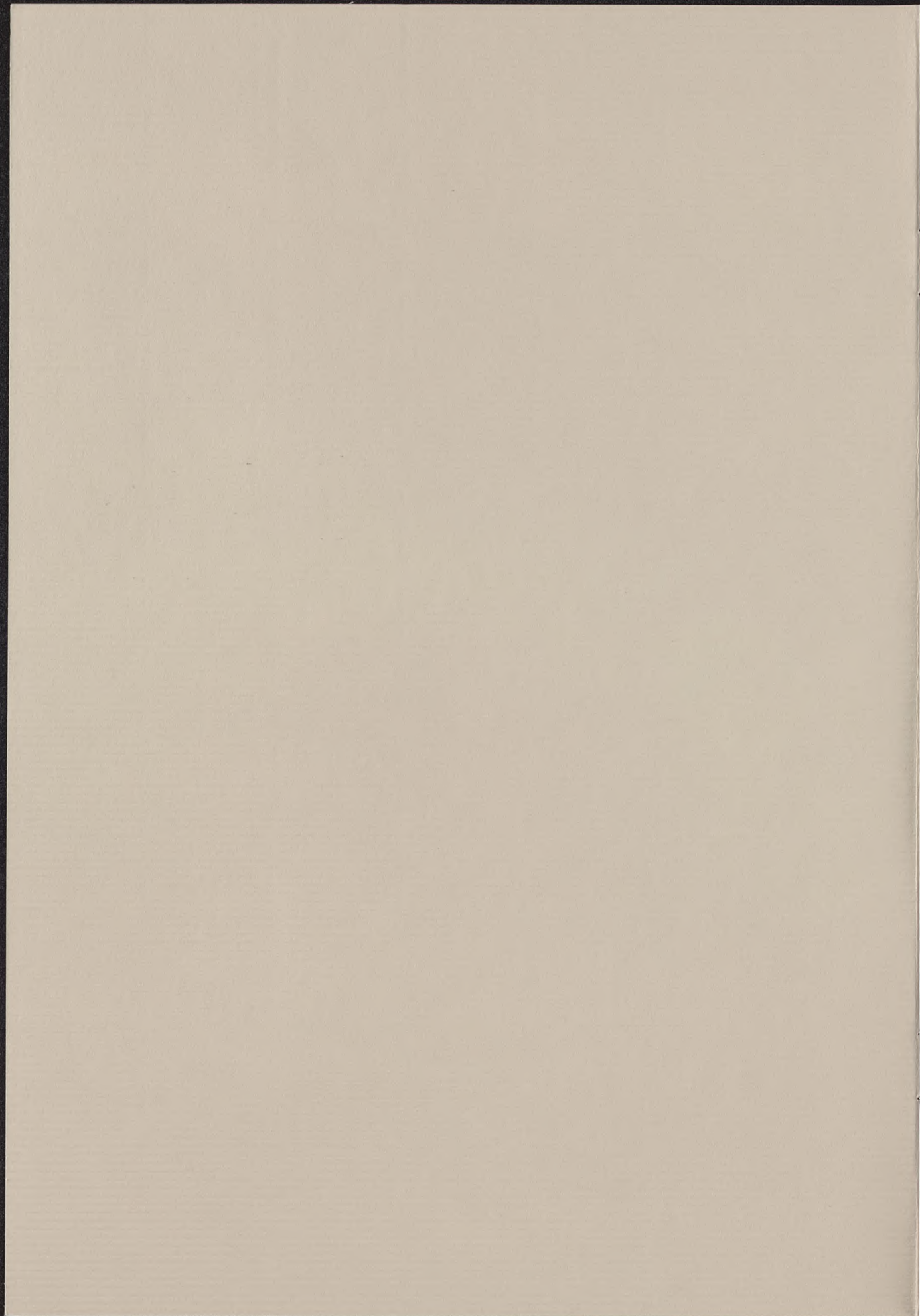

Consumer Federation of America



2005

ANNUAL REPORT



March 22, 2006

Dear CFA Member,

In 2005, CFA staff had to contend with many challenges. I am pleased with the effectiveness with which we responded to them. And I am grateful for the continuing support of CFA Board members and member groups.

