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Court Restricts Credit Union Membership

The U.S. Supreme Court dealt a major setback to credit unions and consumers when it voted 5-4 in February to restrict the membership of federal credit unions.

"This decision will have devastating consequences for the entire credit union system and for millions of consumers, many of low and moderate income, who rely on credit unions to meet their financial needs," said CFA Executive Director Stephen Brobeck.

"It is essential that Congress step in and act quickly to reverse this decision," he added.

The decision invalidated a policy that, for the past 16 years, has enabled federal credit unions to serve more than one group, as long as each of these groups had its own "common bond," such as a shared occupation or community.

The ruling upheld the banks' position that the policy was "contrary to the unambiguously expressed intent of Congress."

It is unclear how the decision will affect those current credit union members who fall outside their institution's original group. The banks have indicated that they would not seek to have existing members expelled, and they have also said they would not oppose legislation to protect the memberships of current credit union members.

But, Brobeck said, much broader legislation is needed, legislation which banks are sure to vigorously oppose.

He said Congress should adopt legislation that goes beyond simply overturning the court decision and opens credit union membership to all Americans. It is essential that Congress also preserve the tax-exempt status that credit unions enjoy by virtue of being non-profit, member-owned cooperatives, Brobeck said.

"We strongly believe that every American should have the ability to join a credit union and that it is essential that credit unions continue to be treated by regulators as non-profit groups," he said.

Increasing concentration in the banking industry has significantly reduced consumer access to affordable banking services in certain low and moderate income neighborhoods, he said.

In addition, Brobeck said, for-profit banking institutions "have increasingly focused on short-term profit maximization," resulting in a rising number and level of fees charged by for-profits and a wide spread between bank costs and charges on consumer loans.

By competing with, and serving as a yardstick for, for-profit institutions, credit unions act to restrain the prices that for-profits charge their customers, he said. "In this way, credit unions act to promote truly competitive, efficient financial services markets."

Despite the unfavorable Supreme Court decision, credit unions did receive some good news. Both House Speaker Newt Gingrich (R-GA) and Senate Banking Committee Chairman Alfonse D'Amato (R-NY) announced that they would support legislation to overturn the court decision.

The leading House bill to accomplish that goal, H.R. 1151, has already picked up nearly 150 cosponsors, and House Banking Committee Chairman Jim Leach (R-IA) said he would begin hearings on the issue in March.

If legislation is passed permitting credit unions to extend their membership while preserving their tax-exempt status, "consumers would benefit, financial services would become more competitive and efficient, and the historic American tradition of a for-profit/non-profit mix of service providers would be preserved," Brobeck said.

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CFA Members Fight State Electric Deregulation Battles

With the fate of federal electric deregulation legislation far from certain, states continue to forge ahead with deregulation plans of their own.

By the end of 1997, sixteen states had approved plans to deregulate the price of electricity, and about two dozen more were said to be studying the issue.

In response, a number of CFA members and other state and local consumer groups have taken up the fight at the state level to ensure that average ratepayers aren't left with higher rates, few consumer protections, dirtier air, and less reliable service as the only "benefits" they take away from deregulation.

Unfortunately, legislators and utility commissions in a number of states have either already approved or are poised to approve sweetheart deals for the utilities that allow them to recover the costs of their past bad investments ("stranded costs") from ratepayers while providing then minimal if any rate reductions.

As a result, "we're starting to see a grassroots voter rebellion against bad restructuring deals," said CFA Research Director Mark Cooper, who has served as an expert witness for consumer groups, including AARP, in a number of states.

Ballot Initiatives Would Overturn Deregulation Deals

In two of the first states to implement deregulation plans – California and Massachusetts – voters may soon have a chance to vote down the bad restructuring deals adopted by their legislatures.

A citizens group has already gathered enough signatures to place an item on the November ballot in Massachusetts to repeal that state's law, which took effect March 1.

In California, where the new law is due to take effect March 31, citizens groups are now gathering signatures from a ballot initiative that would, among other things: mandate a real rate reduction of at least 20 percent for all residential consumers; prohibit the use of taxes, bond payments, or other measures that force ratepayers to finance their own rate reductions; protect ratepayers from being forced to pay for the investor-owned utilities' past investment in nuclear power (which Californians overwhelmingly opposed); and only allow utilities to recover their other stranded costs from ratepayers when they can show that failure to do so would deprive them of a fair rate of return.

