprehensive evaluations of the validity and fairness of all credit scoring systems (including automated mortgage underwriting systems, insurance underwriting systems, and tenant and employee screening systems) and report the findings of these evaluations to Congress.

CFA and NCRA are distributing copies of the report to policy makers and regulators, including key members of Congress and the FTC at the federal level and governors, insurance commissioners, and attorneys general at the state level.

On the **Web**
http://www.consumerfed.org/121702CFA_NCRA_Credit_Score_Report_Final.pdf
http://www.consumerfed.org/121702_creditscorereport.html

Copyright Proposal Is Assault On Rights

More than a dozen consumer groups filed comments with the Federal Communications Commission (FCC) in December charging that its proposal to implant "broadcast flag" copyright protection technology in digital televisions represents an alarming and illegal reversal of consumer rights to record and watch television programming.

"This proposal is a dramatic attack on the consumer's right to use content that has been legally obtained while doing little to deter large-scale commercial piracy of digital content," said CFA Research Director Mark Cooper.

The proposal is being pushed under the guise of an effort to speed the transition to digital TV, but it is unlikely to be effective, since the digital transition is being stymied by a variety of other factors.

Proposal Likely To Be Ineffective

These include lack of compelling content, intransigent cable operators who have refused to facilitate set-top box inter-operability, cost barriers, and weak consumer awareness.

"By reducing functionality, the broadcast flag is more likely to slow the transition and leave the new digital media far less innovative and consumer-friendly than they could be," Cooper explained.

"A decade of analysis of the new digital media has shown that policies that expand consumer choice with increased options, enhance consumer control, and encourage consumer use speed adoption and stimulate innovation," he added.

Ever since VCRs and portable tape recorders became available, consumers have had the legal right to make convenient and incidental copies of copyrighted works, without obtaining the prior consent of copyright owners. This principle of "fair use" allows consumers this right unless the content owner can show that the copyright is being violated.

Guilty Until Proven Innocent

Hollywood and the broadcasters now want to radically alter this longstanding approach to fair use, and they want to hardwire this ban into the equipment that records or plays the material, the groups charged in their comment letter.

"Hollywood would have the FCC maintain that all consumers are guilty until proven innocent," Cooper said. "They want to start from the assumption that all use, after the initial viewing, is illegal and then authorize only specific uses and devices."

The comments also argue that the proposal is beyond the FCC's legal authority — which pertains to licenses to broadcast digital TV and not to equipment manufacturers — and has evolved from private negotiations that lack procedural legitimacy.

"Rather than kowtow to the demands of broadcasters and Hollywood, the commission could use its authority to promote the public interest," Cooper said. "Forcing consumers to pay more for less, as the FCC proposal would do, hardly seems to be the right thing to do."

On the **Web**
http://www.consumerfed.org/flagcomments12.5.02.pdf
http://www.consumerfed.org/120502_flagreleasefinal.html

2002 Legislative Wrap-up

Financial Services

Corporate Reform — Responding to the Enron collapse and a subsequent onslaught of massive accounting scandals, Congress passed and the president signed comprehensive corporate reform legislation (P.L. 107-204).

At the heart of the new law are its provisions to create a new independent regulatory board to oversee the audits of public companies with broad authority to register, inspect, and set standards for audit firms, to conduct investigations of suspected wrongdoing, and to impose sanctions for violations. The new law also takes modest steps to enhance auditor independence, by scaling back the consulting services that auditors can provide to audit clients and by forcing a change of auditor if a member of the audit team accepts a key financial reporting position at an audit client within a year of working on the audit. It also includes steps to clarify the responsibility of corporate board audit committees to oversee audits and to give them the tools and information they need to do so more effectively.

In addition to the audit reforms, the new law contains a host of other corporate reform measures, including provisions to: authorize dramatically increased funding for the Securities and Exchange Commission (SEC), although this was not appropriated; enhance the independence of the Financial Accounting Standards Board; reduce the incentives for corporate executives to make misleading disclosures and provide greater accountability, including strong criminal sanctions, when they do; and lengthen the statute of limitations for securities fraud lawsuits.

