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CONSUMER FEDERATION OF AMERICA

Reasonable Steps Could Reduce Gas Consumption

Adoption of a broad array of measures, most of which enjoy strong public support, could result in lower gasoline consumption and oil imports in the year 2030 than in 2006 despite increases in miles driven, according to a CFA report released in May.

One of the most striking findings of the report, "Blueprint for Energy Security," is that, with $3 a gallon gas, technology improvements can double the average fuel efficiency of the consumer vehicle fleet over the next 25 years — from 21 to 42 mpg — and pay for themselves through lower gasoline consumption.

"Fuel efficiency improvements that raise the average fuel economy of new cars sold to 50 miles per gallon by 2030 will pay for themselves on a monthly basis," said CFA Research Director Mark Cooper. "The cost of these improvements embedded in the sales prices will be offset by lower gasoline expenses."

The report also concludes, however, that gasoline consumption and oil imports will not decline unless our entire society unites behind a serious effort to persuade manufacturers to make more efficient vehicles and consumers to purchase these vehicles, maintain them properly, and drive them more efficiently.

"To succeed, we must treat this challenge as akin to overcoming the Great Depression, fighting World War II, providing an adequate safety net for America's seniors, and changing society's acceptance of smoking," said CFA Public Affairs Director Jack Gillis. "Our country must unite behind bold new public and private initiatives that require a new way of thinking and acting."

Making such a national commitment possible, a survey released by CFA in conjunction with the report found a high level of public concern about gas prices and oil imports and strong support for most of the report's recommendations.

"Americans continue to be very anxious about gas prices and oil imports," said CFA Executive Director Stephen Brobeck. "They strongly support innovative measures to restrain related consumer costs and decrease our oil dependency."

Blueprint Proposes New Fuel Efficiency Solutions

The Blueprint for Energy Security outlines more than 20 measures related both to improvements in motor vehicles and to changes in consumers' vehicle purchase, maintenance, and driving practices.

At the top of the list are fuel efficiency vehicle mandates. Dramatic improvements in average fuel efficiency are possible, according to the report, using currently available technologies and alterative fuels.

The report also proposes consideration of new purchase and disposal incentives and disincentives, including feebates, buybacks, and trade-in incentives. For example, revenue neutral feebates would provide rebates on the purchase of fuel-efficient vehicles and charge fees on gas guzzlers. Buybacks, like those for high polluting vehicles in many areas of California, would get old gas guzzlers off the road.

Other proposals include:

• consumer information initiatives, including disclosure of miles per gallon on ads for new cars, on the sale of used as well as new cars, and on the dashboard of vehicles as they are driven;

• consumer vehicle maintenance initiatives, including incorporating fuel efficiency measures in state motor vehicle inspections to identify such fuel wasters as underinflated tires, broken gas caps, and dirty air and oil filters;

• consumer driving incentives and disincentives, including consideration of a substantial new federal gas tax whose revenues are entirely rebated to drivers and pricing for auto insurance, leased cars, and rental cars to reflect differences in cost resulting from differences in miles driven; and

• public education designed to build support for meaningful institutional and individual changes that result in increased fuel efficiency.

Most Proposals Enjoy Strong Public Support

In early May, Opinion Research Corporation surveyed a representative sample of more than 1,000 adult Americans about their views on various measures to improve motor vehicle fuel efficiency.

The survey found strong support for the following measures:

• requiring auto dealers to indicate estimated mpg on all cars sold (88 percent support, including 61 percent strong support);

• requiring auto companies to increase production of alternative fuel vehicles from three percent today to 25 percent in 10 years (85 percent support, including 60 percent strong support);

• requiring auto companies to include mpg of new car models in television and print ads (85 percent support, including 52 percent strong support);

• requiring auto companies to add a dashboard feature indicating mpg as the car is driven (78 percent support, including 45 percent strong support);

• requiring auto companies to greatly increase mpg of new cars as long as higher car prices are offset by lower gas costs (78 percent support, including 48 percent strong support); and

• requiring insurers to give discounts to policyholders who drive less (71 percent support, including 44 percent strong support).

On two of the report's recommendations consumer opinion was split.