In the policy arena, we enjoyed few great successes and a number of disappointments. But on almost every issue on which we worked, our recommendations were solicited by policymakers and often heeded. For example: Congress passed terrorism insurance legislation but significantly reduced the taxpayer subsidy the insurance industry received, as recommended by CFA. Congress also failed to enact military financial service protections we had proposed but did require a Department of Defense study of the issue. The U.S. Department of Agriculture sought to end the ban on imported beef from Canada but was forced by Congress, who had sought our views, to delay these imports. The U.S. Department of Energy refused to consider new energy efficiency standards for a broad array of appliances but, in response to our joint petition, agreed to a rulemaking on refrigerators. The Consumer Product Safety Commission did not accept our recommendations in a petition on ATVs but did agree to rulemaking on the issue. The Securities and Exchange Commission adopted a requirement long advocated by CFA that brokers who engage in financial planning be regulated as investment advisers but later opened up a major loophole in the requirement.

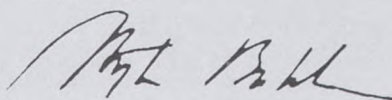
In the area of consumer information, there were two especially noteworthy developments. The brochure, "66 Ways to Save Money," which had been written and revised by a group that we organized and have managed, became the most popular publication distributed by the Federal Citizen Information Center (FCIC). And another brochure we jointly prepared, "Your Credit Score," was adopted by the FCIC as their publication on the topic.

In the area of financial education, our America Saves program to encourage and assist lower-income households to save and build wealth continued growing. It is now part of more than 50 communities nationwide, involves more than 1,000 organizations, has enrolled nearly 50,000 Savers, and has persuaded nearly 200 banks to eliminate or substantially lower minimums on savings accounts for Savers.

For the first time in more than twenty years, we moved our offices. In the process, we installed new telephone and computer network systems that increased our efficiency and lowered our expenses. We also reorganized our administrative staff, ensuring a better fit between staff capabilities and responsibilities and also reducing expenses.

Our Chairman, Senator Howard Metzenbaum, CFA staffers, and I thank you for your support and encouragement and look forward to working with you in the coming year.

Sincerely,



Stephen Brobeck
Executive Director

Consumer Advocacy

Major Accomplishments

Civil Justice Remedies: CFA continued to work with the coalition opposing class action reform legislation, which was approved by Congress and signed into law. We also worked with the coalition opposing limits on drug company liability, which also passed both houses and was signed into law. And, we provided research and testimony to the House as it considered, but did not act on, medical malpractice insurance reform.

Communications Access and Affordability: Most of CFA's communication advocacy, in partnership with Consumers Union, opposed threats to wide, easy, and affordable consumer access to various means of communication. One threat was increased concentration — proposed AT&T-SBC and Verizon-MCI mergers — which we fought unsuccessfully at the Federal Communications Commission. Another was predatory pricing by cable monopolies, which we opposed before Congress. A third involved proposals by phone and cable companies to control content delivered through their “pipelines,” which these companies are attempting to include in proposed Telecommunications Act revisions. While swimming against the deregulatory stream on these issues, we did help secure a somewhat more pro-consumer decision from the U.S. Supreme Court on the Grokster peer-to-peer filesharing case (though lost on the Brand X case).

Consumer Credit Protections: On auto loans, we continued to help build support through press initiatives for limitations on interest rate markups that courts insisted several major lenders adopt. On credit card loans, we supported new protections through congressional testimony, work with congressional reformers, and discussions with the Federal Reserve Board and General Accounting Office, which helped build opposition to practices such as universal default. On overdraft loans, we researched fees, lobbied Congress, and responded to the Fed's final rules. On RALS, we released a report with the National Consumer Law Center and urged the Office of Thrift Supervision not to grant H&R Block a thrift charter. On car title loans, we surveyed lenders with help from state and local members for a report on abuses and state regulations, which we communicated to state regulators. We also joined with the Center for Responsible Lending in releasing a second report on title lending. On payday loans, we continued to lead an extensive state-based coalition of advocates by sharing research information on customers and loan use, managing an information clearinghouse, supporting legislative and regulatory advocacy, and convening advocates at a second national summit. In Washington, we advised and lobbied House and Senate offices on payday loan protections for military personnel, communicated frequently with the Federal Deposit Insurance Corporation about their payday loan guidelines, and urged the Federal Trade Commission to take action on Internet payday lending abuses.