Despite outrage over the Enron scandal, the legislation got off to a bad start. The House was first to act, passing a bill (H.R. 3763) that would have ensured accounting industry control over a weak new regulator and done nothing to enhance auditor independence beyond the meager steps the accounting firms had agreed to voluntarily. Subsequent revelations of massive accounting irregularities at WorldCom, however, gave new momentum to a far stronger Senate bill (S. 2673) sponsored by Banking Committee Chairman Paul Sarbanes (D-MD) and based extensively on legislation drafted by Senators Jon Corzine (D-NJ) and Christoper Dodd (D-CT). With the president pressing for passage of a bill before the August recess and Sen. Sarbanes refusing to accept weakening amendments, the final bill adopted with overwhelming bipartisan support closely tracked the Senate legislation.

Terrorism Insurance — Reconvening briefly after the November election, Congress passed and the president signed terrorism insurance legislation (P.L. 107-297) that leaves taxpayers liable for billions of dollars in losses the insurance industry could afford to pay.

The new law creates a three-year program in which the federal government is pledged to cover 90 percent of any terrorism losses, up to $100 billion a year, after individual insurance companies pay an initial deductible. Insurers are required to repay little if any of that federal assistance in most cases. As a result, the new law undermines the incentive for insurers to require owners of buildings and other businesses they insure to improve security measures. It also deprives state regulators of the ability to pre-approve rates, and it contains no requirement that insurers offer rebates to customers on premiums already paid to reflect their dramatically reduced risks.

The House had passed a bill (H.R. 3210) at the end of the previous year that, in an approach supported by CFA, would have provided federal loans to insurers to cover terrorism losses above certain thresholds. The Senate was slower to act, not adopting its bill (S. 2600) until last summer. Substantial differences between the basic approaches of the two bills, along with onerous liability provisions included in the House bill at the behest of Republican leaders, made reaching a final compromise difficult. In the end, Congress enacted a final bill closely resembling the less consumer-friendly Senate bill.

Bankruptcy — In a surprise to supporters and opponents alike, the 107th Congress ended without passage of anti-consumer legislation to limit access to bankruptcy.

Both the House and the Senate easily passed bills (S. 420, H.R. 333) early in 2001 that would have placed numerous burdensome restrictions on financially strapped Americans who attempt to make a fresh start in bankruptcy. Neither bill would have either curbed the aggressive lending practices that help entice consumers into unsustainable debt or provided consumers with adequate information about the cost of carrying credit.

A variety of factors from procedural disputes to disagreement over the provision that determines the amount of money wealthy debtors can shield in their homes delayed negotiations. Ultimately, however, it was a Senate bill provision designed to prevent abortion protestors and others from filing bankruptcy to avoid paying court-imposed fines that brought the bill down.

Although conferees appeared to have reached an agreement in time to bring the bill to the floor during the post-election session, anti-abortion conservatives joined with opponents of the bill's underlying provisions to prevent that from happening. House leaders subsequently stripped the abortion protest provision from the bill and passed it, but it died in the Senate.

Pension Reform — The compelling stories of former Enron employees — who had seen their retirement savings wiped out because they were tied up in company stock — seemed to make passage of pension reform legislation in 2002 inevitable. Ultimately, however, partisan disagreements over the appropriate nature and extent of reforms could not be resolved.

As with corporate reform legislation, the House got off to a quicker start, passing a more limited package of reforms (H.R. 2762) in April. In the Senate, competing bills (S. 1971 and S. 1992) were reported out of the Finance Committee and Health, Education, and Labor Committee respectively shortly before the August recess. The threat of a lengthy floor debate, however, kept a compromise version of S. 1971 off the floor amid a crowded fall calendar.