Using a federal gas tax to maintain the price of gas at $4 per gallon, with revenues returned to drivers through a federal income tax credit, was supported by 47 percent of respondents but opposed by 45 percent.

Prohibiting television ads for gas guzzlers was supported by 42 of respondents, but opposed by 51 percent.

"Critically important is strong public support for higher fuel efficiency standards if the cost of motor vehicle improvements can be covered by lower gas costs," Cooper said. "Gasoline near $3 per gallon changes the consumer math in favor of fuel efficiency," he added.

CFA To Seek Broad-based Support

To help build a national coalition in support of these and other solutions, CFA plans to take the blueprint on the road across America to spur a national, state, and local discussion of proposed solutions.

Included in that effort will be meetings with nonprofit, business, and government groups designed to enlist organizations ready to work on state and federal solutions to the oil crisis.

"To achieve greater energy security, we must build broad-based support for social and political change among all those individuals and institutions, a large majority of the country, who suffer from higher gasoline prices, worry about increasing dependence on oil imports, or are concerned about global warming," Brobeck said.

"Ultimately, we aim to engage the consumer citizen in this campaign to secure our energy future," he added.

On the **Web**
www.consumerfed.org/pdfs/Energy_Blueprint.pdf
www.consumerfed.org/pdfs/CFA_Energy_Blueprint_Press_Rel_052506.pdf

Legislative Update

House Passes Anti-Consumer Telecom Bill

The House passed telecommunications legislation (H.R. 5252) in June that would allow telephone companies to offer video services in competition with cable companies without negotiating with local communities before doing so.

Instead, the Act would replace the local process with a federal system that does not require comparable consumer protections and service requirements. Specifically, according to a Consumer Union and CFA analysis of the bill, H.R. 5252 would:

• eliminate local authority to require that telephone companies offer their video services to all consumers within a community, an obligation that prevents redlining of low-income and minority communities;

• strip state and local authority to establish and enforce strong consumer protections, providing sole standard-setting authority to the Federal Communications Commission (FCC);

• eliminate existing local requirements that incumbent cable providers continue to offer cable service to all consumers in a community, allowing cable companies to withdraw cable service or refuse to upgrade service to households they currently serve; and

• eliminate requirements that cable companies offer all consumers within a community the same price for the same services, allowing them to hike rates to consumers the telephone companies refuse to serve to offset price breaks offered in areas with competition.

"This legislation slams the door on any meaningful video competition and opens a wide window to anti-competitive discrimination over broadband networks," said CFA Research Director Mark Cooper.

In one of the most contentious battles over the legislation, the House rejected a "network neutrality" amendment offered by Rep. Edward J. Markey (D-MA) on a 152-269 vote.

That provision would have restored federal rules that prevent telephone and cable companies that own broadband networks from discriminating against content and service providers in favor of their own commercial offerings.

Network neutrality was also shaping up to be a contentious issue in the Senate consideration of telecom legislation.

The bill originally introduced by Senate

(Continued on Page 2)

Legislative Update

Continued from Page 1

Commerce Committee Chairman Ted Stevens (R-AK), S. 2686, would have required only that the FCC report on Internet access.

In response to calls for stronger protections from committee Democrats, Sen. Stevens issued a revised version of his bill in June that would ensure unimpeded consumer access to all legal websites and services but without any restrictions on predatory pricing or other discriminatory practices.

The "compromise" provision did not go far enough to win significant Democratic support for the measure, however.

The bill was reported out of the Senate Commerce Committee in late June after an amendment, offered by Sen. Byron Dorgan (D-ND) and Olympia Snowe (R-ME), to strengthen net neutrality protections was defeated on an 11-11 vote.

Faced with significant Democratic opposition and a tight legislative calendar, the bill was not expected to reach the Senate floor before September at the earliest.

Bill To Ban Abusive Sales to Military Advances

The Senate Banking Committee approved a bill in June to ban the abusive sale of certain types of investment and insurance products to members of the military services.

The bill, S. 418, was adopted on a voice vote and is expected to pass the full Senate.

Like a companion measure adopted in the House last year, S. 418 would ban the sale of contract mutual funds, which charge up-front commissions of up to 50 percent.