California, Massachusetts Trade Modest Rate Cuts For Major Utility Bailouts

The California law not only allows utilities to recover their stranded costs from ratepayers, but it forces residential ratepayers to pay 45 percent of those costs, even though they use only 33 percent of the electricity generated.

It also uses ratepayer-financed bonds to pay for the 10 percent up-front rate reduction promised under the law.

"You're taking the money from one pocket and putting it in another," said Robin Kane, a spokesperson for Consumers Union, which has endorsed legislation to improve the deregulation plan.

"The last thing we want is for California's law to become a model for the rest of the nation," she said.

Unfortunately, that appears to be exactly what is happening in all too many cases.

The Massachusetts law, for example, provides for 100 percent recovery of stranded costs from rate-payers. It is estimated that this will cost the average household at least $2,000 over the next ten years.

In return, residential ratepayers get a 10 percent front- loaded rate reduction, with no guarantee that the rate reduction will be maintained in future years. If the utilities make less than a six percent rate of return, they can charge the cost of the rate reduction back with interest to future ratepayers, according to Rob Sargent, who works on electric deregulation issues for Massachusetts Public Interest Research Group.

The bill does require that the utilities divest themselves of their non-nuclear power generation assets and apply the money to the bailout charge, but the law contains inadequate protections to ensure arms-length transactions between the utilities and their former affiliates, he said.

"It's nothing I would trade for a multi-billion dollar bailout," he said.

Utilities Propose Similar Deals In Other States

Consumer groups are fighting similarly bad deals elsewhere.

The New York Public Service Commission has approved restructuring plans for six utilities in that state and has a seventh in the works, "all of which are awful for consumers, though in varied degrees and not necessarily all in the same way," said Larry Shapiro, who works on utility issues for New York Public Interest Research Group.

Shapiro said NYPIRG, working with AARP and other consumer and environmental groups, hopes to negotiate a better deal for consumers in the state legislature.

In Arizona, as in New York, deregulation due to take effect next January is proceeding through the regulatory, rather than the legislative, process.

Arizona Consumers Council has intervened on behalf of consumers as the utility commission decides how to implement the restructuring plan to try to ensure that stranded costs are handled in an equitable manner. The group is also working to ensure that "low-income, rural, and other residential ratepayers don't suffer as businesses are taken out of the rate base," said ACC President Phyllis Rowe.

In Virginia, however, the legislature is the source of the deregulatory fever.

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Telecom Competition Failure Costs Consumers

Because the Telecommunications Act of 1996 has failed to promote effective competition, consumers have not reaped the promised benefits of lower prices, according to an analysis of the consumer impacts of the Telecom Act released in January by CFA and Consumers Union.

When Congress passed the Telecom Act, supporters predicted that consumers would soon see the benefits in the form of lower prices and better service. Instead, "intransigent monopolies have prevented the act from delivering the fruits of competition to consumers," said CFA Research Director Mark Cooper.

"So far, the Telecommunications Act of 1996 has been an abysmal failure for consumers," concurred CU's Washington Office Co-Director Gene Kimmelman. "Cable rates have skyrocketed, pay phone charges are up, in-state long distance is up, and AT&T recently hiked basic long distance rates for about 40 percent of weekday calling hours."

"Unless policymakers prevent the local Bell monopolies from stonewalling competitors, and dismantle the cable cartel, effective competition will never reach the average consumer," Cooper said.

Consumer Stake In Outcome Is Substantial

The average household has a substantial stake in the outcome, since the typical American family spends about $1,000 per year on the local phone service, long distance phone service, and cable television service affected by the act.

Unfortunately, the act's failure to increase competition for local phone and cable TV services has not only failed to produce cost reductions for any of these services, it has resulted in substantial increases in cost for some of these services. Meanwhile, long distance prices are down only slightly since the act took effect.

