

# CFA news

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## Congressional Budget Ax Threatens State Energy Conservation Programs

Consumers won a major victory on January 27 when the U.S. Supreme Court declined to review lower court decisions in *U.S. v. Exxon Corporation*. In this government enforcement action, a federal district court found that Exxon had violated federal price control regulations in effect from 1973 to 1981 by overcharging purchasers of its crude oil.

As a result, the company was ordered to pay \$2.1 billion as restitution to state governments, which must use the funds for one or more of five federal energy conservation programs. The funds were allocated to states in March, promising remedies for the damages done to consumers through Exxon's overcharges.

But this triumph soon may be negated. Moves are afoot in Congress to substitute the Exxon settlement funds for federal appropriations—though this would violate a 1982 congressional action, which the federal court adopted, requiring that overcharge funds be used to "supplement, not supplant" existing federal and state resources.

Thus, a basic principle of restitution—that benefits should compensate consumers for past injury—is threatened by members of Congress seeking a quick fix in reducing the federal deficit, and by the Reagan administration's acquiescence in these efforts.

### Senate Proposes Cuts

Under the Exxon settlement, states are required to allocate the overcharge funds for one or more of the following federal programs; the Low-Income Weatherization Program, the Low-Income Home Energy Assistance Program (LIHEAP), the schools and hospitals weatherization program, the Energy Extension Service (modeled on the agriculture extension service), and the State Energy Conservation Program (which funds state energy conservation and planning programs).

This disbursement is in accordance with section 155 of Public Law 97-377, passed in 1982 and known as the Warner Amendment. The Warner Amendment specifically requires states to use the overcharge funds in addition to, not in lieu of, other state and federal funds for these programs. It also prohibits states from using overcharge monies for costs incurred in administering the five programs.

Yet the Budget Resolution for fiscal year 1987, passed by the Senate Budget Committee, ties full funding for the LIHEAP and low-income weatherization programs to enactment of legislation recouping part of the states' share of unspecified oil overcharge restitution monies. This legislation

would recover \$943 million in FY 87 and recover a total of \$2.25 billion over three years.

If the recoupment legislation is not passed before action is taken on the FY 87 appropriations bills, the Labor, Health and Human Services Subcommittee and the Interior Appropriations Subcommittee would be obligated to secure the full \$943 million in savings in FY 87. This action is called "cross walking" the savings to the Subcommittees.

Should this "cross walk" occur, the actual funding for LIHEAP would be cut by half, while funding for low-income weatherization would be slashed by two-thirds—clearly, a violation of the court order that restitution monies "supplement, not supplant" existing funding.

### DOE Would End Program

In addition, the Reagan administration's 1987 budget for the Department of Energy would eliminate appropriations for the low-income weatherization program. A number of states have voiced concern over this

measure. Since the Warner Amendment prohibits using overcharge dollars for administrative expenses, states could be left without federal funds for administering the program.

In testimony before the Subcommittee on Oversight and Investigations of the House Committee on Energy and Commerce, Rollee H. Efron of the U.S. General Accounting Office pointed out the danger in terminating the low-income weatherization program. "[B]y eliminating Federal FY 1987 funding for this program, DOE makes it much harder for the states to obtain sufficient funds from other sources to maintain the same level of support for its conservation programs in order to qualify for the Exxon funds."

### Action to Protect Programs

Proposals are circulating to offer a technical amendment to recoupment legislation that would protect the LIHEAP and low-income weatherization programs, without changing the overall savings assumed

in the Senate Budget Resolution. This amendment would:

- Eliminate the "cross walk," or allocation of savings from the recoupment legislation, to Labor and Interior Appropriations Subcommittees.
- Shift the assumed savings from recoupment legislation from the two functions under which the LIHEAP and weatherization programs fall to the function known as Undistributed Off-setting Receipts.

The National Consumer Law Center is closely monitoring developments on the distribution of Exxon settlement funds. The center has prepared background materials on the issues and would appreciate receiving information on state decision-making procedures and proposals. For more information, contact Charles Hill, National Consumer Law Center, 236 Massachusetts Ave., N.E., Washington, D.C. 20002.

## 16th Annual Awards Dinner

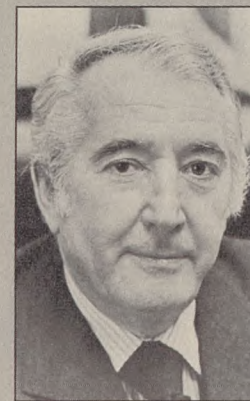
The Consumer Federation of America will honor five outstanding consumer leaders at its 16th Annual Awards Dinner on Wednesday, June 11.