It would also give state insurance regulators clear authority to oversee insurance sales on military bases and would create a registry of barred insurance agents and securities salespersons to be shared among federal and state regulators and military bases.

The Senate bill includes additional protections not in the House bill, including a requirement that products sold on military bases carry clear disclosures that the federal government neither sanctions, recommends, or encourages the sale of the product.

"This bill makes a strong start in protecting military personnel from the sales of abusive investment and insurance products," said CFA Legislative Director Travis Plunkett. "We would like to see the bill do more, however, to ensure that members of the military are not sold insurance plans that are overpriced or are unsuitable."

S. 418 did not include provisions from the House bill to address predatory lending practices targeted at military personnel — provisions that consumer advocates opposed as weak and possibly harmful.

In May, CFA joined with other consumer and military groups in writing to the Senate Banking Committee urging it to: adopt a 36 percent rate cap for loans to service members and their dependents; prohibit loans based on checks or debits that draw wages directly out of the military borrower's required bank account; ban title-secured loans for purposes other than buying a vehicle; clarify that wage allotments to repay commercial credit are voluntary; require that loans made to military personnel be affordable and have realistic repayment schedules; and prevent coercive collection tactics.

"America must disarm predatory lenders that target service members with exorbitant rates for high-risk loans, perpetual debt, and onerous collection tactics," said CFA Consumer Protection Director Jean Ann Fox.

Although S. 418 does not deal with predatory lending practices, the Senate added a rate cap to the defense authorization bill, capping interest rates on loans to service members and their dependents at 36 percent APR or less where state caps are lower.

The rate cap must survive a conference with the House before it can become law, but it is seen as having a reasonable chance of passing.

Flood Insurance Bills Advance

Measures to overhaul the federal flood insurance program passed the Senate Banking Committee in May and the full House in June.

The National Flood Insurance Program has been forced to borrow from the federal government in order to pay claims from the devastating 2005 storm season.

In response to criticisms that the program does not take in sufficient income from insurance premiums to cover anticipated losses, both bills would phase out subsidized premiums for second homes, vacation homes, and commercial properties and for primary residences after the homes are sold.

Although the Senate bill is stronger than the House bill, neither contains adequate protections for taxpayers, said CFA Insurance Director J. Robert Hunter. For example, even the stronger Senate bill lacks enforcement provisions to discourage building in high-risk areas and provides no deadline for new flood plain maps to be completed, he said.

Hunter has called for a more comprehensive overhaul of the program.

Meanwhile, some members of the insurance industry have begun pressing for a broader federal catastrophe insurance program that would, for example, cover wind and earthquake as well as flood damage.

In June testimony before the House Subcommittee on Housing and Community Opportunity, Plunkett argued that no federal role is needed in the catastrophe insurance industry. "Indeed, a federal intervention now will likely undo positive private sector developments," he said.

"Such a backstop should only be established if the NFIP is fixed, if local mitigation on building standards is in place and working, and if the program that is developed conforms to all the ... principles" CFA has previously outlined to ensure the consumers and taxpayers are appropriately protected.

Bill To Preem`pt Food Labeling Laws Appears Stalled in Senate

After passing the House in March on a 283-139 vote, legislation (H.R. 4167) that would preempt state food labeling laws appears to have stalled in the Senate.

No action has been taken on the measure since it was referred to the Senate in March, although Sen. Richard Burr (R-NC) did introduced a companion bill in May (S. 3128), which was referred to the Health, Education, Labor, and Pensions Committee.

The bill would require state food safety laws to be identical to the requirements of the U.S. Food and Drug Administration.

Any state food safety laws not identical to current federal laws would be preempted — even in areas where the FDA has not acted — and states would have to undergo a cumbersome and expensive appeals process to keep the state law intact.

"State action on food safety has led to consumer protections not covered by federal laws, such as the elimination of arsenic in drinking water," said Chris Waldrop, Deputy Director of CFA's Food Policy Institute. "This bill guts existing laws designed to protect consumers and would enact the most sweeping overhaul of food safety laws in decades."