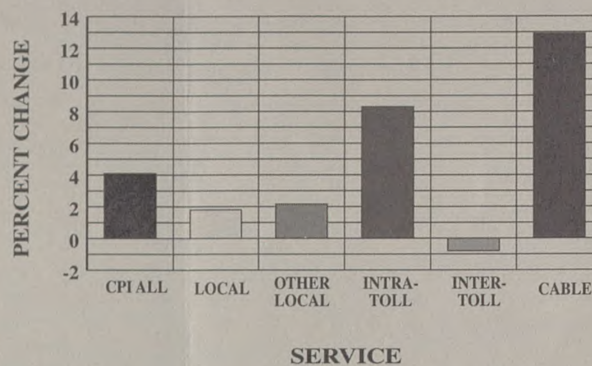
Specifically, according to the Bureau of Labor Statistics, cable rates are up about 13 percent since passage of the act in February 1996, intrastate long distance rates are up nine percent, local phone rates are up one to two percent, and interstate long distance rates are down one percent. (The Consumer Price Index rose four percent during this period.)

"Consumer savings of $15 billion per year – $10 billion on local telephone, $4 billion on cable, and $1 billion on long distance – could easily be achieved with effective competition in these industries," Cooper said.

One piece of evidence showing the lack of local competition is the relatively small number of consumers who have switched local telephone companies.

Since passage of the act, only about one million local company switches have occurred, while about 50 million long distance company switches have occurred.

Furthermore, while maintaining their local monopolies, cable TV and local phone companies have substantially increased their market power at the national level through mergers, such as those between Bell Atlantic and NYNEX, SBC and Pacific Telesis, and Time Warner and Turner Broadcasting.



Regulatory Action Needed To Deliver on Act's Promises

Based on their analysis, the two consumer groups conclude that regulatory action is needed to bring competition to both the local telephone and cable television markets.

In the key area of local competition, CFA and CU have urged policymakers at the state and federal levels to:

- impose substantial economic penalties for noncompliance with the act;
- withhold approval of mergers or acquisitions until enforceable commitments to open local markets are made;
- fight the Bell companies' courtroom assault on the public policy of opening local markets to competition before letting the local monopolies expand into long distance; and
- vigorously implement the consumer protection sections of the act.

In the area of cable competition, the groups urged the FCC to:

- freeze cable rates and investigate the causes of recent increases, with an eye toward rolling back increases that are unjustified;
- establish new horizontal concentration rules to eliminate the stranglehold that TCI and Time Warner – serving more than 50 percent of all cable subscribers – have on the video market;
- prevent vertical integration between dominant programming and distribution companies – like TCI and Time Warner – that blocks competition for cable programming; and
- ensure access to programming by competing multi-channel providers at fair prices, to promote more competition to cable.

In January, the FCC announced that it would review cable rate regulations after the agency's own study found a steep rise in rates and little growth in competition in the programming market.

"Congress established the correct goals in the act, but they are being subverted," Cooper said. "Policymakers must act if consumers are ever to see the benefits they have been promised."

CPSC Issues Long-Sought Bike Helmet Standard

The Consumer Product Safety Commission voted unanimously in February to issue a new federal safety standard for bike helmets, providing for the first time a uniform mandatory standard that all bike helmets must meet.

"Bike helmets are one of the most important safety products for consumers. This rule will allow consumers to purchase helmets confidently, knowing that each helmet is required to include essential safety features," said CFA General Counsel andProduct Safety Director Mary Ellen Fise.

Beginning February 1999, all bike helmets manufactured or imported for sale in the United States will have to meet the new standard, which is intended to ensure that all bike helmets adequately protect the head and that chin straps will be strong enough to prevent the helmet from coming off in a crash, collision, or fall.

In addition, because very young riders incur a higher proportion of head injuries, the new standard requires that future bike helmets intended for children up to age five cover more of the child's head to provide added protection to the more fragile areas of a young child's skull.

In 1989, CFA led the efforts of 34 other health, education, and safety organizations to petition the agency to set a bike helmet standard.

The petition cited the fact that roughly 116,000 children suffer head injuries annually as a result of accidents on bikes and that more than 75 percent of bike accident deaths at that time involved serious head injuries.

In 1994, frustrated by agency inaction, Congress stepped in and directed the CPSC to develop a mandatory standard and required, as an interim step, that all bike helmets meet one of the two existing voluntary standards.

Approximately 900 people continue to be killed each year in bicycle-related incidents, including 200 children, according to CPSC data. And the majority of these deaths, about 60 percent, still involve a head injury.

Research indicates that a helmet can reduce the risk of head injury by up to 85 percent.

