



C O N S U M E R F E D E R A T I O N O F A M E R I C A

Chinese Import Scares Prompt Congressional Response

A series of recent incidents involving import of unsafe products from China has spurred Congress to address a variety of food and product safety issues, resulting in hearings, legislation, and the promise of further action.

The issue first began to draw scrutiny last Spring, when it emerged that China was the likely source of contaminated pet food that had sickened and killed thousands of dogs and cats nationwide.

As subsequent incidents have occurred – involving contaminated animal feed, poisoned seafood, unsafe tires, and massive recalls of toys containing lead paint – the issue has gained momentum.

“The recalls of imported products highlight inherent weaknesses of the federal health and safety agencies’ ability to protect consumers from unsafe products,” said CFA Senior Counsel Rachel Weintraub.

One measure that saw quick action in the wake of the toy recalls was legislation by Sen. Mark Pryor (D-AR) to give the Consumer Product Safety Commission (CPSC) full authority to act in the absence of a quorum.

The agency has been without a quorum since January, rendering it unable to vote on any issue, engage in rulemaking, or levy civil or criminal penalties.

The Pryor amendment, which extends the quorum for an additional six months, was added to legislation implementing the recommendations of the 9/11 Commission. That bill passed Congress in late July and was signed into law by the president in early August.

House Votes to Speed COOL Implementation

The House also included language in the Farm, Nutrition and Bioenergy Act of 2007, H.R. 2419, to finally begin implementation of the long-delayed country-of-origin labeling (COOL) program for meat products.

That legislation passed the House in July.

The Senate agriculture appropriations legislation, which also includes language to speed adoption of the rule, is expected to come to the Senate floor in mid-September. However, the president has threatened to veto the bill over a separate provision related to farm subsidies.

Meanwhile, the U.S. Department of Agriculture (USDA) is working on developing a final rule for COOL. CFA submitted comments to the agency in August urging it to look to the language in the House bill in developing its final rule.

“In a time of heightened concern about the safety of food imports, consumers are looking to country-of-origin labeling to help them figure out where their food is coming from,” said Chris Waldrop, Director of CFA’s Food Policy Institute. “COOL is long overdue.”

The problems have drawn particular attention to the inadequacy of measures to inspect imported goods.

Import-Safety Plan Proposed

Testifying before the U.S. Senate Commerce Committee in July on behalf of CFA and Consumers Union (CU), Donald Mays, Senior Director of Product Safety and Technical Administration for CU, outlined an eight-step plan of action “to protect consumers from the onslaught of hazardous imports.”

These include:

- providing increased resources to government safety agencies to prevent unsafe products from crossing U.S. borders;
- holding suppliers, importers, distributors, and manufacturers accountable for bringing unsafe products to the market by requiring pre-shipment inspections and testing to ensure product safety;
- developing U.S. government-administered, third-party safety certification programs for all products;
- developing a product traceability program for country-of-origin labeling for food

and consumer products as well as for all components and ingredients;

- requiring that importers post a bond to ensure they have sufficient resources to recall their products should they prove dangerous or defective;

- giving all agencies with enforcement authority the power to levy meaningful civil penalties for manufacturers, importers, distributors, and retailers who fail to comply with regulations, and criminal penalties for those who knowingly and repeatedly jeopardize public safety;

- authorizing mandatory recall authority for all government agencies; and

- requiring all government agencies to publicly disclose information pertaining to safety investigations and reports of adverse events.

Mays noted in his testimony that 467 products were recalled in the United States last year, a record-high level, and that the number of Chinese-made products recalled has doubled in the last five years. In addition, Mays noted that recalls of Chinese-made products have accounted for 60 percent of all the product recalls and 100 percent of the toy recalls

this year.

“It is no coincidence that, as we import more and more food and consumer goods, we are recalling products at record-high levels,” Mays said. “We need to stop unsafe products before they cross our borders rather than rely on after-the-fact recalls to remove them once they are here.”

“Our proposed recommendations would help make all products safer, no matter where they are made,” added CFA’s Weintraub.