Rep. Mary Rose Oakar (D-Ohio), a member of the House Banking Committee, and Rep. Peter Rodino (D-N.J.), chairman of the House Judiciary Committee, will receive the Philip Hart Public Service Awards. The Philip Hart Distinguished Consumer Service Award will be presented to Public Citizen President Joan Claybrook, and to Consumer Action, a San Francisco-based advocacy group. CA Executive Director Ken McEldowney will accept the award on behalf of his organization. Betsy Ashton, consumer correspondent for WCBS-TV in New York, will be given the Outstanding Media Service Award.

The awards dinner, CFA's major fundraising event of the year, will be at the Capital Hilton Hotel in Washington, D.C. A 6 p.m. reception will be followed by a buffet dinner at 6:45 p.m. For more information, contact Erika Landberg, CFA administrative director, 1424 16th St., N.W., Washington, D.C. 20036.



Rep. Mary Rose Oakar



Rep. Peter Rodino



Joan Claybrook



Ken McEldowney



Betsy Ashton

CONSUMER FEDERATION OF AMERICA

# New Study Exposes Excessive Credit Card Profits

**O**n April 21, CFA Legislative Representative Alan Fox joined with U.S. Rep. Charles R. Schumer (D-N.Y.) and representatives of Public Citizen's Congress Watch and BankCard Holders of America at a press conference releasing a study that reveals the exorbitant profits being earned on credit cards.

The profitability study, which was based on research conducted by the Federal Reserve Board and the *Nilson Report* (a respected industry newsletter), found that the rate of bank profit on credit cards was more than five times higher than the rate of bank profits on their total lending. These and other figures on the banks' credit card earnings belie the industry's claim that credit card issuers must charge 18.5 percent and higher to make a profit.

"Credit card issuers—both banks and retailers—continue to defy the laws of free market physics," Schumer said. "Although commercial loans, personal loans and the cost of money have dropped by 50 percent and more in the past few years, credit card interest rates have climbed," Schumer said. While noting that credit card interest rates have declined slightly in the past year,



CFA Legislative Representative Alan Fox answers questions about credit card interest rates.

Schumer pointed out that the pace of decline is significantly slower than drops in other loan rates.

- The study also found that:
- banks made \$3.6 billion in profit from

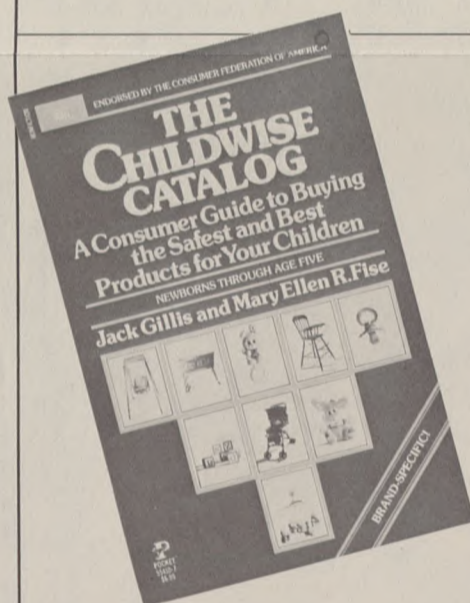
- their credit card business in 1985;
- credit card interest rates could have been four points lower if banks made the same profit on credit cards as they did on their overall lending;

- consumers could have saved \$3 billion in 1985—or more than \$40 per person—if banks had charged that reasonable rate.

Schumer also announced that Rep. Fernand St Germain (D-R.I.), chairman of the House Banking Committee, had agreed to hold a full-committee mark-up session on CFA-backed disclosure legislation for credit card issuers. HR 4197, co-sponsored by Schumer and Rep. Toby Roth (R-Wis.), would require issuers to include in all their applications and unsolicited mailings an easy-to-read table disclosing all the rates and fees associated with their cards. Schumer said a bipartisan majority on the banking committee has pledged to support the legislation.

While the disclosure bill would promote competition in the industry, Schumer echoed CFA's advice to "shop around for a credit card with a low interest rate." Also released at the press conference was a list of 51 banks scattered around the country that offer Visa and MasterCard with interest rates below the national average, demonstrating that such rates vary widely.

## Childwise Catalog Offers Parents Complete Guide to Child Safety



**E**ach year thousands of children die or are injured from products or practices common to the typical American household. Fortunately, many of these accidents can be prevented.

Parents and parents-to-be have long needed a single, comprehensive sourcebook to help them find the best and safest products for their children. A new CFA publication, *THE CHILDWISE CATALOG: A Complete Guide to Buying the Safest and Best Products for Your Children*, fills this need by providing parents with a guide to help them navigate an increasingly complex and technically sophisticated marketplace.

*The Childwise Catalog* offers brand-specific product comparisons of every conceivable product parents and their children might need—from breast pumps and car seats to toys and children's clothing—and lists factors to consider before purchasing, and safety tips to follow when using, children's products.