"Now that we have a good standard for helmets, advocates need to continue to encourage bicyclists, young and old, to wear their helmet every time they ride," Fise said.

Electric Deregulation *(Continued from Page 1)*

press, the General Assembly was poised to approve legislation that mandates retail competition by 2004, deregulates the generation market, and allows recovery of stranded costs from ratepayers. The details of how that plan will be implemented are still to be worked out by the legislature and the state Corporations Commission.

The good news, according to Jean Ann Fox, who has worked on the issue for Virginia Citizens Consumer Council, is that opponents managed to strip out a number of more damaging provisions contained in the original bill (including one that would have halted a rate proceeding that should provide ratepayers with a substantial rate cut) and that the opportunity remains to incorporate consumer protections in the implementation plan.

The bad news, she said, is that Virginia consumers could end up paying higher electricity prices for less reliable service.

Although the utilities have used their political muscle to win sweetheart deals in some states, the state experience also shows that bad restructuring deals are not inevitable.

For example, Pennsylvania regulators recently rejected a plan similar to the Massachusetts deal and instead negotiated a plan that promises residential ratepayers a 28 percent rate cut.

New Hampshire also rejected a plan similar to the Massachusetts model, and Connecticut recently barred one of its utility companies from charging customers for operations at the shut down Millstone nuclear power plant.

Illinois negotiated a deal that provides for ratepayers and shareholders to share the cost of the utilities' stranded costs.

Federal Legislation Appears Stalled

Meanwhile, at the federal level, Senate Majority Leader Trent Lott (R-MS) has reportedly been trying to work out a deal with Sen. Dale Bumpers (D-AR) to allow a vote this spring on legislation to repeal the Public Utilities Holding Company Act.

CFA Legislative Director Mary Rouleau wrote to members of the Senate in January stating CFA's opposition to S. 621, the Senate PUHCA repeal bill.

"PUHCA provides essential consumer protections. Given the current wave of mergers in the electric industry, these protections are as important today as they were when PUHCA was enacted," she wrote.

"Repeal of PUHCA should be the last step on the road to competition, not the first," she added. "Any repeal must also put structural, not functional, protections in its place to prevent the abuse of vertical and horizontal market power."

In the House, Rep. Dan Schaefer (R-CO) was renewing his efforts to muster support for a comprehensive bill, and Republican leaders were pushing for an April floor vote.

CFA, meanwhile, continued to push its message that, if comprehensive deregulation legislation is adopted, it must contain strong provisions to protect universal service in the transition to competition along with a comprehensive package of consumer protections.

"We have been through this process before," Cooper said. "We know how the little guy gets the short end of the stick in the process of restructuring, and we are determined not to let it happen any more – not here in Washington, not out in the states."

Bankruptcy Bills Introduced in House

Two bankruptcy bills were introduced in the House in February, one that addresses the abuse of bankruptcy by both debtors and creditors and another that strongly favors creditors.

H.R. 3146, the "Consumer Lenders and Borrowers Bankruptcy Accountability Act," introduced by Rep. Jerrold Nadler (D-NY) and Rep. John Conyers (D-MI), seeks to weed out abuses of the system by both creditors and debtors without unduly burdening the bankruptcy courts or taxpayers.

Speaking at a press conference to introduce the legislation, CFA Legislative Director Mary Rouleau said, "We support this bill because it will put the brakes on irresponsible and abusive creditors while weeding out those few debtors who cheat the system."

In contrast, H.R. 3150, the "Bankruptcy Reform Act," introduced by Rep. George Gekas (R-PA), "seeks to turn the bankruptcy court into a taxpayer-funded collection agency," Rouleau said.

It expands on H.R. 2500, the pro-creditor bill introduced earlier in the session by Rep. Bill McCollum (R-FL) and Rep. Rick Boucher (D-VA).

Gekas Bill Based on False Premise

"Rep. Gekas's bill is based on the premise that a significant amount of unsecured debt could be repaid. But many of the individuals and families who file for Chapter 7 bankruptcy simply have nothing left," Rouleau said.

Like its predecessor, the Gekas bill sets up a screening mechanism for those filing for Chapter 7 bankruptcy. If a debtor has income equal to at least 75 percent of median income, a test using uniform average figures would be applied to determine whether the debtor could pay 20 percent of his or her unsecured debt over a five-year period.