House and Senate bills alike would have given workers more warning before periods in which they would be prevented from trading in their 401(k) plans. However, the House bill did not go even as far as the modest Senate alternatives in preventing excessive concentration in company stock.

On the issue of increasing retirement plan participants' access to advice, both the House and Senate bills would have removed liability barriers that may prevent employers from offering advisory services to employees. The House bill, but neither Senate bill, also included a provision — passed by the House the previous year as free-standing legislation (H.R. 2269) — that would have eliminated the existing prohibition on self-interested transactions by retirement plan administrators, thus exposing workers to advice tainted by conflicts of interest.

Securities Litigation Reform — The Enron and WorldCom accounting scandals also highlighted the degree to which measures adopted in 1995 in the name of preventing "frivolous litigation" were preventing defrauded investors from recovering their losses. In response, Sen. Richard Shelby (R-AL) and Rep. Bart Stupak (D-MI) introduced similar, comprehensive bills (S. 1933, H.R. 3829) to restore investors' rights in litigation. Ultimately, the only provision included in the corporate reform bill, however, was one lengthening the statute of limitations for private securities fraud lawsuits to two years from discovery of the wrongdoing, but no more than five years from the time of the wrong-doing.

Derivatives Regulation — In another aspect of post-Enron reforms that did not get adopted, Sen. Dianne Feinstein (D-CA) and Sen. Peter Fitzgerald (R-IL) offered an amendment to energy legislation (S. 517) designed to add transparency to the market for derivatives based on energy and metal commodities. The amendment would have put in place registration and reporting requirements for these derivatives, created capital requirements for unregulated derivatives dealers and for all energy and metal derivatives transactions, and imposed stricter prohibitions on fraudulent derivatives trading. When it was finally taken up in April, the amendment fell well short of the 60 votes needed to end a Republican-led filibuster (48-50).

Financial Services Consumer Protections — With attention focused on corporate reform issues, other bills to enhance protections for financial services consumers got short shrift in the 107th Congress. The only bills that moved were: an anti-consumer rent-to-own bill (H.R. 1701), which was approved by the House in September; an identity theft bill (S. 1742), which was approved by the Senate on unanimous consent during the post-election lame duck session; and a bill (S. 848) to prohibit the sale or display of Social Security numbers without the holder's consent, which was approved by the Senate Judiciary Committee in May but never acted on in the Senate Finance Committee.

Health and Safety

Bioterrorism — Wrapping up efforts to address the threat of bioterrorism launched in response to the 9/11 terrorist attack and subsequent anthrax scare, Congress adopted weak legislation (H.R. 3448, P.L. 107-188) in May. The bill was signed into law in June.

The new law authorizes $130 million more for the Food and Drug Administration (FDA) for food inspections, surveillance, and other food safety functions and $235 million more for the U.S. Department of Agriculture (USDA). This is significantly less that the $500 million authorized by the Senate bill but more than the House bill would have provided. It also contained other measures included in the Senate bill and absent from the House bill, including: giving FDA authority to hold food at the border if it poses a health threat and to bar imports from those with a history of shipping contaminated products; requiring importers to notify FDA in advance of food shipments; and prohibiting the practice of "port shopping," or delivering food to a new port after it has been refused entry at another. Needed but missing from the bill was authority for FDA to recall contaminated food and to prohibit imports from countries that do not have food safety protections equivalent to our own.

The new law also requires large public drinking water systems across the country to assess the vulnerability of their drinking water supplies and distribution systems to terrorist or other criminal acts. The Environmental Protection Agency (EPA) received funding of more than $80 million to assist the utilities in completing the assessments. A provision supported by water safety advocates requiring that the assessments be submitted to EPA, and not just the Department of Homeland Security, was threatened during the debate over Homeland Security legislation but was ultimately retained.

