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CONSUMER FEDERATION OF AMERICA

Military Granted Predatory Lending Protections

The defense authorization bill approved by Congress in late September and signed into law by the president includes language to protect military families from predatory lenders who charge triple-digit interest rates.

"The historic legislation will protect members of the military and their families from financial predators who destroy their finances, damage their morale, and undermine military readiness," said CFA Director of Consumer Protection Jean Ann Fox.

"It sends the message to all lenders — including payday loan companies, tax preparation firms, and banks — that they must not make loans to members of the military at exorbitant interest rates or under abusive terms," she added.

The legislation — which was proposed by Sens. Jim Talent (R-MO) and Bill Nelson (D-FL) in the Senate and by Rep. Sam Graves (R-MO) in the House — caps annual interest rates on loans to military families and their dependents at 36 percent.

Importantly, interest is defined to include all extra charges and fees of any kind, including for the sale of related products such as credit insurance.

The new law also prohibits lenders from basing loans to service members on the writing of checks without adequate funds in the bank to cover the check or on electronic account access or wage allotments that allow lenders priority access to bank accounts or military pay.

Car Title Loans Covered by New Law

Loans secured by title to the service member's vehicle are also prohibited.

Finally, the law prohibits lenders from requiring service members to agree to mandatory arbitration in the event of a dispute or otherwise to waive their legal right to recourse in the courts.

"We commend Sens. Talent and Nelson and Rep. Graves for their extraordinary efforts to pass this landmark consumer protection bill," said CFA Legislative Director Travis Plunkett.

In particular, Plunkett praised them for "standing up for America's service members in the face of significant pressure from the payday loan industry and their allies in Congress."

He said Sen. Elizabeth Dole (R-NC) also deserves credit "for laying the essential groundwork for this law" by convincing Congress to require the Department of Defense to issue a study on the effect of predatory lending on the military.

That study, released in early September, provided crucial support for the legislation by documenting that predatory lending practices that target military personnel:

- are prevalent,
- undermine military readiness,
- harm the morale of troops and their families, and
- add to the cost of fielding an all-volunteer fighting force.

The report found, for example, that military personnel are three times as likely to use payday loans as civilians. Furthermore, such loans hold added risks for military borrowers, who risk losing security clearance or even court martial as the result of the kind of serious financial problems predatory lending can cause.

DoD Study Provided Crucial Support

The report also documented:

- that high cost lenders cluster around military bases and tout easy money loans via the Internet;
- that payday lenders entice service members to write checks without money in the bank for loans at rates of 390 percent annual interest rates or higher; and
- that military borrowers, who are required to maintain a bank account to receive direct deposit of military pay, are likely to become trapped in a cycle of repeat borrowing to keep those checks from bouncing.

The Defense Department study also found that car title loans, which are secured by the title to family vehicles owned free and clear, often include unnecessary insurance premiums and extra fees that drive up payments beyond the 300 percent annual interest typically charged. The owner risks repossession of the car if the loan is not paid in full or renewed every month.

The legislation was supported by more than 70 military and veterans groups, civil rights organization, and consumer groups, as well as by the Department of Defense.

With the federal law protecting military families adopted, "state legislatures should extend these protections to all consumers," Fox said.

They can do that, she said, "by repealing payday and car title loan safe harbor laws and by enforcing their usury and small loan rate caps to protect consumers from rate gouging and unfair loan practices."

On the **Web**
www.consumerfed.org/Military_Lending_Talent_Amendment_Conf_Report_Passage_Release09292006.pdf
www.consumerfed.org/MIL_Talent_CFA_Release_9706.pdf

Credit Rating Agency Bill Enacted

Shortly before leaving town for the election recess, Congress passed and the president signed legislation to introduce greater competition into the credit rating industry.

"Congress faced a formidable challenge with this legislation — figuring out how to open the industry to greater competition while still ensuring that only credit ratings of an acceptable quality are used for regulatory purposes," said CFA Director of Investor Protection Barbara Roper.

"We believe the final bill strikes an appropriate balance between these two important goals," she added.