If that test is met, the debtor would have to file for Chapter 13 bankruptcy. The debtor would be allowed to claim extraordinary expenses, but that claim could result in a hearing.

"The problem here is that we expect a significant drain on the court's resources as it has to perform these calculations," Rouleau said. "Further, the test proposed is based on national averages and will not properly adjust for individual variations.

"The debtor will be able to dispute the determination," she added, "but that will take court time and attorneys fees — which most debtors seeking Chapter 7 simply don't have the money to pay."

Rouleau also questioned the wisdom of forcing more people into Chapter 13 with five-year payment plans when, currently, only about one-third of debtors in Chapter 13 successfully complete their plans over a three-year period.

Under the Nadler-Conyers bill, bankrupts with less than $60,000 in income would retain the ability to discharge their debts through Chapter 7 bankruptcy. However, the bill would offer incentives to encourage debtors to file for Chapter 13 bankruptcy voluntarily.

Both bills also address abuses by "high-roller" debtors who engage in prebankruptcy planning or other abusive practices by limiting the ability of such filers to shelter their money in expensive homes protected by unlimited homestead exemptions and by making it easier for courts to dismiss a Chapter 7 case for abuse.

But the Gekas bill would also allow creditors to bring a motion to dismiss.

"If this provision were to become law, we expect that many such motions would be filed, tying up substantial court time and running up legal fees for debtors," Rouleau said. Perhaps the biggest difference between the two bills is in how they deal with creditors who extend credit irresponsibly.

The Gekas bill would actually reinforce inappropriate credit extensions by creating a presumption that consumer debts incurred within 90 days of bankruptcy are not dischargeable. This is in direct opposition to the National Bankruptcy Review Commission's recommendation that the current 60-day period be shortened to 30 days.

In contrast, the Nadler-Conyers bill lays out a number of circumstances under which creditors' claims would be disallowed, including: where a creditor knew or should have known that the extension of credit pushed the debtor's unsecured debt to over 40 percent of the debtor's annual gross income; where the creditor's practices violated the Home Ownership and Equity Protection Act; where the creditor has refused to waive interest as part of a credit counseling program; and where the credit was extended in or near a gambling facility.

The Nadler-Conyers bill also contains provisions to protect debtors from other abusive practices by creditors, such as seizing property, accelerating the payment schedule, and coercing debtors to "reaffirm" their debts, making them liable for the debt after it is discharged in bankruptcy.

The bill would protect a debtor who is current in his or her payments against such practices and would specifically prohibit reaffirmations.

Balanced Reforms Needed

"CFA has no interest in protecting debtors who cheat the system," Rouleau said. "However, neither do we believe it is acceptable for honest debtors to feel abused by the system or for taxpayers to bear the high administrative costs of a dragnet.

"The Nadler-Conyers bill takes the proper, focused approach to identify those who would cheat the system, whether they are debtors or creditors," she said.

"The Gekas bill, on the other hand, would drive up the cost of bankruptcy and further burden the bankruptcy courts while making it very difficult for many honest, but over-burdened, debtors to discharge their debts," she said.

Rep. Gekas has scheduled a series of five hearings on the issue in March in the Judiciary Committee's Commercial and Administrative Law Subcommittee. He has said he expects to have a bill passed by the end of the session.

In the Senate, the Judiciary Committee's Administrative Oversight and the Courts Subcommittee has scheduled a hearing for March.

Sen. Lauch Faircloth (R-NC) held a hearing on bankruptcy issues in February in the Banking Committee's Financial Institutions Subcommittee and announced his intention to "take a role in seeking to reduce the number of bankruptcies and their cost to the financial system."

Credit Union Fees Are Lower Than Banks' *(Continued from Page 1)*

The importance of passing legislation was underscored by survey data on fees charged by banks vs. credit unions, released in February by CFA and the Credit Union National Association (CUNA).

The survey data shows that, on most financial services products, banks charge more fees and higher fees than credit unions.

"The difference in fees is significant and helps explain why consumers consistently rate credit unions more highly than banks," Brobeck said.

Bank fee data was collected in the summer of 1997 by Sheshunoff Information Service, which sent out a survey form to all banks and savings and loans. The CUNA survey was conducted by its Market Research Department and *Credit Union Executive Magazine* in the fall of 1997 based on a random sample of 200 credit unions.