Firearm Safety — A series of fatal shootings last fall by a Washington, D.C. area sniper focused attention late in the legislative session on efforts to create a nationwide ballistic "fingerprint" database. Although bills were introduced in both the House and the Senate (S. 3096, H.R. 408), no action was taken. Legislation (H.R. 4757) that among other things would have provided grants to states to upgrade their systems for conducting background checks passed the House in October but was not taken up in the Senate.

Despite the renewed attention to gun safety issues, Senate Majority Leader Tom Daschle (D-SD) never made good on a promise he had made at the end of the previous year to bring to the floor early in the 2002 session legislation (S. 767) introduced by Sen. Jack Reed (D-RI) to close the loophole that allows criminals to buy guns at

gun shows. Endorsed by CFA, the bill would have extended existing federal law requiring background checks to all firearm sales at gun shows. Importantly, the bill would have allowed law enforcement up to three business days to complete the checks.

Auto Restraint Safety Standards — Congress passed and the president signed legislation (H.R. 5504, P.L. 107-318) requiring the National Highway Traffic Safety Administration (NHTSA) to improve child restraint systems, especially for children who weigh more than 50 pounds. It requires NHTSA to: evaluate injury criteria for children over 50 pounds; to look at how to improve safety belt fit for these children when in booster seats; to assess the options for young children whose only restraint in the back seats are lap belts; to develop a 10-year-old child test dummy; and to study the benefits of built-in child safety seats and booster seats. It also requires auto manufacturers to begin installing lap/shoulder belt systems in all rear seat positions.

Food Safety — The 2002 farm bill (H.R. 2646, P.L. 107-171) established a 15-member presidential commission to discuss ways to consolidate food safety functions in a single federal agency. The commission, which is to include consumer representatives, has a year to issue a report.

On the other hand, the bill also: broadened the definition of "pasteurization" in a way that could include foods treated with irradiation; ordered the FDA to revisit the question of irradiation labeling; and directed the USDA to educate consumers about irradiation's benefits.

Food Labeling and Affordability

Country-of-Origin Labeling — A requirement that meat, produce, fish and peanuts be identified in the grocery store by their country of origin, thus allowing consumers an informed choice, was included in the 2002 farm bill (H.R. 2646, P.L. 107-171). The provision ordered the USDA to set up a voluntary labeling program by September 2002, with a mandatory program to be established by fall 2004. Food service establishments are exempt. Food industry groups have launched efforts to repeal the program before it becomes mandatory.

Dairy Compact — Also in the farm bill was a new cash benefit for dairy farmers. The program was included as an alternative to either a national floor price for milk or a continuation of the defunct Northeast Interstate Dairy Compact. Cash benefits are considered preferable because they are financed progressively, through the tax system, rather than being passed on through higher milk prices, which hit low income consumers the hardest. The new program caps benefits at roughly the output of a 140-cow dairy instead of sending the majority of benefits, as the Dairy Compact did, to the largest, most financially secure dairies.

Peanut Subsidies — The farm bill reformed the federal peanut program. Farmers who hold licenses to sell peanuts at an above-market price are being offered buy-outs, and a marketing loan program has replaced the support price.

Sugar Subsidies — On the other hand, the farm bill worsened the anti-consumer sugar program by eliminating a one-cent-per-pound penalty formerly paid by growers who turned their crops over to the government. This effectively raises the sugar support price by a penny, putting upward pressure on retail prices of sugar-containing products. The farm bill also reimposes limits on how much sugar can be grown and sold in this country, a move that will put further pressure on retail prices.

Mandatory Arbitration — The farm bill dropped a Senate approved provision that would have banned clauses in livestock or poultry contracts making mandatory predispute binding arbitration the only option for resolving contract disputes. Binding arbitration is costly to producers and unfairly limits their ability to resolve contract disputes with packers.

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CFAnews is published eight times a year. Annual subscription rate is $25 per year.

Design & Typeset by: Dahlman/Middour Design

Health Care

Prescription Drug User Fee Act — An anti-consumer rewrite of the Prescription Drug User Fee Act (PDUFA) became law in June when the president signed the bioterrorism bill.