The new law (P.L. 109-291) creates a simplified and more transparent process by which credit rating agencies can register as Nationally Recognized Statistical Rating Organizations (NRSROs).

This recognition is critical for agencies hoping to compete for business, as only ratings from NRSROs are eligible to be used for a variety of regulatory purposes.

"Credit rating agencies play an increasingly important role in our nation's securities markets," Roper said. "As the Securities and Exchange Commission (SEC) has noted, credit ratings affect an issuer's access to and cost of capital, the structure of financial transactions, and the ability of fiduciaries and others to make particular investors.

"Unfortunately, the process by which agencies gained NRSRO status had become lengthy, opaque, and seemingly arbitrary," she said.

New Law Sets Registration Requirements

The new law requires ratings agencies seeking to register as NRSROs to have been in business for at least three years, to disclose the process they use for determining ratings, and to establish policies and procedures to address conflicts of interest.

In an important victory for investors, the new law also includes key provisions added in the Senate to ensure that only agencies producing generally accepted and reliable ratings are designated as NRSROs.

The law gives the SEC authority to deny NRSRO status to rating agencies that lack the financial and managerial resources to produce ratings of integrity.

It also requires agencies seeking NRSRO status to provide certifications from ten Qualified Institutional Buyers that they have used the agency's ratings.

This provision substitutes for the requirement under the SEC's no action letter process that agencies show their ratings are "generally accepted" in the marketplace. Applicants have complained that there is no objective standard on which this determination is made.

Protections Included To Ensure Ratings' Reliability

"The QIB certification requirement provides that objective standard, and does so in a way that will help ensure that investors' interests are well represented in the process," Roper said.

This requirement, along with the provision giving SEC the authority to ensure that rating agencies have adequate managerial and financial resources, should "help ensure that NRSRO status will only be conferred on those credit rating agencies with the credibility and integrity to fulfill this important function," Roper said.

Finally, the bill attaches the NRSRO status to particular types of ratings for which an agency is seeking NRSRO recognition. This should make it easier for smaller agencies to gain NRSRO status without exposing investors to undue risks, she said.

"The SEC is more likely to judge that a smaller, more specialized credit rating agency has the financial and managerial resources to produce ratings of integrity if it can limit the NRSRO recognition to the type of ratings in which the agency specializes and for which it is seeking recognition," Roper explained.

"As these agencies grow and expand their business, investors will be assured that they will only gain NRSRO status for any new types of ratings they issue as they achieve the appropriate experience in and level of acceptance for those ratings," she added.

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Non-Traditional Mortgage Guidance Issued

Federal financial regulators issued final guidance in late September addressing the risks posed by non-traditional mortgage products.

Non-traditional mortgages typically feature very low monthly mortgage payments during the initial period of the loan. When the initial period expires, however, the monthly payment can significantly increase, creating a payment shock that some homeowners may be ill prepared to afford.

"These exotic mortgages are turning out to be way too exotic for many unwary borrowers," said CFA Director of Housing and Credit Policy Allen Fishbein. "They can quickly turn into ticking time bombs that destroy family finances and lead to foreclosure."

The guidance, which covers "interest-only" mortgages and "payment option" adjustable rate mortgages, directs lenders to ensure:

- that loan terms and underwriting standards are consistent with prudent lending practices, including consideration of a borrower's repayment capacity; and
- that consumers have sufficient information to clearly understand loan terms and associated risks prior to making a product or payment choice.

The agencies also direct lenders to adopt "strong risk management standards, capital levels commensurate with the risk, and an allowance for loan and lease losses that reflects the collectibility of the portfolio.

CFA has long called for publication of the final guidance, which was first proposed in December 2005.

Additional Protections Needed

In September testimony before two Senate subcommittees, however, Fishbein warned that further actions are needed to protect borrowers.

One reason is that guidelines do not apply "to the many independent mortgage lenders, Wall Street investment houses, and other important actors that are active in the non-traditional mortgage market," he said. "Nor does the guidance alone provide consumers with any new rights and protections to ensure that lenders adhere to the principles adopted."