In August, after Mattel announced yet another recall of toys contaminated with lead paint, Weintraub issued an additional set of recommendations designed specifically to protect children from unsafe products.

The recommendations largely track those outlined in the Senate testimony, but also include a proposal to improve consumer notification about recalls by requiring manufacturers to directly communicate news of a recall to purchasers or owners of the recalled product.

“Parents should not have to conduct chemistry experiments in their homes to determine

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House Adopts CAFE-Free Energy Bill

The House adopted energy legislation in August that would promote energy efficiency and the use of renewable fuels but would not require automakers to increase the fuel efficiency of their vehicles.

Although CFA had urged the House to include an increase in Corporate Average Fuel Economy (CAFE) standards in the bill, CFA nonetheless endorsed the House bill as “a vital step towards a sound energy policy that lowers consumer costs, improves national security, and protects our environment.”

Among the most important provisions of the House bill is its requirement that utilities produce at least 15 percent of their power from renewable sources by 2020. A comparable requirement was not included in the Senate energy bill.

In an August letter to the full House endorsing the bill, CFA Legislative Director Travis Plunkett and Research Director Mark Cooper also singled out for praise bill provisions to:

- establish higher efficiency standards for appliances;
- provide assistance to low-income families and rural areas, which have been the hardest hit by rising energy prices; and
- give small businesses economic incentives to improve energy efficiency.

House Focus on Renewables Praised

Through these and other provisions, H.R. 3221 “addresses the burden that rising energy prices place on consumers and the economy, as well as the burden that increased energy consumption places on the environment,” Plunkett said.

The Senate adopted its energy bill in June. That bill requires automakers to increase their CAFE standards to a fleet-wide average of 35 miles per gallon by 2020, up from the current 25 miles per gallon.

At the time, Cooper called increasing fuel efficiency “the sweet spot of energy policy” and noted that, under the Senate provision, the nation would consume 100 billion gallons less gasoline in the next decade, cut imports by 15 percent, and reduce greenhouse gas emissions by one billion tons.

Automakers responded to the Senate action with stepped up efforts in the House to water down the fuel economy provisions. They endorsed alternatives that would have given automakers more time to meet the requirements and would have continued to exempt trucks from the standards.

CFA issued an economic and technological analysis of the competing proposals in July showing that the alternatives being pushed by the automakers would not pro-

duce the reductions in oil consumption identified by President Bush as necessary for national security.

Alternative CAFE Bill Doesn't Provide Needed Gains

“The alternative bill being pushed by the automakers would leave unrealized at least one half and probably three quarters of the fuel savings, national security benefits, and cuts in greenhouse gas emission” promised by both the Senate bill and the Markey-Platts alternative in the House, Cooper said.

“We know the auto industry can and should implement meaningful fuel economy increases,” he said, adding that past history shows they “won’t take this step unless they are required to do so.”

“Rising gas prices have changed the landscape of what is possible and affordable when it comes to fuel economy technology,” Cooper said.

“The problem is timing,” he added. “We can’t get the oil savings we need for national security and global warming reasons without moving more quickly than either the market or the industry-sponsored bills allow.”

He added that, if Congress had continued to set higher fuel economy standards for the past two decades, “we wouldn’t be in this mess today. While fuel economy stayed

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Farm Bill Threatens Meat Inspection System

At the same time members of Congress are looking to improve the safety of imported food, the farm bill passed by the House in July includes a provision consumer advocates say will weaken food safety programs and increase the risk of foodborne illness.

The provision in question eliminates the 40-year-old protection that prohibits shipping state-inspected meat and poultry across state lines, opening the way for cross-border sales of products from state inspection systems.

Supporters of the measure argue that state inspectors are more understanding of company problems. But food safety advocates, including CFA, criticized the measure on the grounds that it:

- would make 80 percent of all federally inspected plants eligible to leave federal inspection in favor of state programs;
- would prevent states from imposing additional or higher food safety standards; and
- ignores the inability of states to implement recalls of adulterated meat and poultry that has crossed state lines.

"We fear this is the first step in dismantling federal meat inspection," said Carol Tucker

Foreman, Fellow of CFA's Food Policy Institute.