The legislation, which codified an agreement worked out in closed door negotiations between the FDA and the drug industry, imposes new user fees of $80 to $100 million on drug companies, but places new strings on how that money can be spent. The vast majority of the new money is earmarked for review of new drugs. Just under $20 million will go toward oversight of safety once drugs are offered for sale, and that only on drugs approved after October of last year and only for up to three years after most of these drugs are on the market.

Among its many other short-comings, the legislation: does nothing to enhance FDA enforcement power; imposes new decision-making deadlines earlier in the process, ignoring concerns that the law already over-emphasizes speedy approvals rather than public health; and threatens to drain resources from other crucial FDA safety priorities, to produce less careful new drug reviews, to inhibit the ability of FDA to adequately police direct-to-consumer advertisements, and to increase the use of outside "consultants" approved by manufacturers in the drug and biologic review process.

Generic Drugs — The Senate in June passed legislation (S. 812) on a 78-21 vote that would have made it harder for drug companies to block the introduction of generic alternatives. The bill would have: discouraged brand name manufacturers from filing invalid patent listings with the FDA and made it easier for generic applicants to challenge such listings; limited the ability of brand name manufacturers to invoke multiple stays to delay generic market entry; taken several steps to prevent anti-competitive contracts in which generic firms are paid by the brand name manufacturer not to compete; streamlined patent infringement litigation; and made it easier to bring several classes of generic drugs to the market. House Democrats attempted several parliamentary maneuvers to allow floor consideration of a companion House bill (H.R. 5272), but, despite bipartisan support for the measure, Republican leaders refused to allow a vote.

Patients' Bill of Rights — Despite approval of patients' rights legislation by both houses of Congress in 2001 (S. 1052, H.R. 2563), negotiations through much of 2002 produced no agreement on a final bill, and the issue died once again.

Medical Malpractice — President Bush called on Congress to impose substantial new restrictions on the ability of patients to seek legal redress when harmed by medical malpractice. In response, the House passed legislation (H.R. 4600) in late September that would have capped punitive damages and limited plaintiffs' attorneys fees without addressing insurance industry business practices that are at the heart of recent increases in medical malpractice insurance rates. The Senate never voted on free-standing medical malpractice legislation (S. 2793), but an amendment offered by Sen. Mitch McConnell (R-KY) during the debate over Medicare prescription drug benefits legislation was defeated. It would have capped punitive damages, raised the standard of proof for plaintiffs, and capped plaintiffs' attorney fees.

Energy

Energy Plan — Despite extensive attention to energy issues in the 107th Congress and passage of legislation by both houses, conferees were unable to reach a compromise on final legislation. This was ultimately a good thing for consumers, since both the House and Senate bills (H.R. 4, S. 517) contained anti-consumer provisions. The House bill, based on the administration's "comprehensive" energy plan, failed to address the key causes of the energy crisis and instead focused almost exclusively on increasing drilling for oil. Although the Senate bill gave more attention to renewable energy and conservation, it also included anti-consumer provisions on electricity deregulation omitted from the House bill as too divisive.

Telecommunications

Broadband — The House passed anti-consumer legislation (H.R. 1542) in February to allow the Baby Bell telephone companies into the broadband Internet business without first having to open their local networks to competition. No action was taken in the Senate either on that bill, a similar Senate alternative (S. 2430), or a more pro-consumer bill (S. 2448) introduced by Senate Commerce Committee Chairman Ernest F. "Fritz" Hollings (D-SC).

Internet Privacy — The Senate Commerce Committee in May gave narrow approval to a bill (S. 2201) that would have required online businesses to get consumer consent before collecting sensitive personal information about them and would have allowed consumers to sue companies for misusing that information. It also would have required the Federal Trade Commission to develop similar privacy rules for off-line companies that collect personal data. However, the bill was never brought to the Senate floor for a vote. A weaker House bill (H.R. 4678) was the subject of a subcommittee hearing late in the 2002 legislative session, but saw no other action.