In addition, the 370-page catalog provides information and advice on such crucial aspects of child rearing as:

- health matters, such as medical emergencies, drugs, immunization and hidden hazards like air pollution, sun and radiation
- food and diet: allergies, prepared and homemade baby food, and drug and food interactions
- safety inside and outside the home
- how to select child care, babysitters, and schools, how to be sure that "hand me downs" are up to today's standards, protecting children from abuse, and more.

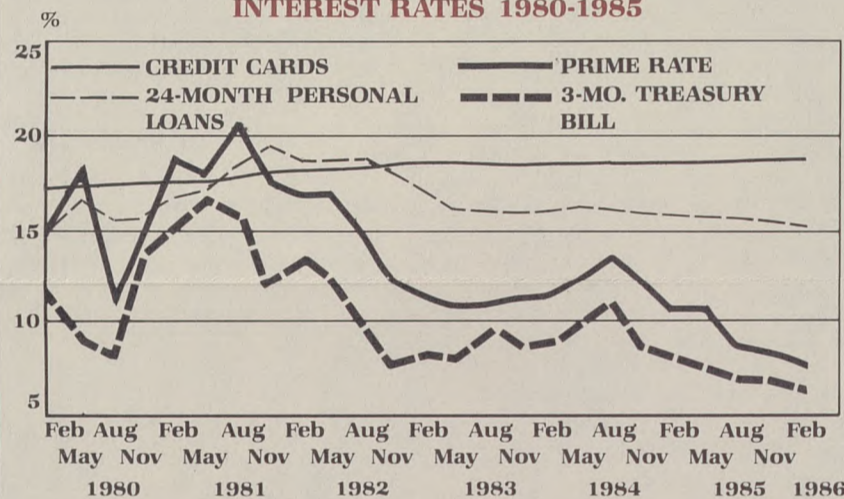
The book also includes a directory of outside resources, including a list of places to call for free consumer information.

*The Childwise Catalog* was written by CFA Director of Public Affairs Jack Gillis and CFA Product Safety Director Mary Ellen Fise. "CFA believes that not enough has been done to warn parents of the numerous hazards lurking in their children's environment," Gillis explained. "Obviously, there are hazards most parents know of, such as not leaving matches around for a child to play with. But few parents would suspect that the crib—a place where their child spends up to half of each day—was involved in 380 deaths from 1980 to 1984, and 11,700 injuries in 1984 alone," he said.

"With bigger and bigger slashes in safety agencies' budgets each year, consumers can no longer assume that the government is taking care of safety problems," Fise added.

*The Childwise Catalog*, which has drawn praise from Dr. Benjamin Spock, Congressman Timothy Wirth, and *Good Housekeeping* Editor-in-Chief John Mack Carter, is available by sending a check for \$7.95 (includes postage and handling) payable to CFA to: Childwise, CFA, 1424 16th St., N.W., Suite 604, Washington, D.C. 20036.

INTEREST RATES 1980-1985



## Tele-Consumer Hotline Expands Services



**I**n the past year, Tele-Consumer Hotline has greatly expanded its services to consumers. Consumer requests for information have increased substantially, and the Hotline has developed special services for the disabled.

The number of calls to the Hotline has risen from an initial 2,000 per month to more than 6,000 per month. To accommodate this surge in demand, new counselors have been hired and procedures introduced to raise the productivity of counselors.

Earlier this year, Pacific Bell joined Bell Atlantic, Southwestern Bell, BellSouth, and Mountain Bell as supporters of the Hotline. This entitled these companies to the Hotline's benefits in their service areas. Hotline services currently are being tested in the San Jose, California area, with the expectation they will be expanded to the rest of the state.

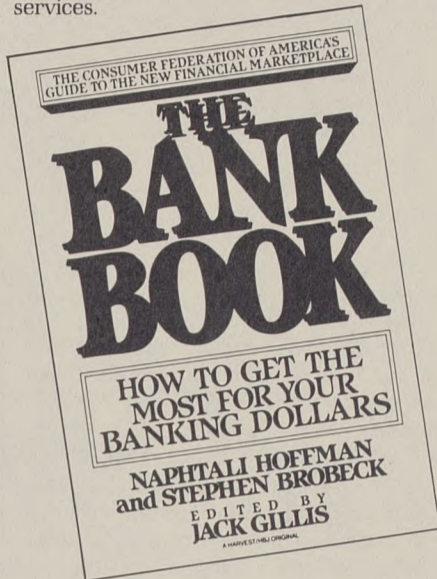
Recently, Hotline staff worked with C&P Telephone, the Maryland Public Service Commission, the Maryland Governor's Commission on the Hearing Impaired, the Office of the Maryland People's Counsel, and several deaf organizations to develop a "shopper's guide" on specialized customer premises equipment. The guide is an electronic data base about specific equipment available by disability type. It lists dealers selling the equipment, the equipment's specifications and its cost. When a caller reaches the Hotline, either by voice or through a TDD machine, a counselor instructs a computer to print out the information requested, which is then mailed to the caller.