"This provision puts our health at the mercy of a multitude of state inspection programs that vary in rigor and science and ability to withstand political pressure," she added.

The provision was included in the House farm bill, H.R. 2419, despite a U.S. Court of Appeals decision that Congress was justified in limiting sales of state-inspected meat and a report by USDA's Office of the Inspector General (OIG) that found that USDA was allowing states that did not meet federal food safety standards to continue operating their inspection programs.

Moreover, although USDA annually reviews each individual foreign plant that ships to the United States, it does not review individual state-inspected plants. The OIG report found evidence of serious shortcomings in these plants, including state-inspected plants where cutting boards were contaminated with bits of meat left over from the previous day's work and where employees failed to properly monitor cooking temperatures.

CFA joined with the Center for Foodborne Illness Research and Prevention, Food and Water Watch, Government Accountability

Project, National Consumers League, Safe Tables Our Priority, the United Food and Commercial Workers International Union, and the American Federation of Government Employees in writing to House members before the vote in opposition to the measure.

Passing the measure "was a bad decision,

and if the House Agriculture Committee had held hearings on the measure we would have told them that," Foreman said.

The Senate is poised to mark up its version of the farm bill in mid-September and will likely take up the issue of state-inspected meat at that time.

Chinese Import Scores

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whether a product is safe," Weintraub said. "Manufacturers, importers, and retailers must take responsibility to ensure that the products they sell do not pose risks of harm to children."

Safety Bills Introduced

A number of product safety bills have been introduced in both the House and the Senate, including bills to reauthorize the Consumer Product Safety Commission. CFA is currently analyzing the bills and has yet to issue any endorsements.

Meanwhile, Sen. Richard Durbin (D-IL) has introduced legislation, S. 1776, to raise more money to hire FDA inspectors to

check imported foods by imposing fees on companies and countries exporting seafood, fruits, or vegetables into the United States.

Countries wishing to export food to the United States would have to show that their food safety standards are equivalent to those in the United States and be certified.

Consumer advocates, including CFA, have raised questions about the user-fee approach and have called for stronger protections.

Lawmakers were expected to give renewed attention to these issues after returning from August recess.

On the Web

www.consumerfed.org/pdfs/Press_Release_Meat_Inspection_7-26-07.pdf
www.consumerfed.org/pdfs/House_Letter_Meat_Inspection_7-26-07.pdf

CAFE-Free Energy Bill

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flat, oil imports tripled."

Ultimately, Democratic House leaders made a tactical decision to prevent a vote on the competing CAFE measures in order to prevent a divisive floor fight and with a hope that the Senate CAFE language can be added to the bill in conference.

Negotiations on a final energy package were expected to resume as soon as Congress returned from its August recess.

Industry Ignores Consumers' Fuel Economy Demands

The need for congressional action on CAFE is supported by a CFA study, released in July, which found that U.S. automakers have failed to improve fuel economy despite gas prices that have been rising since 2000.

As gas prices escalated in 2001, automakers promised fuel economy improvements. Instead, they actually decreased the number of fuel efficient vehicles available in 2007, even as they increased the number of models sold, according to the report, "Still Stuck in Neutral: America's Continued Failure to Improve Motor Vehicle Economy."

Specifically, as the average price of a gallon of gas rose from \$1.12 to \$2.75 from 1998 to 2007, the number of car models getting at least 30 miles per gallon fell from 61 to 46. The number of models getting less than 30 miles per gallon rose during the same period from 745 to 1,083.

During this period, the combined average fuel economy in the new vehicle fleet rose less than one mile per gallon – from

24.6 to 25.4 mpg.

Because automakers argue that it takes time to incorporate new efficient technologies into new models, the report also looked more closely at the period from 2005 to 2007, by which time automakers had had ample opportunity to respond to escalating gas prices.

U.S. Automakers Break Fuel Efficiency Promise

The study found that during this period more than two-thirds (68 percent) of the 19 most popular Asian models improved in fuel efficiency, but less than half (48 percent) of the 31 most popular U.S. car models did.