The following are the key findings from the data:

- For almost all services, fewer credit unions than banks charge fees.

These differences are especially striking for economy checking accounts, where far fewer credit unions than banks charge monthly fees (15 percent vs. 86 percent) and per-check fees (6 percent vs. 95 percent). (See accompanying table for more complete information on fees charged.)

- Almost all fees on which information was gathered were lower at credit unions than at banks, sometimes substantially so.

For example, among those institutions that did have a fee, fees on checking were about 30 to 40 percent lower at credit unions. Fees for a money orders and certified checks were about 55 to 65 percent lower at credit unions.

The only fees that were roughly the same at the two types of institutions were fees for a safe deposit box and for ATM transactions.

- Most fees have risen less rapidly at credit unions than at banks between 1994 and 1997.

In fact, some fees at credit unions – for example, monthly and per-check fees on economy checking – declined during this period. The one major exception to this trend was fees for nonsufficient funds, overdrafts, and stop-payments, which increased more rapidly at credit unions than at banks.

Bank fee income on deposit accounts approximated $18 billion in 1997, according to Federal Deposit Insurance Corporation data.

"Given their record profits of the past several years, banks should charge lower fees instead of complaining about any credit union advantages," said CUNA President and CEO Daniel A. Mica. "They could bring fees down to credit union levels while still earning healthy profits."

1997 Credit Union vs. Bank Fee Comparisons

Share Draft/Checking Fees		% Charging Fee		Average Fee Among Those That Charge	
		Credit Union[1]	Bank[2]	Credit Union[1]	Bank[2]
Economy checking* (highest fee charged)**	Monthly fee	15%	86%	$3.11/month	$3.69/month
	Per-check fee	6%	95%	17 free checks, then $.22/check	9 free checks, then $.36/check
Regular checking (highest fee charged)**	Monthly fee	100%	99%	$4.29/month	$6.00/month
	Per-check fee	5%	41%	29 free checks, then $.20/check	15 free checks, then $.20/check
Interest-bearing checking (highest fee charged)**	Monthly fee	47%	99%	$4.56/month	$7.71/month
	Per-check fee	6%	38%	29 free checks, then $.26/check	17 free checks, then $.28/check
Nonsufficient funds/ NSF (for check returned)		98%	100%	$15.42	$17.39
Overdraft (for check covered)		70%	90%	$ 9.62	$17.21
Stop-payment		98%	100%	$ 9.51	$15.05

Note: All percentage are limited to financial institutions that offer the service.
* Economy checking is defined as an account with a flat monthly fee or no monthly fee, sometimes having a limit on the number of checks written per month.
** Averages represent the highest fee charged if a minimum balance requirement is not met.
1 Source: *Credit Union Executive's 1998 Credit Union Fees Survey Report.*
2 Source: Sheshunoff Information Services, Inc., *Pricing Financial Services 1997.*

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Disaster Costs Fall Unevenly On States

In the federal disaster relief system, some states have been big winners, while others have been big losers, according to a CFA report released in January.

The report also found that catastrophe losses paid both by the federal government and by insurance companies have skyrocketed in the past 30 years.

"The natural disaster relief system is often unfair and even counter-productive," said CFA Insurance Director J. Robert Hunter, report author.

"As Congress considers reform legislation, it must strive to maximize private insurance, reduce taxpayer liability, and strengthen mitigation," he added.

The report shows that, from 1967 to 1991, insurer payouts for disasters roughly doubled every five years, then more than tripled from the late 1980s to the mid-1990s. FEMA budgets, meanwhile, have more than quadrupled in recent years.

The report also demonstrates that there are persistent and significant cross-subsidies from some states to others in the federal disaster relief system.

California Is Big Winner

Specifically, between January 1988 and the end of June 1996, twelve states received subsidies under the federal system. The rest paid more into the system than they received back. (See the accompanying table for information on the states with the largest annual net subsidy or payment per household.)

Furthermore, one state, California, has received 46 percent of the disaster dollars spent by the federal government in recent years.

"It is surprising that cross-subsidies to some areas with catastrophic events are so large," Hunter said. "It is especially noteworthy that one disaster-prone state, California, receives much larger cross-subsidies than another, Florida."