Consumer Debt Protections: We took the lead in an unsuccessful effort to add meaningful consumer protections to bankruptcy legislation that was approved and

signed into law. After passage, we testified before Congress, talked to congressional offices, and advised bankruptcy officials about the pre-bankruptcy counseling requirement. We also worked with consumer counseling agency leaders to develop effective self-regulatory standards. In the aftermath of Katrina, we failed to persuade Congress to approve suspension of new bankruptcy limitations on victims but did help persuade the Department of Justice to be lenient in enforcing some requirements of the new law.

Drinking Water Safety: We worked with coalition members locally and nationally to address concerns about lead in drinking water. And, through discussions with low-income groups and the industry, we continued to try to mitigate the impact of rising residential water rates on lower-income consumers.

Energy Costs and Efficiency: With other groups, CFA continued to advocate for higher appliance efficiency standards at the federal level. The U.S. Department of Energy responded favorably to our joint petition providing new rulemaking on energy efficiency standards for refrigerators. CFA's major energy efficiency initiative promoted greater motor vehicle fuel efficiency and lower national oil consumption. We completed an array of studies that were reported on by national press: a literature review of survey data, which showed rising consumer concern about this issue; an analysis of gasoline price impacts, which revealed especially adverse effects on lower-income and rural households; a study of ethanol, which concluded that its greater use in fuels could help curb oil consumption; a report on driving and auto insurance rates, which demonstrated that consumers could often lower annual premiums by driving less; and an analysis of fuel-saving measures related to improved motor vehicle maintenance and driving habits. We also recruited grassroots support for our advocacy of higher national CAFE standards and testified before Congress on fuel use and efficiency.

Food and Agriculture Policy: Because of mad cow disease concerns, CFA worked with other coalition members to pass a joint resolution in the Senate opposing a U.S. Department of Agriculture rule to open the border to Canadian cattle. We worked with allies on an amicus brief, supporting the continued closure of the border, that succeeded in delaying the importation of these cattle for several months. CFA also succeeded in urging USDA to implement mandatory country of origin labeling for seafood this year and helped persuade Congress not to make the COOL program voluntary for other commodities. CFA took the lead in urging FDA not to approve the use of meat and milk from cloned animals in food and to establish an open and transparent regulatory process for approving transgenic animals. We also led the Safe Food Coalition, which helped convince USDA to utilize a third-party to explore its risk-based inspection program. In the area of food affordability, CFA continued to take the lead among consumer groups in opposing quotas and subsidies that drive up sugar and dairy prices.

Housing Credit Protections: We expanded our research and advocacy on several housing finance related issues. Playing a key role in coordinating the work of consumer and community groups, we persuaded the House to add stronger affordable housing goals to GSE legislation, opposed weak predatory lending legislation and nurtured a stronger alternative, objected in meetings and comments to weaker CRA standards proposed by federal banking and thrift regulatory agencies, pro-

moted the utility of the new Home Mortgage Disclosure Act subprime loan pricing data, raised serious questions about nontraditional mortgages in the press and to policymakers, and responded to Katrina-related mortgage forbearance issues by developing a joint labor-consumer-community position and communicating that to lenders and federal policymakers.

Insurance Protections: Our most important work this past year related to man-made (terrorism) and natural (hurricane) disasters. On terrorism insurance, with the Treasury Department we were the principle opponent of unnecessarily generous bailout legislation. In many press interviews, Senate and House testimony, and meetings with congressional leaders, we not only critiqued the legislation but also proposed a more reasonable alternative, which strongly influenced the bill which was eventually approved. On disaster insurance, we developed principles which were incorporated into our critique of proposed congressional legislation, which would have undermined the flood insurance program, and into our recommendations, in testimony, to Florida and California. CFA also played a key role in mobilizing opposition to a House deregulation proposal that was never introduced as legislation, in raising serious conflict of interest issues related to positions taken by the American Academy of Actuaries, and in uncovering excessive agent commissions.