CFA Testifies

CFA staffers and representatives have testified on several subjects before House and Senate committees in recent months.

In March, CFA Senior Counsel Rachel Weintraub testified on car title fraud before the House Commerce, Trade, and Consumer Protection Subcommittee. Weintraub urged: the adoption of federal legislation to require destruction of severely damaged vehicles in order to ensure their complete removal from the stream of commerce; creation of a national electronic database to which insurers and self-insurers would be required to report information about damaged vehicles; and provisions for private rights of action, civil penalties, and criminal penalties for violations.

In April, CFA Director of Insurance Robert Hunter testified on title insurance cost and competition before the House Subcommittee on Housing and Community Opportunity. He called on Congress to adopt measures to "overcome the extreme financial incentives for those in the title insurance business to engage in reverse competition." Two possibilities suggested by Hunter are adopting a program modeled on Iowa's title guaranty program and requiring lenders to pay for their own title insurance.

In May, CFA Executive Director Stephen Brobeck testified on the role and limits of financial education before the Senate Banking Committee. Brobeck argued that the single most important initiative the nation could take to promote financial literacy would be to urge all consumers to estimate, and then periodically monitor, their net personal wealth. "If Americans were more aware of their net personal wealth, they would be receptive to a broad array of financial education programs that helped them monitor, conserve, and accumulate financial resources," he said.

On the Web
www.consumerfed.org/pdfs/Disaster_Insurance_House_Testimony0628-6.pdf
www.consumerfed.org/pdfs/CUCFA_pressrelease_UniformityBill030806.pdf
www.consumerfed.org/pdfs/Car_Title_Testimony_Written032006.pdf
www.consumerfed.org/pdfs/Title_Insurance_Testimony042606.pdf
www.consumerfed.org/pdfs/Financial_Literacy_Hearing_2006_SB_Testimony052406.pdf

Brochure Offers Help Choosing An Investment Professional

A coalition of consumer organizations, state securities regulators, and investment services providers released a free brochure in May designed to guide investors through the process of choosing an investment services provider.

The brochure, "Cutting through the Confusion: Where to Turn for Help with Your Investments," explains the differences between brokers, investment advisers, and financial planners and identifies questions investors should ask themselves and potential providers before making a choice.

"Consumers are confused about differences between the various types of investment services providers, and who can blame them?" said CFA Director of Investor Protection Barbara Roper. "This brochure is designed to cut through the confusion, by describing the types of investment services available, payment options, and differing legal obligations of each provider. Armed with this information, we hope that investors will be able to decide which type of provider is best for them."

In addition to CFA, members of the coalition that produced the brochure are North American Securities Administrators Association, Investment Adviser Association, Financial Planning Association, and CFA Institute.

The brochure is available in PDF format on the CFA website. To receive a single print copy of the brochure, send a self-addressed, stamped envelope to Cutting Through the Confusion, c/o Consumer Federation of America, 1620 I Street, N.W., Suite 200, Washington, D.C. 20006.

On the Web
www.consumerfed.org/publications.cfm#one

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Exotic Mortgages Spread To Less Wealthy Borrowers

As Americans struggle to become home owners, the use of interest only and optional payment mortgages continues to increase, and the burden of these riskier mortgages is falling on middle and moderate income borrowers with less than stellar credit scores, according to a study released by CFA in May.

The study — "Exotic or Toxic? An Examination of the Non-Traditional Mortgage Market for Consumers and Lenders" — analyzes certain borrower and loan characteristics of more than 100,000 mortgages originated between January and October 2005.

That analysis also showed that African Americans and Latinos were more likely to receive payment option mortgages than whites, and that African Americans were more likely to receive interest only mortgages.

"While the lending industry has characterized non-traditional borrowers as financially sophisticated and savvy consumers, the truth is that many are far from affluent and could be betting the house on their mortgages," said Allen Fishbein, CFA's Director of Credit and Housing Policy.

Borrowers Put At Risk

"Because home ownership is so critically important to financial security, these Americans are unwittingly putting their entire financial livelihood at risk," he added.

Borrowers are increasingly relying upon non-traditional mortgages as a means to buy homes they could not otherwise afford in a rapidly escalating housing market.