He added that the guidance must also be further clarified to cover ARMs made to credit impaired borrowers. Monthly payments on these loans can easily balloon by 40 percent or more after just 24 months.

A top priority, Fishbein said, is adoption of "strong but flexible standards, like suitability, to apply to all mortgage loans."

Such a standard should require loan originators to take into account the borrower's circumstances, objectives in obtaining the loan, and ability to repay the loan when determining whether the loan is suitable, he said.

It should also prohibit steering borrowers into costlier loans than the borrower's qualifications would require; apply full assignee liability to mortgage loans; and include a duty of good faith and fair dealing both in the making of appraisals to support home loans and in loan servicing, Fishbein said.

Finally, he called for establishment of a fund to help homeowners avoid foreclosure when they have the wherewithal to maintain their mortgage payments once their mortgage arrearage is paid.

"Simply put, we need a more wholesale and comprehensive approach to protecting consumers seeking mortgage credit than currently exists," Fishbein said.

Study Finds Large Pricing Variations in Subprime Market

Meanwhile, CFA issued a report in early September documenting large pricing variation in the subprime mortgage market both by region and by race.

Specifically, the report found that:

- The share of refinance lending that is subprime is twice as high (over 36 percent) in the Great Plains and Southwest as it is in the Pacific and Northwest, where fewer than one in five refinance mortgages (18 percent) are high-cost.
- Among individual states, Gulf Coast and Great Plains states had the highest incidence of subprime refinance lending. For example, more than half of refinance loans (51.8 percent) in Mississippi were subprime, as were more than two-fifths of loans in Oklahoma (44.3 percent), Alabama (41.6 percent), Nebraska (41.4 percent), and Louisana (40.0 percent).
- The share of refinance loans that were subprime increased by 79.9 percent between 2004 and 2005, from 14.7 percent in 2004 to 26.5 percent in 2005. The highest cost loans, those with rates more than five percentage points higher than Treasury securities, more than doubled, from 4.2 percent of refinance lending in 2004 to 8.8 percent in 2005.
- African Americans and Latinos were significantly more likely than whites to receive subprime refinance loans. Nearly half of African American refinance borrowers (48.9 percent) and nearly one-third of Latino borrowers (32.6 percent) received subprime loans, compared with less than a quarter of white refinance borrowers (23.0 percent).

The study examined more than 2.5 million conventional refinance mortgages reported by more than 22 lenders and their 312 affiliates in 317 metropolitan statistical areas, including at least one MSA in each state.

While geographic pricing variation may represent, at least in part, regional creditworthiness or other legitimate price determinants, "the size of the variation between localities and regions warrants a closer look by banking regulators and other enforcement officials," said CFA Senior Researcher Patrick Woodall.

Moreover, growing delinquency and foreclosure rates for these loans demonstrate that some borrowers are taking out mortgages with unsuitable terms and conditions, he said. "Homeowners who borrowed with subprime ARMs or exotic refinance mortgages in 2005 could face strikingly high payment shocks down the road that could put their homes at risk," Woodall said.

On the **Web**
www.consumerfed.org/pdfs/Fishbein_Senate_Testimony_on_Non-Traditional_Mortgages092006.pdf
www.consumerfed.org/pdfs/SubprimeLocationsStudy090506.pdf

FDIC To Study Overdraft Protection Programs

The Federal Deposit Insurance Corporation (FDIC) has announced that it plans to collect information on bank overdraft products and practices. CFA wrote to the agency in October in support of the study.

"The spread of non-contractual overdraft loan programs in recent years has sparked controversy about the bank equivalent of payday lending, bank practices in processing debits, and the lack of affirmative consumer consent or knowing use of bank overdraft credit products," said CFA Director of Consumer Protection Jean Ann Fox.

"We commend the FDIC for its leadership in addressing the important public policy issues and information gaps around bank products and practices when account holders overdraw their accounts," she added.

She urged the FDIC to make its findings public in order to "further the public discussion of appropriate consumer protection and bank regulation."