International Consumer Protections: We continued to work with other U.S. and European advocates within the TransAtlantic Consumer Dialogue, which we chaired. We continued to communicate with the U.S. Office of Trade Policy on various trade issues. And, we lobbied Congress against restrictions on sugar imports.

Investor Protections: CFA continued to lead consumer group activities on investor protection issues, drafting comment letters and following legislation on a variety of issues. Most of our work focused on improving regulation of financial professionals. Activities included filing individual and group comment letters with the Securities and Exchange Commission (SEC) in response to its broker-dealer rule proposal, opposing a delay in implementation, and writing to the Commission Chairman outlining additional initiatives for the agency to take. The SEC adopted a final rule that incorporated provisions advocated by CFA requiring broker-dealer's discretionary accounts and financial planning services to be regulated as advisory services but later issued a staff interpretation of the new financial planning provisions that seriously eroded investor protections. In adopting its final rule on market structure issues, the SEC incorporated changes advocated by CFA, and the PCAOB adopted enhanced auditor independence requirements supported by CFA. We also joined Fund Democracy in filing an amicus brief in the U.S. Court of Appeals in support of the SEC's fund governance rules.

Privacy Protections: CFA collaborated with other advocates on privacy initiatives, including the Federal Trade Commission's review of child online privacy protections, to which we submitted comments, and an FTC international workshop, on which we worked with the OECD. We also organized a Redmond meeting in which consumer and privacy advocates critiqued Microsoft's current and proposed privacy policies.

Product Safety: CFA gave attention to consumer product safety issues related to baby bath seats, folding chairs, swimming pools, yo yo water balls, anti-freeze,

amusement parks, playgrounds, Chinese imports, furniture tipover, pesticides, and cosmetics. However, our highest priorities were greater funding for the Consumer Product Safety Commission, legislation to improve crib safety, and CPSC action on child use of ATVs. On the latter issue, we coordinated the advocacy of physicians, victims, and consumer groups, spoke to reporters, lobbied Congress, and communicated with the agency. While it did not act on our earlier petition, the Commission did issue a notice of proposed rulemaking.

Real Estate Competition and Protections: CFA resumed working on brokerage issues we had addressed a decade earlier. Supporting the Department of Justice, we wrote to legislators and regulators in Kentucky and Missouri opposing legislation that would prohibit commission rebates to consumers. We wrote to leaders of Congress urging their greater attention to competition and consumer protection issues. And at the end of the year, we convened a group of consumer groups and nontraditional brokers to work on these issues.

Strategies

CFA pursued several strategies in advocating on more than 50 issues considered by Congress, federal regulatory agencies, state legislatures, state regulatory agencies, and the courts. These strategies included legislative and regulatory communications, coalition-building, grassroots-networking, advocacy-related research, press outreach, and court interventions.

1. Legislative and Regulatory Advocacy

CFA's principal advocacy strategy was communicating information and viewpoints to members of Congress and other legislative bodies, their staffers, and regulators. While many of these communications took place in individual conversations, many also took the form of testimonies and comments submitted to legislative committees or regulatory agencies.

Month	Committee/Agency	CFA Rep	Issue
January	FTC	Fox, NCLC	Do Not Call
	OTS	Fishbein	CRA
	SEC	Roper	Market structure
February	House Energy/Comm	Cooper	Energy policy
	Senate Banking	Fishbein	GSEs
	House Energy/Comm	Hunter	Med mal
	Senate Banking	Hunter	Terrorism ins
	PCAOB	Roper	Auditor indep
	VA Assembly	Fox	Payday loans
	SEC	Roper, others	Broker-dealer reg
	SEC	Roper	Broker-dealer reg