Anti-spam — In October, the Senate Commerce Committee reported out weak legislation (S. 630) to protect consumers against unsolicited email. No further action was taken either on that measure or on a House bill (H.R. 718) that had been reported out of the House Judiciary Committee the previous year. Consumer advocates criticized both bills for failing to include two key features of effective legislation: an opt-in policy and a private right of action.

Government Accountability

Campaign Finance Reform — After years of succumbing to Republican opposition, bipartisan campaign finance reform legislation (P.L. 107-155) finally got the impetus it needed from the Enron scandal to win enactment. Although the Senate had passed its bill (S. 27) in 2001, House Republican leaders had refused to allow consideration of the House counterpart (H.R. 2356). In January, however, supporters gained the 218 signatures they needed on a discharge petition to force a floor vote. After first defeating a weaker alternative, the House passed the bill 240-189. In order to avoid a conference, the Senate then passed the House bill 60-40 in March. The new law, which is being challenged in court, bans soft money contributions to national parties and limits the airing of "issue ads" by outside parties close to Election Day. In return for the ban on soft money, supporters accepted a doubling of the limit on direct-to-candidate contributions to $2,000 per candidate per election.

Congress, SEC Continue Focus on Corporate Reform

Three keynote speakers at CFA's December financial services conference — in-coming Senate Banking Committee Chairman Richard Shelby (R-SC), Sen. Jon Corzine (D-NJ), and Securities and Exchange Commissioner Harvey Goldschmid — expressed strong support for recently enacted corporate reform legislation.

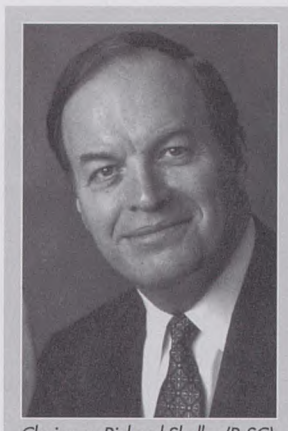
But, in speeches that came just one month after Securities and Exchange Commission (SEC) Chairman Harvey Pitt was forced to resign over his bungling of appointments to the new auditor oversight board, all three also emphasized the importance of effective implementation to achieve the legislation's goals.

"Without a doubt, the primary focus of my attention in the coming year will be doing whatever is necessary to further restore and ensure the integrity and credibility of our capital markets," Chairman Shelby said.

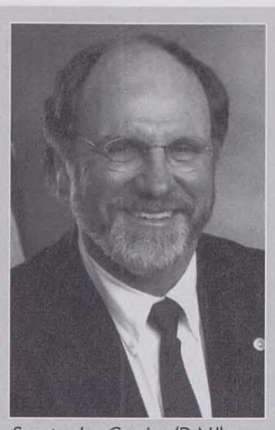
"I believe that the committee and the Congress have an important and active role to play in achieving this goal, and it will be my over-arching concern."

The Sarbanes-Oxley Act enacted in the last Congress "took important steps" toward establishing a "framework of proper incentives and disincentives to achieve the kind of high standards of transparency and accountability that our markets demand," he said.

"But our work has only just begun," he said. "As with any law that Congress passes, we must actively monitor its implementation and work to ensure that it is effective in achieving its purpose."



Chairman Richard Shelby (R-SC)



Senator Jon Corzine (D-NJ)

Commissioner Harvey Goldschmid

Appointment of a new SEC Chairman who "is strong and capable, independent, above reproach, not viewed as an industry insider, a man or woman of unquestioned integrity and of the highest quality, a chairman that is both respected, and perhaps, feared a little" is key to restoring investor confidence, he said.

New SEC Leadership Key To Reform

In his luncheon address, Sen. Corzine called the Sarbanes-Oxley Act "the most important piece of financial or economic legislation since the 1930s," in particular for its provisions on audit reform.