"The failure of the U.S. auto industry to keep their promise to improve fuel economy after the gasoline price escalation of 2000-2001, coupled with their opposition to a meaningful increase in fuel economy standards, has undermined their credibility with the public and with members of Congress," Cooper said.

A new national survey commissioned by CFA confirms that view, finding public concern about gas prices, dependence on Middle Eastern oil, and global warming have increased significantly.

On the Web

www.consumerfed.org/pdfs/House_Letter_H.R.3220_8-2-07.pdf
www.consumerfed.org/pdfs/CAFE_Timing_Press_Release_7-26-07.pdf
www.consumerfed.org/pdfs/Technology_Cost_Timing.pdf
www.consumerfed.org/pdfs/Markey_Vs._Hill_Comparison_Letter.pdf
www.consumerfed.org/pdfs/Auto_Response.pdf
www.consumerfed.org/pdfs/Still_Stuck.pdf

In each case, large majorities expressed concern – 82 percent about prices, 74 percent about oil import dependency, and 61 percent about global warming. Moreover, the percentage expressing concern has risen considerably since the same question was asked in October 2006 – by 18 percentage points for prices, 7 percentage points for import dependency, and 10 percentage points for global warming.

"This great and growing concern about gasoline-related issues helps explain the overwhelming public support for requiring automakers to make more fuel efficient vehicles," said CFA Public Affairs Director Jack Gillis.

Public Supports CAFE Increase

Nearly nine in ten survey respondents (88 percent) voiced support for stronger fuel economy standards.

Those survey findings are supported by other indicators based on consumer purchase decisions. From 2004 to 2006, for example, sales of SUVs and pickup trucks, once the fastest growing market segment, declined by 8 percent. From 2005 to 2007, the greater a vehicle model's fuel economy, the more likely it was to increase in sales rank.

"U.S. automakers can no longer defend their lack of fuel economy progress by claim-

ing that they just give consumers what they want," Gillis said.

"Our analysis of the models consumers choose, the desperate efforts of U.S. automakers to push low-mileage vehicles, and public opinion surveys indicate that they have lost touch with public sentiment," he added. "Forcing the U.S. car companies to improve their fuel economy through legislation has become critical to ensuring their future success and protecting the jobs of millions of U.S. workers."

CFAnews

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Congress Urged To Restore Consumer Banking Protections

Testifying before the House Financial Services Committee in July, CFA Legislative Director Travis Plunkett called on Congress to restore important consumer protections lost when the Supreme Court ruled that states are preempted from enforcing consumer protection laws against national banks.

The hearing was one of a series Financial Services Committee Chairman Barney Frank (D-MA) has said he plans to hold to examine the state of consumer protection in the financial services industry in the wake of the *Watters v. Wachovia Bank, N.A.* decision.

Plunkett testified at the hearing on behalf of Consumer Action, Consumers Union, the Center for Responsible Lending, the National Consumer Law Center, and U.S. Public Interest Research Group, as well as CFA.

The best solution for consumers would be for Congress to clarify and limit the Office of the Comptroller of the Currency's preemptive authority, Plunkett said, restoring the ability of the states to assist in protecting consumers who purchase financial services from national banks.

Chairman Frank has made it clear, however, that while he opposes preemption, his focus will be on whether and how to

strengthen protections under the federal laws.

With that in mind, Plunkett outlined a number of consumer protection standards for the Committee to use to evaluate the effectiveness of financial services regulation and to propose changes to improve federal efforts.

"One of the most difficult problems that the Committee will face in attempting to improve consumer protection efforts is a culture of coziness with the financial institutions they regulate at most of the agencies and an insensitivity to consumer concerns," he said.

As evidence of this problem, he noted that most of the regulatory failures highlighted in his testimony are in areas, such as oversight of high-cost "overdraft" loans, where federal regulators have existing authority to act and have chosen not to do so.

"Simply increasing the authority of the agencies to write or enforce rules, or to offer a unified complaint hotline, will not change the culture in some agencies that has caused them to ignore festering problems in the credit arena or to reject adequate consumer protection measures," he said.