Overdraft and insufficient funds fees cost consumers billions per year, she noted, and current regulations do not provide adequate protections to consumers.

The Interagency Joint Guidance, which outlines "best practices" in this area:

- fails to prevent usurious extensions of credit,
- does not provide for affirmative consumer choice,
- does not constitute enforceable regulations, and
- does not close the Federal Reserve Board's loophole that exempts non-contractual overdraft loans from Truth in Lending Act disclosures.

"The FDIC's study will provide information necessary to evaluate bank compliance with the Interagency Joint Guidance and build the record for reconsideration by the Federal Reserve of its Truth in Lending decision," Fox said.

On the **Web**
www.consumerfed.org/pdfs/OD_FDIC_Study_Comment_LTR101006.pdf
Food Conference Keynotes Highlight Child Nutrition

Food Conference Keynotes Highlight Child Nutrition

Issues related to child nutrition and child obesity were common themes of keynote addresses delivered by Sen. Saxby Chambliss (R-GA), Sen. Lisa Murkowski (R-AK), and Food and Drug Administration Acting Commissioner Andrew von Eschenbach at CFA's Food Policy Conference in September.

Acting FDA Commissioner Andrew von Eschenbach

Sen. Saxby Chambliss

Sen. Lisa Murkowski

Sen. Chambliss, who chairs the Senate Agriculture Committee, discussed successful efforts in recent legislation to expand the school lunch program to new schools, to include breakfast in the program, and to add new fruits and vegetables to the meals.

In addition, efforts are being made to "refine" the WIC Program "to be more manageable" as it provides nutrition to women and families, he said.

Sen. Chambliss also discussed a recent report on child obesity by the Institute of Medicine and the National Academies of Science indicating further study is needed to develop strategies to combat child obesity on a national level.

"Each local school system has a directive to develop a health and wellness program for their community," he said.

Sen. Murkowski said part of the solution to child obesity is to update current regulations that allow "high-fat, high sugar foods and beverages" to be sold in schools in competition with the healthy school lunch.

She said she has co-authored legislation, S. 2592, that would require the Secretary of Agriculture to update the regulations governing these competitive foods based on: the positive and negative contributions of ingredients and nutrients; the relationship between certain foods and obesity and chronic illness; and the recommendations of the experts.

"We have a youth obesity problem in this country that is costing both lives and money," she said. "One important way to address that problem is to ensure that kids are presented with healthy, nutritious choices all day long in school."

FDA's von Eschenbach discussed the important role science plays in promoting the food safety agenda of the FDA.

"There have been massive changes in the world around us, and we must adapt and be equipped to address those changes," he said. "The tools of modern science and technology are essential to answering the question — are we safe?"

"The FDA is science-based and science-led," he added. "We will continue to make sure our scientific mission is nurtured."

Food Safety Update:

E. Coli Outbreak Highlights Need for Strong Regulations

A recent outbreak of E. Coli associated with bagged spinach provided an unwanted demonstration of the need for more stringent regulations to ensure the safety of fresh produce.

Members of the Safe Food Coalition wrote to Food and Drug Administration Acting Commissioner Andrew von Eschenbach in September urging the agency "to implement stronger regulations in the produce industry and a comprehensive traceability system to ensure that the public is truly protected from the risks of foodborne illness."

The groups praised the FDA for its decision to immediately issue a consumer advisory warning consumers not to eat fresh spinach and for the "diligent work of FDA investigators" to determine the source of the outbreak.

They noted, however, that a record of repeated outbreaks linked to lettuce since 1995 clearly demonstrates that the lettuce industry has long failed to conform to appropriate standards.

"The Lettuce Safety Initiative that FDA has been touting is a useful first step but lacks any real force behind its recommendations," the groups wrote. "It is unclear whether FDA will do anything more than collect data and make assessments on current industry approaches to improving lettuce safety."

What's needed, they argued, are:

- "mandatory regulations requiring firms that produce fresh produce to maintain strict sanitation levels and appropriate processing standards;"
- increased funding for FDA's food safety and field staff "to ensure that its regulations can be fully enforced;" and
- a comprehensive traceability system able to track food products from the farm to the table.