Month	Committee/Agency	CFA Rep	Issue
March	House Energy/Comm	Cooper	Phone mergers
	CPSC	Weintraub	ATVs
	FDIC	Fox	Payday loans
	FRB, OCC, FDIC	Fishbein	CRA
April	Senate Banking	Plunkett	Credit cards
	House Energy/Comm	Hunter	Terrorism ins
	SEC	Roper, Fund Dem	Point-of-sale discl
	FTC	Cooper, CU	Phone merger
May	HHS/USDA	Foreman, Waldrop	Data collection
	FDIC	Fishbein	Preemption
	House Fin Serv	Fishbein	GSEs
June	House Govt Reform	Cooper	Electricity reliab
	Senate Banking	Plunkett	Reg relief
	OTS	Fox, Fishbein, others	Block thrift applic
	FTC	Fox, others	Online child privacy
July	House Judiciary	Plunkett	Credit counseling
	House Fin Services	Hunter	Terrorism ins
	CPSC	Weintraub	Compliance
	FCC	Cooper, CU	Access charges
	FCC	Cooper, CU	Cable ownership
	FCC	Cooper, CU	Media mergers
	FDA	Foreman, Waldrop	Egg safety
	Senate/House Ag	Foreman, Waldrop	Food stamps
	Senate Banking	Fishbein	GSEs
August	SEC	Roper, others	B/d rule delay
September	House Energy/Comm	Cooper	Katrina and gasoline
	SEC	Roper, Fund Dem	Financial pro reg
October	Senate Banking	Hunter	Flood insurance
	Senate Judiciary	Cooper	Cable ownership
	USDA	Silbergeld	Sugar prices
	SEC	Roper, Fund Dem	Soft \$ practices
November	FDIC	Fox, others	Stored value cards
	CPSC	Weintraub, others	ATVs
	WI PUC	Cooper	Oil prices
	FL Ins Comm	Hunter	Disaster ins
	CA Ins Comm	Hunter	Disaster ins
	FDA	Foreman, Waldrop	Health claims
	DOE	Hall-Crawford, others	Appliance Standards
December	CPSC	Weintraub	Infant pillows
	Fed	Plunkett, Fishbein,	Credit cards
		Woodall	

2. Public Education: The Press

CFA's main link to consumers and an important ingredient in our efforts to influence legislation and policy making is the media. In addition to reacting to hundreds of stories, CFA frequently made the news. In 2005, we prepared 55 press releases on issues that were reported on by the press and worked with other groups to organize 11 national press conferences that generated additional coverage. We were interviewed dozens of times by national TV news programs. And, we published the following articles, op-ed essays, and letters to the editor.

Publication	Author	Issue
<i>National Underwriter</i>	Hunter	Response to critique of CFA
<i>National Underwriter</i>	Hunter	Commissions
<i>Reactions Magazine</i>	Hunter	Credit scoring
<i>Cleveland Plain Dealer</i>	Cooper, CU	Phone mergers
<i>San Jose Mercury News</i>	Cooper	Threats to broadband
<i>Natural Gas & Electricity</i>	Cooper	Too Much Deregulation or Not Enough?
<i>ISO Focus</i>	Fox	International standards
<i>Bureau of National Affairs</i>	Fishbein	HMDA pricing
<i>Financial Fitness</i>	Gillis	Financial illiteracy
<i>Automotive News</i>	Brobeck	Auto loan markups

3. Public Education: Research

CFA staff prepared many studies demonstrating the need for new consumer protections or the preservation of existing protections. Most of the following publications were reported on by news media.

Banking

Car Title Lending: Driving Borrowers to Financial Ruin
(Fox, CRL)

2005 Refund Anticipation Loan Report: Picking Consumers' Pockets, Draining Tax Relief Dollars (Fox, NCLC)

Overdrawn: Consumers Face Hidden Overdraft Charges from Nation's Largest Banks (Fox, Woodall)

Consumer Views on and Knowledge about Credit Scores
(Brobeck)

Driven Into Debt: CFA Car Title Loan Store and Online Survey (Fox, Guy)