In order to improve federal consumer protection efforts, serious underlying problems with the regulatory culture must be

addressed, he said, including:

- a focus on safety and soundness regulation to the exclusion of consumer protection;
- the huge conflict of interest that some agencies have because they receive significant funding from industry sources;
- the balkanization of regulatory authority between agencies that often results in either very weak or extraordinarily sluggish regulation (or both); and
- a regulatory process that lacks transparency and accountability."

The key to addressing these problems, Plunkett said, is "to make the regulatory process more independent of the financial institutions that are regulated."

One way to do that, he said, is to allow the Federal Trade Commission (FTC) to bring enforcement actions against national banks

and thrifts for unfair and deceptive trade practices and to allow the FTC to initiate regulation of these entities.

This should be supplemented both by a private right of action that allows consumers to privately enforce federal laws and by concurrent enforcement authority for states.

Finally, Congress should act "to rein in lending abuses where agencies have shown an unwillingness to act vigorously, such as credit card lending, sub-prime mortgage lending, and the use of deceptive and high-cost 'overdraft' loans by national banks."

"Unless the underlying causes of federal regulatory failures are addressed to achieve greater independence from regulated institutions and to grant more power to consumers to enforce the law, protections for consumers will not improve," he concluded.

On the Web

www.consumerfed.org/pdfs/Financial_Services_Regulation_House_Testimony_072507.pdf

Fed Urged To Address Mortgage Abuses

Facing pressure from Congress to respond to a growing subprime mortgage crisis, the Federal Reserve Board has indicated it is considering using its authority under the Home Owners Equity Protection Act (HOEPA) to address abuses in the mortgage market.

A broad coalition of consumer, community, and civil rights groups wrote to the Board of Governors of the Federal Reserve System in August making the case for the Fed to use its HOEPA authority in this way.

"The current crisis in the subprime market requires strong action," said Allen Fishbein, CFA Director of Housing and Credit Policy. "Through the 1994 HOEPA, Congress directed the Fed to adopt rules to prohibit unfair and deceptive practices that would apply to both bank and non-bank mortgage lenders. It is a shame that the Fed has waited so many years to act."

Last year saw a 40 percent increase in the number of home foreclosures, to more than one million, the groups noted in their letter. By the end of the first quarter of 2007, over five percent of subprime loans were in foreclosure, and another eight percent were over 90 days delinquent.

"It is incumbent upon the board to restrict abuses, at least in the subprime market, and give homeowners the ability to directly protect their homes," the groups wrote.

They called on the Fed to: ban prepayment penalties; require escrowing for taxes and insurance; prohibit "stated income" or "low doc" loans; require that creditors only originate

loans for which the borrower has the ability to repay the loan under the terms of the contract; and prohibit yield-spread premiums or, at a minimum, clarify that lenders who pay yield-spread premiums are liable for broker acts and omissions.

The groups are pushing the Fed to go beyond the regulatory guidance action announced by federal banking regulators in June, when they released a Joint Statement on Subprime Mortgage Lending to address issues related to certain adjustable-rate mortgage (ARM) products that can cause payment shock.

Unlike the Fed's unfair and deceptive practices authority, the latest regulatory policy does not apply directly to the many independent mortgage companies responsible for making so many of the problem subprime loans, nor does it arm consumers with new protections to ward off predatory lenders. The new Fed rules could change this.

The issue was expected to be a major focus of Congress as it returns from the August recess, with both Senate Banking Committee Chairman Christopher Dodd (D-CT) and House Financial Services Chairman Barney Frank (D-MA) indicating they plan to introduce legislation.

"The current foreclosure epidemic was entirely predictable and very avoidable," Fishbein said. "It is critical that Congress enact strong measures to curb the lending abuses that led to the current mess. It must not be allowed to happen again."

Anti-consumer Insurance Bills Advance

Shortly before the August recess, the House Financial Services Committee approved legislation to renew and expand the Terrorism Risk Insurance Act (TRIA).

CFA wrote to committee members in July opposing the bill, H.R. 2761, on the grounds that it "provides a generous and unnecessary subsidy to over-capitalized insurers and large real estate developers."