"FDA's voluntary approach to produce safety clearly is not working," said Chris Waldrop, Deputy Director of CFA's Food Policy Institute. "The agency needs to implement strong mandatory regulations to protect the public from foodborne illness associated with fresh produce."

Problems with State Meat Inspection Programs Exposed

The audit report on the quality of state meat and poultry inspection programs, released in September by the U.S. Department of Agriculture Inspector General's Office, "shows once again that these programs do not protect public health," according to CFA.

"In the midst of a foodborne illness outbreak from spinach, the Office of Inspector General details stomach wrenching failures by some state inspection programs to meet the most basic sanitation standards and to protect the public from foodborne illness," said Carol Tucker Foreman, Director of CFA's Food Policy Institute.

Furthermore, although federal Food Safety and Inspection Service reviewers found deficiencies in state programs and individual plants, USDA allowed the programs to continue operating for years, "leaving consumers at risk every day," Foreman said.

Federal law permits states to run their own inspection programs if they are "equal to" the standards applied to federally inspected plants. However, products from these plants are not allowed to be sold across state lines.

Legislation has been introduced in Congress that would allow meat and poultry from state inspected plants to be sold anywhere, including across state lines and to foreign countries.

The findings of the inspector general's study demonstrate why Congress should drop the proposed legislation, Foreman said.

Among other things, the report found that FSIS allowed meat plants in four states — Missouri, Wisconsin, Delaware, and Minnesota — to continue to sell meat to unsuspecting consumers "even after finding that the state programs were not meeting legal standards for safety."

It also found that although all of the 11 meat plants FSIS visited in Mississippi in 2003 failed to meet all Hazard Analysis and Critical Control Point requirements, both the Mississippi inspection program and FSIS allowed these companies to continue operating.

"The bottom line is consumers should be wary of purchasing meat products inspected by state governments," Foreman said.

FDA Policy on Cloned Meat and Milk Criticized

The FDA has indicated it plans to permit the sale of meat and milk from cloned animals, with a decision expected by the end of the year.

"By not requiring that cloned milk and meat be labeled, the U.S. government is permitting these ethically questionable products to be foisted on a reluctant public through secrecy and stealth," Foreman said.

Independent polls in recent years have found that more than 60 percent of Americans oppose animal cloning and would not purchase cloned meat and milk even if the government said they were safe.

However, because the government does not propose to require products from cloned animals to be labeled, "there will be no freedom to choose in the cloned milk and meat marketplace," Foreman said.

The FDA has repeatedly said in recent years that it has evidence that cloned milk and meat are safe and will soon be on the market. The FDA has, however, never made its full risk assessment or scientific studies available to the public, Foreman noted, nor has it provided an opportunity for public comment.

"Claims that cloning is safe for animals are questionable," she said. Even those studies cited by FDA as supporting cloning show clone pregnancies often end in miscarriages and that many animals born through cloning are deformed or do not survive to maturity, she said.

Furthermore, "a flood of milk from highly productive cloned cows is not good for the taxpayers," she said. "Americans have a milk surplus that has cost taxpayers over $5 billion in the last five years.

"Surplus milk is turned into high fat products that then go to school children, adding fat and cholesterol to their diets," she said.

Consumers Concerned About Adding Carbon Monoxide to Meat

Three out of four consumers are either very or somewhat concerned about the practice of adding carbon monoxide to meat, according to a survey released by CFA in September.

Carbon monoxide (CO) is added to meat packages to make the meat appear bright red for up to several weeks longer than untreated meat. This adds to meat packers' profits, by reducing the number of times meat must be repackaged.

Nearly eight in ten consumers (78 percent) believe this practice is deceptive, according to the survey, and more than two-thirds (68 percent) would strongly support a law to make labeling of CO-treated meat mandatory.

In light of those consumer views, "the FDA needs to halt this practice immediately," Waldrop said.