Hunter attributed this disparity to the fact that private insurance has paid for most compensated damage resulting from flooding and wind, which are typically associated with Florida disasters.

This disparity is symptomatic of the haphazard and inconsisent system of preparing for and responding to natural disasters that has evolved in this country, he said.

For example, while wind damage is covered in normal homeowners insurance, flood damage is covered through a government program, and earthquake damage is covered through separate private (or, in California, quasi-private) insurance.

Inconsistent Building Codes Cost Taxpayers

Rules to control unsafe building are also inconsistent, the report notes, with the federal government setting standards for flooding, but local or state governments setting them for other disasters.

"The lack of a uniform, planned approach leaves taxpayers at great exposure and results in unnecessary loss of property and life," Hunter said.

"The present system encourages unwise construction, because people think that the federal govenment will bail them out after a major catastrophe, whether or not they carry private insurance," he added.

Insurance companies may have recently made the earthquake problem worse by cutting back sharply on coverage in California, the report finds.

Under the "mini-policies" now being written by the California Earthquake Authority and other insurers – which impose sharp coverage restrictions, including a 15 percent deductible – consumers and/or taxpayers will pay bout 63 percent of earthquake claims, the report estimates.

States with the Highest Annual Net Subsidy (+) or Payment (-) Per Household, 1988-1996

State	Amount
North Dakota	+$104
California	+100
Hawaii	+74
South Dakota	+52
Wyoming	-$38
Massachusetts	-38
New York	-39
Michigan	-42
Nevada	-43
New Hampshire	-44
Maryland	-44
District of Columbia	-50
New Jersey	-52
Connecticut	-63

Legislation Takes Wrong Approach

As the House Banking Committee considers legislation, CFA called on Congress to set aside the current bill, which heads in precisely the wrong direction, and instead undertake careful study of how to maximize private insurance for natural disasters, get taxpayers off the hook for disaster relief, and require state-of-the-art mitigation standards to save lives and property.

"Tragically, Congress is about to consider a bill, H.R. 219, which invites unwise construction, because of an absence of mitigation requirements," Hunter said.

Furthermore, the bill would "increase the cross-subsidies, reduce incentives for private solutions, and open the Treasury to insurance companies," he said.

The report, "America's Disastrous Disaster 'System,'" is available for $10, prepaid, by writing to Disaster Study, CFA, 1424 16th Street, N.W., Suite 604, Washington, D.C. 20036.

Regulatory Reform Bill Moves Toward Mark-up

Sen. Fred Thompson (R-TN) and Sen. Carl Levin (D-MI) introduced a new version of regulatory "reform" legislation in February that, despite some modest improvements, would still make it much harder for government agencies to protect the public.

"This bill establishes tests that emphasize costs rather than safety, procedures that delay agency action, new means for attacking rules in court, unfair review panels operating in secret, and impossible demands to review existing rules that are known to be both popular and effective," said CFA Legislative Director Mary Rouleau. "If it were enacted, the bill would severely undermine the government's ability to protect our citizens from serious harm to their health, safety, and environment."

The new version of the legislation retains the framework of the original bill, which would require agencies to perform a complex cost-benefit analysis for all "major" rules, including an analysis of the costs and benefits of alternative rule proposals. Major rules are those judged to have an annual economic impact of $100 million or more or those determined by the Office of Management and Budget to have an adverse impact on the economy, productivity, competition, jobs, the environment, public health or safety, or government or communities.

For rules addressing health, safety, or environmental risk, the agency would also have to prepare an extensive risk assessment. Risk assessments would be subject to "peer" review by panels that would be free to operate in secret, with no rules against participation by those with ties to the regulated industry. In contrast, individuals with even the remotest connection to the regulatory agency would be barred from participation.

In addition, every five years, agencies would be required to develop a schedule of economically significant rules to re-review as well as a plan for the periodic review of rules with a significant economic impact on a substantial number of "small entities." "As a result, agencies could be forced to ignore pressing current risks while they review well crafted rules with proven benefits," Rouleau said.

Finally, at virtually every step of the process, opportunities exist to challenge proposed rules in court, potentially tying up the rule-making process for years.

"This bill would harm the public's interest in safe food, safe water, safe workplaces, and a healthy environment," Rouleau said.

A hearing on the bill, S. 981, was scheduled for late February, with a committee mark-up expected very soon thereafter.

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