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- Complaints** *Thirteenth Annual NACAA/CFA Consumer Complaints Survey Report* (Fox, NACAA)
- Energy** *The Impact of Rising Prices on Household Gasoline Expenditures* (Cooper)
Over a Barrel: Why Oil Companies Are Not Using Ethanol to Lower Gasoline Prices (Cooper)
Consumer Views on Gasoline Prices and Oil Imports (Brobeck, Cooper)
- Food** *Not Ready to Eat: How the Meat and Poultry Industry Weakened Efforts to Reduce Listeria Food Poisoning* (Foreman, Waldrop)
- Housing** *Subprime Cities: Patterns of Geographic Disparity in Subprime Lending* (Fishbein, Woodall)
- Insurance** *Contingent Commissions: Implications for Consumers* (Hunter)
The Impact of Commissions on Prices and Service Quality for Home and Automotive Insurance (Hunter)
Medical Insurance: Stable Losses, Unstable Rates (Hunter)
- Savings** *Views of Women on Emergencies and Emergency Savings* (Brobeck)

Consumer Research and Education

An important goal of CFA is better understanding consumer protection needs and concerns — through research — and better meeting these needs and concerns — through information and education. Over the past decade, we have significantly expanded our work in these two areas.

Auto Loan and Credit Education: Using court-awarded grants resulting from auto loan markup litigation, we expanded our America Saves program to better inform Hispanic and African-American consumers about automobile financing and consumer credit. We distributed tens of thousands of bilingual publications to community programs, developed and tested a new auto purchase workshop, and organized press initiatives to Hispanic and African-American press.

Consumer Literacy: For more than a decade, we have managed a consortium of 25 public, private, and non-profit groups that seek to disseminate important money-saving shopping tips. Its “66 Ways to Save Money” brochure is the most popular publication requested by the Federal Citizen Information Center, has been distributed, on request, to nearly two million consumers, and has been used by many more who accessed federal government and private websites. In 2005, we marketed the new third edition of the brochure through a successful press initiative and communication with community networks, resulting in requests for about 200,000 copies.

Credit Reports and Scores: To monitor and improve consumer understanding of credit reports and scores, with Providian Financial we commissioned and released the findings of an extensive consumer survey that was widely reported on by press. With FairIsaac, we developed a basic brochure that the Federal Citizen Information Center is now distributing as its publication on the subject.

Energy Efficiency: Working with EPA, we completed our work on increasing consumer awareness of the economic, environmental, and health benefits of energy efficient products and practices. With funding from the Energy Foundation, we launched a multi-year effort to increase consumer understanding of motor vehicle fuel economy — how consumers can save money and reduce oil imports through their auto purchase, maintenance, and driving, and through new public policies. This initiative generated considerable press coverage throughout the year.

Food and Cosmetic Safety: With support from the Deer Creek Foundation, we completed and released an in-depth examination of industry influence on U.S. Department of Agriculture’s rulemaking process to control *Listeria monocytogenes* in ready-to-eat meat and poultry products. We also continued to be the consumer group leader of the broad-based Partnership for Food Safety Education, whose goal is to better inform consumers about safe food handling, and served on governmental biotech, trade advisory, and cosmetic safety committees.

High-Cost Credit: With support from the Annie E. Casey Foundation and the Fannie Mae Foundation, CFA expanded its efforts to research, educate, and protect consumers in the short-term small loan market. We issued reports on bank

overdraft loans, car title loans, and refund anticipation loans. We organized local and national forums on payday lending. And, we provided a resource clearing-house and technical assistance to payday loan activists around the country.

Homeownership: With support from the Fannie Mae Foundation and Annie E. Casey Foundation, CFA continued to promote homeownership as a key wealth-building strategy. Much of our America Saves Through Homeownership program, research on mortgages using HMDA data, and research on household participation in the financial services marketplace was supported by these grants. Also, with support from the Ford Foundation, we completed research on the impacts of home foreclosures.

Investor Education: With funding from the NASD Investor Education Foundation, we undertook research and education to improve investor education efforts, voluntary industry information practices, and mandatory disclosures regarding mutual funds. We completed a literature review of the key information investors need to make informed mutual fund decisions, we surveyed investor information needs, and we discussed both with an advisory group of government, non-profit, and industry experts.