CFA has written to the FDA in support of a citizen's petition filed in November 2005 by *Kalsec, Inc., asking FDA to prohibit the use of* carbon monoxide in the packaging of fresh meat.

"It is clear that the FDA failed to consider the consumer deception inherent in this practice," Waldrop said. "The agency simply ceded to industry pressure without adequately considering the impact on consumers."

On the **Web**
www.consumerfed.org/pdfs/letter_to_FDA_re_E.coli_spinach_outbreak.pdf
www.consumerfed.org/pdfs/CFA_stmt_on_OIG_report_state_inspected_meat_9.28.06.pdf
www.consumerfed.org/pdfs/CFA_Stmt_on_Cloning_10.17.06.pdf
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www.consumerfed.org/pdfs/CO_Meat_Consumer_Survey_Results_9.25.06.pdf

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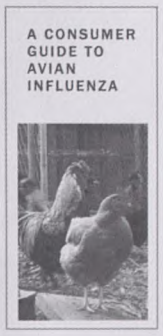
Free Avian Influenza Brochure Released

The CFA Food Policy Institute released a free brochure in October designed to provide consumers with factual information about avian influenza.

The brochure differentiates between avian influenza, a disease that kills birds, and pandemic influenza, which spreads among humans.

"It's important for consumers to be able to distinguish between avian influenza and pandemic influenza," said Chris Waldrop, Deputy Director of CFA's Food Policy Institute. "They're not the same thing.

"For American consumers, the chance of contracting the avian influenza virus is minimal," he added.



The brochure, "A Consumer Guide to Avian Influenza," describes actions the government is taking to protect the public, and it outlines safe-handling practices consumers can use to reduce the already minimal chance of becoming infected from raw poultry.

"On the small chance that the Avian Influenza virus should defy the odds and be present in raw poultry, the most common sense steps of food safety self-defense will protect consumers against illness," Waldrop said.

These include: washing hands and surfaces often, keeping raw poultry separate from other foods, cooking it adequately, and refrigerating any leftovers promptly.

Print copies of the brochure can be obtained by contacting Waldrop by email at cwaldrop@consumerfed.org or by phone at 202-797-8551. A PDF version of the brochure is available on the CFA website.

On the **Web**
www.consumerfed.org/pdfs/CFA_AI_Brochure.pdf

Proposed Media Ownership Changes Would Harm Consumers

Local communities across the nation will be harmed if the Federal Communications Commission moves ahead with plans to loosen key limits on media ownership, according to new research released in October by the Media and Democracy Coalition.

The study, written by CFA Research Director Mark Cooper, was released in coordinated events in California, Texas, Pennsylvania, Michigan, Florida, Ohio, Washington, Oregon, Arkansas, Virginia, Montana, and Maine.

It found that, in every one of those diverse states, most citizens already live in highly concentrated media markets. More media mergers in these markets would reduce already insufficient local news coverage and eliminate diverse voices and viewpoints, according to the study.

In every case, they would also exceed U.S. Department of Justice and Federal Trade Commission merger guidelines.

Yet, these same mergers would be approved by the FCC under its proposed new rules with "no questions asked," according to the report.

Further Loosening of Rules Not in Public Interest

"The evidence is overwhelmingly clear that further relaxation or elimination of media ownership limits by the FCC is not in the public interest," Cooper said.

"Media concentration in local markets, consolidation into national chains, and conglomeration across media types all harm localism and diversity in local news markets," he added.

Local television stations and local daily newspapers continue to be the dominant sources of local news and the most influential, he noted. In contrast, the Internet is not a significant source of local news.

"In fact, the few who go online for local news frequently surf to the web sites of the local TV station or the local daily newspaper," Cooper said. "The misguided rules the FCC proposed are simply out of touch with these facts."

The report was released just one month after reports emerged that the FCC, under its previous chairman, had intentionally suppressed its own internal research regarding the effect of media ownership on local news coverage.

FCC Research Reportedly Suppressed

The research showed that locally owned stations produce more local news, undercutting the arguments for loosening media ownership rules.