These mortgage products typically offer initial lower monthly payments than traditional fixed-rate loans. But when these loan terms reset — usually after two to five years — consumers could be vulnerable to payment shocks.

On a $200,000 home, the payment could rise by 54 percent on an interest only adjustable rate mortgage and by 123 percent on a payment option mortgage if the interest rate rose from 5 percent to 6.5 percent.

"Non-traditional mortgages are more complex than your parents' home loan," said CFA Senior Research Patrick Woodall. "Some highly leveraged or unsophisticated consumers could end up learning that the mortgage that helped them buy their home was a ticking time bomb that destroyed their finances for years."

The CFA study found evidence that these loans are not being marketed exclusively to the wealthy, sophisticated consumers most able to risk that payment shock.

For example, significant shares of non-traditional mortgage borrowers earn less than $70,000 annually, which is below the median income in the high-cost housing markets where these loans are most prevalent.

Among interest only borrowers, more than a third (36.9 percent) earned under $70,000, including about one in six (15.6 percent) who earned under $48,000 annually. Similar percentages of payment option borrowers earned less than $70,000 (35 percent) and less than $48,000 (12.1 percent).

Latinos are nearly twice as likely as non-Latinos to receive payment option mortgages, while African Americans were 30.4 percent more likely than non-African Americans to receive payment option mortgages. African Americans were also 11.7 percent more likely than non-African Americans to receive interest only mortgages.

Mortgages Used by Borrowers with Sub-par Credit Scores

Many non-traditional borrowers have only average or even weaker credit scores. More than half (53.8 percent) of payment option borrowers and nearly two-fifths (38.0 percent) of interest only borrowers have credit scores below 700. More than a fifth (21.4 percent) and about one in eight (12.1 percent) interest only borrowers had credit scores below 600.

"Non-traditional mortgage products may benefit certain consumers, but pose more risks than benefits for many others," Fishbein said.

Furthermore, there are indications that many borrowers do not fully understand that these mortgages expose borrowers to potentially sharp increases in borrowing costs, he said.

Federal regulators recently urged lenders to provide more comprehensive information to borrowers.

"Given the array and complexity of many of the new products being offered, improved disclosures may not be enough," he said. "The plain fact is that deferred payment mortgage products simply may not be appropriate for all borrowers who receive them and therefore could pose a threat to home ownership stability."

He said further consideration should be given to applying suitability standards to protect borrowers from being sold inappropriate mortgage products.

The report's findings were presented at recent public forums held by both the Federal Trade Commission and the Federal Reserve Board.

On the **Web**
www.consumerfed.org/pdfs/Exotic_Toxic_Mortgage_Release052406.pdf
www.consumerfed.org/pdfs/Exotic_Toxic_Mortgage_Report0506.pdf

At the Agencies

Centers for Disease Control and Prevention

The Centers for Disease Control and Prevention (CDC) issued data in April showing that the government had failed to meet its goal of reducing *Listeria monocytogenes* food poisoning to 2.5 cases per million by the end of 2005 and that instead the incidence of *Listeria* had once again increased.

"After substantial drops in the rate of *Listeria* food poisoning between 1996 and 2002, progress has not only stalled, but cases of the disease are increasing," said Carol Tucker Foreman, Director of CFA's Food Policy Institute.

"The lack of progress in reducing *Listeria* food poisoning corresponds to USDA's failure to establish strong regulatory requirements to control contamination of deli meats and hot dogs," she added.

Listeria infection typically causes flu-like symptoms but can spread to the nervous system. Pregnant women are particularly vulnerable, as infection virtually always results in miscarriage.

The failure to control *Listeria* food poisoning stands in contrast to the continued progress in reducing the rate of food poisoning from *E. coli*, Foreman noted. That progress began with the USDA declaring the pathogen to be an adulterant in raw meat, which prompted the meat industry to invest substantial energy and resources to control the pathogen.

In 2003, the Bush Administration adopted interim final regulations for *Listeria* that are far weaker than those proposed by the U.S. Department of Agriculture (USDA) in 2001.