The letter from CFA Legislative Director Travis Plunkett and Insurance Director J. Robert Hunter urged the committee to instead "sharply cut back and reconfigure TRIA to cover truly catastrophic terrorism losses."

"Considerable objective research indicates that insurers do not need TRIA to provide adequate terrorism capacity in the vast majority of cases and that terrorism coverage is widely available at a lower cost," Hunter said.

"Market conditions are ideal for the House to reduce government assistance in order to spur the growth of the private market for terrorism insurance and protect taxpayers," he added.

Bill Would Extend, Expand TRIA

Instead, the legislation would expand TRIA coverage to domestic terrorism, to nuclear, biologic, chemical and radiation attacks, and to group life policies. It would lower the TRIA "trigger" at which free coverage begins from \$100 million in losses to \$50 million in losses, and it would retroactively grant TRIA coverage in New York City at much lower levels than under the rest of the program to large building owners and real estate developers near Ground Zero.

CFA opposes all these changes.

"Not a single provision in the bill would reduce insurer coverage or increase their financial risk in any way," Plunkett said.

Hunter noted that this approach dramatically reduces the incentive for developers to invest in safer buildings, as the bill does not even impose mitigation requirements in exchange for the free reinsurance it offers.

The Senate was expected to take up the issue soon after returning from August recess. Senate Banking Committee Chairman Christopher Dodd (D-CT) has said he supports a long or permanent extension along the lines granted in the House bill, but Ranking Member Richard Shelby (R-SC) does not.

The administration also opposes the bill.

Flood Insurance Bill Advances

The House Financial Services Committee also adopted legislation in July, H.R. 3121, to overhaul the flood insurance program.

CFA has opposed that legislation, as well, on the grounds that it does not do enough to provide a comprehensive reform of the program.

Among other things, CFA has urged Congress to prevent "write your own" insurance companies that offer flood coverage from using egregious "anti-concurrent causation" clauses in their homeowners' policies to refuse to pay legitimate wind claims.

Instead, the House panel adopted an approach that would add wind damage coverage to the flood insurance program. CFA has opposed that approach on the grounds that, like the TRIA expansion, it exposes taxpayers to additional costs without providing sufficient reforms.

On the Web

www.consumerfed.org/pdfs/Letter_to_Fed_on_HOEPA_8-9-07.pdf

On the Web

http://www.consumerfed.org/pdfs/TRIA_House_Letter_7-23-07.pdf

Groups Fault FTC Insurance Credit Scoring Report

The Federal Trade Commission released a controversial report in July on insurance credit scoring which concluded that credit scores effectively predict the claims that consumers will file and that, as a result, their use is likely to cause the price of insurance to better match the risk of loss that consumers pose.

Consumer and civil rights organizations criticized the study as biased, arguing that it was based on data handpicked by the insurance industry and that it downplays its own findings about the racial impact of insurance credit scoring.

"The FTC's approach to collecting data for the analysis is like the federal government trying to do a study on the health impacts of tobacco use with data selected by tobacco companies," said Allen Fishbein, CFA Director of Housing and Credit Policy.

The FTC should have required submission of comprehensive policy data by large numbers of insurers, the groups maintained. "By relying on handpicked data, the FTC gave the insurance industry the opportunity to control the outcome of the study," Fishbein said.

Congress Urged To Ban Insurance Credit Scoring

The groups called on Congress to reject the "flawed and biased study" and, based on the available evidence of racial discrimination, to ban the use of insurance credit scoring.

Even though it relied on handpicked data, the study nonetheless found that "credit scoring discriminates against low-income and minority consumers and that insurance scor-

ing was a proxy for race," the groups charged.

"The FTC study confirms that, despite growing reliance on credit-based insurance scores, scant evidence exists to prove there is a meaningful connection between a consumer's score and auto insurance losses," Fishbein said.

In insurance credit scoring, insurers use consumers' credit reports to determine insurance eligibility and premiums. Unknown to most consumers, it has become one of the most important factors in determining how much a consumer pays for auto or homeowners insurance.