Before the legislation was passed, "there was no auditing of auditors. The rules of the road were established by the industry itself. And it really needed to be addressed, because the system is absolutely dependent on the independence of the audit process," he said.

The Sarbanes-Oxley bill represents "true reform that has moved the ball down the field," but only "if we implement it effectively, and that's a big if," he said.

Like Chairman Shelby, Sen. Corzine emphasized the need for a "credible" SEC Chairman as well as for a tough, knowledgeable chair for the new oversight board. Sarbanes-Oxley offers potentially "radical reform, if we have the right people administering it," he said.

One of those charged with the new law's implementation, SEC Commissioner Goldschmid, provided perhaps the most optimistic outlook.

"Historically, the great strength of the U.S. system has been its ability to restore and reform itself," Commissioner Goldschmid said. "Today I'm certain that Sarbanes-Oxley ... provides the right fundamental framework for a national healing process. I think it will bring back a sense of integrity and fairness to our market."

Like Sen. Corzine he focused on the auditor oversight board as key to achieving that goal.

"This new accounting board has all of the powers it needs to make the system work for the public and the profession," he said. "What we need now ... is the right chair for this panel. That is still the most important thing the SEC is doing."

Privacy Also Important To Markets, Shelby Says

Sen. Shelby also discussed another issue, financial privacy, that he said is "just as important to our financial markets."

The real issue is that lack of privacy leaves individuals feeling "less secure. So, I believe we should consider privacy in the same way we do security," he said.

The issue is likely to come up in at least two ways in the Banking Committee in this Congress, he said, through on-going oversight of the effectiveness of the privacy provisions in Gramm-Leach-Bliley, about which he expressed skepticism, and through reauthorization of the preemption provisions of the Fair Credit Reporting Act.

"I believe it is fair to anticipate that this law's reauthorization will likely elevate the debate over financial privacy beyond the terms of the law itself," he said.

SafeChild.net Launches Toy Recall Database

SafeChild.net launched a comprehensive, searchable toy recall database in December. A project of the CFA Foundation, the database is available at http://www.SafeChild.net/ToyRecallDatabase.

"The purpose of SafeChild.net is to save children's lives and reduce childhood injuries," said CFA Public Affairs Director Jack Gillis. "The new toy recall database supports that goal by making toy recall information as 'parent-friendly' as possible. Allowing quick, easy searches lets parents both spot and avoid potential problem toy purchases and make sure that the toys in their toy chests are safe."

Unlike the much more limited database on the Consumer Product Safety Commission (CPSC) website, the SafeChild recall database allows the user to conduct almost any type of search of 350 major toy recalls by the CPSC or toy manufacturers during the past 12 years. For example, searches by age of child, type of hazard cited in the recall, type of toy involved, month or year of recall, and manufacturer are all possible. In many cases, pictures of the toys involved in the recall are available.

Creation of the database was sparked by the fact that the most popular feature of the SafeChild.net website has been information about recalls. "With more than 10.5 million hits since the site was launched a year and a half ago, including 3.5 million in the last three months of 2002, it quickly became clear that parents are crying out for critical toy safety recall information," said Project Manager Susan Winn. "SafeChild.net's Toy Recall Database will dramatically increase the ability of consumers to use and act on this important data."

SafeChild.net — which includes special sections for parents, professionals who work with children, and child advocates — also provides a variety of tips on toy safety and makes available a free, non-commercial and confidential email notification service detailing major child-safety product recalls and related child-safety tips.

"Too many parents believe that all toys on the market have been tested and are safe," Winn said. "This is not true. Although there are standards for toy manufacturers, they often require only minimum levels of performance and fail to address all known hazards."

On the **Web**
http://www.SafeChild.net/ToyRecallDatabase
http://www.SafeChild.net/toyrecalldatabase/121002_toyrecallDB_release.html

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