Wealth-Building in Lower-Income Households: With funding from the Ford Foundation and many other sources, we continued to grow an America Saves campaign whose goals are to increase lower-income household savings and persuade major institutions to promote savings more effectively. By year's end, more than 1,000 organizations were supporting dozens of local Saves campaigns. Together with national efforts, these campaigns had enrolled nearly 50,000 Savers who each had developed and committed to a savings goal and plan. In addition, nearly 200 banks and credit unions were offering no- or low-balance savings accounts for Savers and undertaking other programs to encourage personal savings. Nationally, America Saves initiatives sought to build programs that would benefit specific populations — low-income, African-Americans, Hispanic Americans, youth, military personnel, and faith-based communities — and promote wealth-building strategies including homeownership, saving at work, and saving at tax time. Notable developments here include a commitment from FCCLA (formerly Future Homemakers of America) to roll out a Youth Saves program throughout their national network and grants from the NASD Investor Education Foundation and Wells Fargo to expand Military Saves.

Member Services

CONFERENCES

The most important CFA meetings were built around the 38th annual Consumer Assembly, the nation's largest annual consumer conference. Nearly 300 persons in attendance at this March event heard speakers — including Senator John McCain, Senator Charles Grassley, Senator Ron Wyden, Federal Trade Commission Chairman Deborah Platt Majoras, *Wall Street Journal* columnist Walter Mossberg, consumer advocate Will Ogburn, and consumer researcher Rob Mayer — address issues related to the theme of public policy challenges in the 21st century.

During this week, representatives from CFA member groups conducted the business of the federation. Members of 14 policy subcommittees met to review past policies and recommend new ones. These recommendations were submitted to and voted on at the Annual Meeting, where Board members were also elected.

To address specific issues more thoroughly, CFA organized conferences on food and financial services. In September, 300 persons heard Agriculture Secretary Mike Johanns, FDA Commissioner Lester Crawford, Director of FDA Center for Food Safety and Applied Nutrition Robert E. Brackett, Deputy Secretary of the USDA Charles F. Conner, and other speakers address the 28th annual National Food Policy Conference. In December, more than 200 persons heard new Comptroller of the Currency John Dugan, *New York Times* reporter Diana Henriques, and other speakers discuss banking, insurance, housing, and investment issues at CFA's 21st annual financial services conference.

In June, more than 400 persons participated in CFA's 35th annual Awards Dinner to recognize distinguished consumer service. Awards were presented to Senator Richard Shelby, Connecticut Attorney General Richard Blumenthal, *Washington Post* columnist Michelle Singletary, and consumer advocates Carol Tucker Foreman and Walter Dartland.

PUBLICATIONS

CFA member organizations received the following publications.

- Six issues of CFA's newsletter, *CFAnews*, which reports consumer news and advocacy.
- The 2005 policy resolutions adopted at CFA's Annual Meeting.

Member groups also have available free copies of dozens of consumer pamphlets on topics ranging from insurance to saving to product safety to consumer complaint resolution.

CONSUMER COOPERATIVE INITIATIVES

CFA continued to coordinate the work of a group of national cooperative leaders who met quarterly to exchange information and discuss challenges. Particular attention was given to threats to the non-profit status of co-ops. CFA wrote to the House Ways and Means Committee on this issue. Other CFA/co-op initiatives included our sixth annual holiday spending survey with CUNA, Saves initiatives with several credit union groups, and analysis of data on cooperative governance practices.

STATE AND LOCAL RESOURCE CENTER

CFA's State and Local Resource Center exists to strengthen state and local member groups by supplying them with information, technical assistance, and resources. With grants from Consumers Union's Colston Warne Fund, private foundations, and other sources, we provided state and local organizations with the following services.

- \$69,360 in organizational or emergency grants.
- \$57,724 in government funded project grants.
- \$8,505 in travel grants to attend conferences.

A state and local listserv, with 108 members, on which several hundred emails are posted each year.

Workshops and roundtable discussions on a variety of topics, including time management for organizational effectiveness, state and local food policy issues, capacity building strategies, and grassroots advocacy.

One-on-one technical assistance to several groups plus responses to calls and e-mails from dozens of groups.

2005 ANNUAL REPORT

Finances

Administrative cost-cutting largely offset a decline in revenues resulting in a modest deficit for the year.

Income	\$2,824,443
Expenses	2,894,140
Reserves	1,534,525
Deferred Income	1,155,725