The practice was adopted by insurers after major companies were sued for fair housing violations for their use of other unsupported standards and stereotypes with a racial proxy effect.

Consumer and civil rights groups have complained that use of credit-based insurance scoring is simply a way of reintroducing racial and ethnic effects into the pricing of insurance. Previous studies by the Missouri and Texas Departments of Insurance supported that allegation.

Congress mandated the FTC study as part of the Fair and Accurate Credit Transactions Act of 2003.

The groups charged that the study fails to respond to the congressional mandate to examine the impacts of insurance credit scoring on the availability and affordability of auto and homeowners insurance and to determine whether credit scoring is truly related to insurance losses or simply a proxy for race,

income, or other factors. Moreover, it buries its own finding that the alleged correlation between risk and credit-based insurance scores might be explained by other factors.

Consumers Don't Understand Credit Scores

Meanwhile, a new survey released in July by CFA and Washington Mutual (WaMu) found that consumer understanding of credit scores remains poor, even as credit scores have become an increasingly powerful force in the financial lives of Americans.

"Consumers who have obtained their credit scores know more than those who have not," said CFA Executive Director Stephen Brobeck. "But overall, consumer understanding of credit scores is poor and has not improved over the past two years."

The findings are based on surveys conducted by Opinion Research Corporation in August 2005 and May 2007.

Fewer than three in ten respondents (29 percent) in 2007 knew that a credit score measures the risk of not repaying a loan, a slight increase over the 27 percent who answered this question correctly in 2005.

Less than a quarter (24 percent) knew the

lowest score likely to qualify a borrower for a low-cost mortgage was 700. (That question was not asked in 2005.)

Meanwhile, nearly three quarters (74 percent) incorrectly believed that credit scores are influenced by income, up from 69 percent in 2005.

While 62 percent knew that they could raise their score by paying off a large credit card balance, and 71 percent knew that making a credit card payment 30 days late would lower their score, those percentages were down from 65 percent and 74 percent respectively in 2005.

"Unfortunately, many consumers do not understand the most important facts about credit scores," Brobeck said.

Using industry data to determine the impacts of higher credit scores on consumer costs, WaMu estimated that consumers with an average score would reduce credit card finance charges by \$76 annually if they raised their score by 30 points.

If all consumers raised their scores by 30 points, total consumer savings on credit cards alone would exceed \$20 billion.

Senate Panel Examines Credit Repair Protections

The Senate Commerce Committee held a hearing on telemarketing issues in July that included consideration of an exemption from the Credit Repair Organizations Act (CROA) for credit monitoring services. Rep. Paul Kanjorski (D-PA) has introduced legislation (H.R. 2885) in the House that would provide such an exemption.

CFA and five other leading national consumer organizations wrote to the committee in advance of the hearing urging them not to weaken CROA. "CROA is a vital and important consumer protection law and would be undermined by this legislation far beyond the stated purpose of relieving credit monitoring activities from coverage under the act," they wrote.

Currently, CROA applies broadly to any person who, in return for money, provides services to improve a consumer's credit record. Only non-profit organizations and a few other entities are exempted. In addition to requiring key disclosures and mandating important contract terms, the act prohibits anyone offering credit repair services from violating standards of truthfulness, fraud or deception.

Advocates for consumers have found CROA to be a useful tool in dealing with a range of bad actors in the credit marketplace, including credit repair businesses, debt collectors, or subsidiaries of credit reporting agencies that make deceptive claims about their ability to improve consumers' credit scores.

"The proposed amendment to CROA for credit monitoring activities includes broad and sweeping exemptions," said CFA Legislative Director Travis Plunkett. "As a result, any business could escape the coverage of CROA by slightly changing the description of what it does, and CROA's current strict prohibition against deception and fraud would no longer apply."

So far no action has been taken on the legislation.

On the Web

www.consumerfed.org/pdfs/CROA_Letter_Senate_Commerce_7-30-07.pdf

On the Web

www.consumerfed.org/pdfs/Press_Release_re_FTC_Scoring_Study072407.pdf
www.consumerfed.org/pdfs/Credit_Score_Release_07_19_07.pdf

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