The suppressed research was brought to light by Sen. Barbara Boxer (D-CA), who was provided with a copy of the draft report.

Consumer groups, including CFA, wrote to FCC Chairman Kevin Martin in September urging him to immediately make the report publicly available.

"The information is vital to the Commission's current review of media ownership rules and should be made part of the official record, giving the public an opportunity to comment on the results and their importance to local communities," the groups wrote.

Martin, who was not chairman at the time of the report's disappearance, entered this and another apparently suppressed report on the radio industry into the public record on the media ownership rules.

Meanwhile, the FCC held the first of what is expected to be six public hearings on media ownership rules in October. Martin's predecessor as chairman, Michael Powell, had been criticized for not providing adequate opportunities for public hearings on the issues.

Under Powell, the FCC weakened the media ownership rules in 2003. The rules are being reconsidered in the wake of a 2004 Appeals Court decision rejecting those rules and a 2005 Supreme Court decision refusing to hear the case.

CFA, Consumers Union, and Free Press filed detailed comments with the agency in October, once again underscoring the essential link between democracy and an open and independent media.

"The only way democracy can truly work is if there is a free flow of news and information from diverse and independent sources," Cooper said.

Democracy Depends on Independent Media

"Media ownership rules have always been about keeping sources of news and information separate," he added. "If these rules are relaxed, and local newspapers and television stations are allowed to be combined, for example, the corporations owning these consolidated companies can exert undue influence over what is considered news and how that news is portrayed."

Furthermore, analysis has shown that, as media companies consolidate, minority viewpoints are less likely to get heard, he said. Minority interests are better represented when there are more sources of media and when people of color are able to own media outlets.

"To promote diversity and independent sources of news, the FCC must preserve sensible limits on media ownership," Cooper concluded.

On the **Web**
http://www.hearusnow.org/mediaownership/6/
www.hearusnow.org/other/newsroom/mediaownership/publicneedsdiverseandcompetitivesourcesforlocalnewsandinformation/
http://www.hearusnow.org/other/newsroom/mediaownership/newresearchshowsfccmediaownershiprulechangeswillharmlocalcommunitiesanddemocracyacrossnation/

Government Study Shows TRIA Extension Not Needed

The President's Working Group on Financial Markets released its study on the terrorism insurance market in October, offering conclusive evidence that no extension of the Terrorism Risk Insurance Act (TRIA) is needed, according to CFA Director of Insurance J. Robert Hunter.

The study, conducted by the Department of the Treasury, concludes that the capacity of the insurance industry to offer coverage for terrorist attacks like those of September 11 has expanded greatly in the last five years. It also found that insurers have allocated additional capacity to terrorism risk, prices for terrorism insurance have declined, and purchase rates have increased.

Confirming the research of CFA and other independent analysts, the only situations for which the report found a lack of private capacity was nuclear, chemical, or biological terrorist attacks.

Although in commissioning the study Congress did not ask the Treasury Department to make policy recommendations about the future of TRIA, "the unavoidable conclusion of this study is that TRIA should not be renewed when it expires at the end of the year," Hunter said. "There is absolutely no reason for beleaguered taxpayers and consumers to continue to subsidize a well-off industry that has the ability to provide broad terrorism coverage on its own," he added. "Moreover, the continued existence of TRIA beyond 2007 would stymie the explosive growth of the private market for terrorism insurance."

Hunter noted that the property-casualty industry reaped unprecedented profits — in excess of $100 billion — from 2003 through 2005, despite significant losses due to hurricane damage. The industry is on track to enjoy its most profitable year ever in 2006, "with profits approaching an unheard-of $70 billion," he said.

Private insurers clearly have the capacity to handle even losses from nuclear attacks of at least $100 billion, he said, after which a federal plan could operate that directly pays for losses to citizens and business. "Taxpayers should no longer be asked to cover terrorism losses except following the largest catastrophic attacks," he concluded. "Such an approach would encourage private sector insurance alternatives and act as an incentive for businesses to maximize their efforts to prevent terrorism losses. This will result in a safer America for us all."

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