"In order to reduce the risk of *Listeria* for these vulnerable populations, USDA should require meat companies to add finished product testing to their controls and to label so-called ready to eat products with a statement that pregnant women and young children should be especially careful to reheat the product thoroughly, since the products may be contaminated with *Listeria monocytogenes*," Foreman said.

* * *

Department of Housing and Urban Development

As the U.S. Department of Housing and Urban Development (HUD) continues to weigh various approaches to reforming the Real Estate Settlement Procedures Act (RESPA), seven national consumer and housing organizations, including CFA, wrote to the agency in April to outline the reforms that "would most help consumers."

The groups outlined three "essential steps" that HUD should take in order "to level the playing field for all homeowners obtaining mortgages and to combat the predatory lending that interferes with this process."

They are:

- to require mortgage brokers to reach written agreement with each client early in the financing process on the total amount of the broker's compensation and provide the consumer with choices regarding how to pay that fee at closing;
- to require loan originators to provide an early and firm good faith estimate that both itemizes fees and draws attention to important summary information, including an annual percentage rate alongside the note rate, and loan features, such as adjustable rates, prepayment penalties, and balloon payments; and
- to maintain all RESPA Section 8 anti-kickback rules, without exemptions.

HUD announced its intention to reform RESPA over a year ago and held a series of roundtables last summer to hear views from a variety of parties on how best to do that. So far, however, it has not issued a formal reform proposal.

* * *

Federal Deposit Insurance Corporation

The Federal Deposit Insurance Corporation held a series of hearings in April on the application of Wal-Mart Stores, Inc. to receive FDIC insurance for an industrial bank chartered in Utah.

CFA Legislative Director Travis Plunkett testified in opposition to the application, arguing that "enabling the largest retail firm in the world to purchase an industrial loan corporation would represent a dangerous and unprecedented blending of banking and commerce."

"It would allow Wal-Mart to offer many of the same services and loans as commercial banks without the same rigorous regulatory oversight," he added. "This has enormous negative implications for the safety and soundness of a Wal-Mart-owned bank and for taxpayers who backstop the deposit insurance system."

Plunkett urged the FDIC not only to deny Wal-Mart's application, but also to use the occasion "to petition Congress to shut down this parallel banking system, not allow its further expansion."

Expansion of the industrial loan corporations is an issue in financial "regulatory relief" legislation that has passed the House and is under consideration in the Senate Banking Committee.

Payday Lending Website Launched

In May, CFA launched a website at www.paydayloaninfo.org to help consumers and policy makers combat extremely expensive check-based "payday" lending.

"Often, websites about payday lending are thinly veiled loan referral sites or advertising sites," said CFA Consumer Protection Director Jean Ann Fox. "CFA's website provides consumer-oriented advice and information to help protect borrowers against becoming trapped in high-cost, high-risk payday lending."

Payday loans are small cash loans, secured by the borrower's personal check, and due to be paid in full on the borrower's next payday.

The consumer information site includes the basic facts on how payday loans work, industry information, the legal status of payday lending, and key features of state laws and regulations in all 50 states.

Consumers can calculate the cost of using payday loans by entering the dollars borrowed, the fees charged, the length of the loan, and the number of loans or renewals used during a year.

The website also links to research, reports, and updates on timely issues. In addition, visitors can click on their state to connect with state regulators to file complaints or get information.

On the **Web**
www.paydayloaninfo.org

Fund Investors Don't Follow Recommended Practices

Investors' mutual fund purchase practices bear little resemblance to those recommended by investor educators, according to a survey released in June by CFA.

"The differences between expert recommendations and actual investor behavior suggest that a comprehensive review is needed of our approach both to mutual fund disclosure and to investor education," said CFA Director of Investor Protection Barbara Roper.

Roper released the survey results at a Securities and Exchange Commission Roundtable discussion on essential information for mutual fund investors. That panel included an exploration of issues related to enhanced use of the Internet for fund disclosures.

Roper noted that the survey offers both hope and caution for those who wish to expand use of the Internet for disclosure purposes.

On the one hand, the survey found that the vast majority of investors have access to the Internet, and most are willing to use the Internet for at least some purchase-related activities.

At the same time, it found resistance to using the Internet among certain groups of investors, particularly older investors, and for certain types of activities, including receiving disclosure documents from financial professionals.

"Clearly, there are transitional issues that must be dealt with in any policy to promote Internet disclosure," Roper said. "We need to better understand the reasons for and intensity of this resistance to using the Internet if we are to develop policies to promote Internet disclosure that benefit all investors."

The survey was conducted in September 2005 by Opinion Research Corporation as part of a CFA project, funded by the NASD Investor Education Foundation, exploring mutual fund investors' information practices and preferences.

Investors' Information Practices Described

Among the key discrepancies between expert recommendations and investors' actual mutual fund purchase practices revealed by the survey:

• Many investors appear to give relatively little weight to factors such as mutual fund costs and risks that investor educators and regulators consider of top importance.

Only a third of current fund owners considered either cost or volatility of past returns to be very important when making their most recent mutual fund selection, and just four in ten considered the fund's risks to be very important.

• Although regulators and educators typically recommend that investors carefully review the prospectus before making a fund purchase, most investors indicate that they do not find the prospectus of great value when selecting a fund.

The prospectus was most highly valued by those who purchased most of their funds directly. Even within this group, however, just 55 percent rated the prospectus as at least somewhat influential, including 37 percent who rated the prospectus as very influential.

Among those who purchased most of their funds through a financial professional or a workplace retirement plan, less than 45 percent rated the prospectus as even somewhat influential, including roughly 20 percent in each group who rated it as very influential.

• Those who purchase funds through a financial professional generally do not do the additional research on recommended funds that educators and regulators advise.

Nearly three in ten current mutual fund owners who purchased most of their funds from a financial services professional said they relied totally on that professional's recommendation without doing any additional research (28 percent).

More than a third (36 percent) said they relied a great deal on the recommendation of the financial services professional, but reviewed some written material about the fund before the purchase.

That leaves just over a third of these investors who did at least as much pre-purchase research as experts recommend.

Findings Have Implications for Disclosure, Education

"In some cases, the survey findings may reveal a failure on the part of investors to take important steps to protect their interests," Roper said. "In these cases, the challenge for investor educators is to figure out how to convey essential information more effectively.

"In other cases, however, the problem may be that the expert recommendations are simply unrealistic or fail to reflect the different needs of different types of fund purchasers," she added.

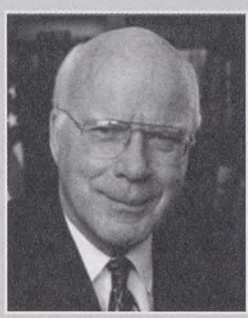
In her roundtable comments, Roper noted, for example, that the survey findings had helped convince CFA to drop its past opposition to allowing mutual fund sales from an abbreviated disclosure document.

"It seems pointless to continue to insist on full prospectus disclosure to all mutual fund investors when most of these investors do not appear to find the prospectus of great value," she said.

Roper also praised the SEC for its timely review of fund disclosure practices. "But our findings also suggest that a similarly comprehensive review of investor education messages is needed," she said.

To further both goals, CFA plans to distribute the survey report to securities regulators, investor advocates and educators, industry representatives, and others in order to promote a broad-based discussion of its implications for mutual disclosure requirements, industry information practices, and investor education efforts.

On the **Web**
www.consumerfed.org/pdfs/mutual_fund_survey_report.pdf
www.consumerfed.org/pdfs/mutual_fund_survey_press_release.pdf


Sen. Patrick Leahy


Caroline Mayer


Pete Crear


Edmund Mierzwinski

36th Annual Awards Dinner

The Consumer Federation of America honored distinguished consumer service at its 36th annual Awards Dinner in June.

Sen. Patrick Leahy (D-VT) received the Philip Hart Public Service Award.

Esther Peterson Consumer Service Awards were presented to Edmund Mierzwinski, Consumer Program Director of U.S. Public Interest Research Group, and Pete Crear, Executive Vice President and Chief Operating Office of the Credit Union National Association.

Longtime *Washington Post* consumer reporter Caroline Mayer received the Betty Furness Consumer Media Service Award.

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