This new service was announced at a Baltimore, Maryland press conference kicked off by Hotline Director Susan Katz. Special Assistant to the President Virginia Knauer also spoke at the conference.

CFA and the Telecommunications Research and Action Center established the Hotline in 1984 as an independent information service to meet consumer's information needs on telephone divestiture. Most callers request information about new choices in long-distance services, but the Hotline is also equipped to respond to questions about equipment, billing, and repairs.

# CFA Releases Unique Guide to Consumer Banking Services

How can consumers earn the most, pay the least, and get the most convenience from financial services transformed by banking deregulation? Recently the Consumer Federation of America (CFA) released *The Bank Book*, a 222-page guide to consumer banking services.



Published by Harcourt Brace Jovanovich, *The Bank Book*, is unique in several respects:

- It explains and makes recommendations on all banking services—mortgage loans, installment loans, credit cards, checking services, a dozen savings options, stocks and bonds, and electronic funds transfers such as ATMs and home banking.
- It incorporates results of the first comprehensive survey of these services at banks and savings and loans, citing hundreds of institutions by name.
- It exposes dozens of new banking practices that consumers should avoid, and identifies others of which they should take advantage.

The main purpose of *The Bank Book*, commented co-author and CFA Executive Director Stephen Brobeck, "is to provide information to help consumers shop more

intelligently for financial services. But we also hope it will stimulate competition among banking institutions and demonstrate the need for consumer banking legislation. What's especially needed is fuller disclosure of all fees and the terms on checking and savings accounts."

Much of the information in *The Bank Book* was collected in a comprehensive survey of all consumer accounts at more than 150 banks and savings and loans. This survey pinpointed hundreds of accounts and bank practices to avoid. These include:

- Bounced check charges of \$30.00.
- Money orders costing \$10.00 apiece.
- A monthly service fee of \$5.00 on a passbook savings account when a minimum balance requirement is not met.
- Bonus rates on money market deposit accounts at some institutions that are lower than the regular rates at others.
- Early withdrawal penalties nearly \$1,000 more on some three-year \$10,000 certificates of deposit than on others.
- Application fees on car loans as high as \$100 that are not included in the annual percentage rate (APR).
- A \$4.00 charge for paying a monthly bank card bill in full.
- A \$25.00 charge to close a savings or checking account within a year after it is opened.

*The Bank Book* makes hundreds of specific recommendations for getting the most out



CFA Executive Director Stephen Brobeck (right) and economics professor Naphtali Hoffman (center), co-authors of *The Bank Book*, discuss consumer banking services.

- Avoid savings accounts that use a low balance method of computing interest. Effective yields on accounts using this method can be less than one percent.
- If you need an installment loan, try to avoid borrowing from a finance company or retailer.
- Accident and health, and credit life insurance are expensive policies that should be purchased only if you have no other protection.
- Make every effort to pay off credit card balances in full every month. If you do not, you will not only be charged interest, but at most institutions, will also

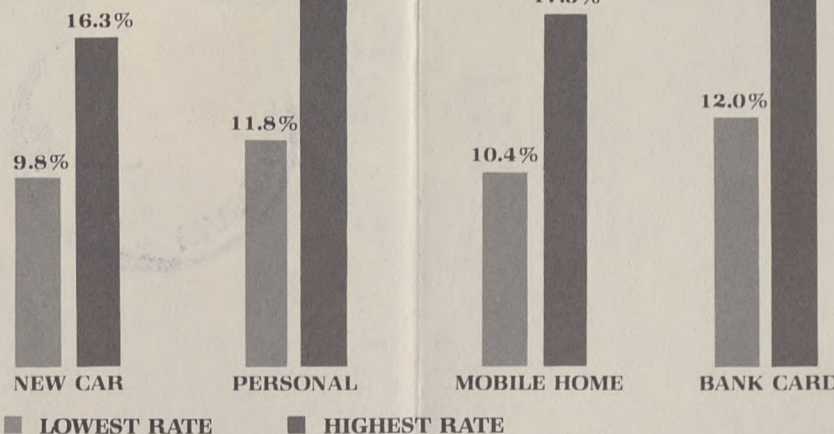
## Consumer Banking Charges\*

	Low	High
<b>Regular Checking</b>		
Monthly service	\$1.50	\$15.00
Per check	0	.50
Per deposit	0	.50
<b>NOW Accounts</b>		
Monthly service	3.00	20.00
Per check	0	.50
Per deposit	0	.50
<b>Other Checking Charges</b>		
Overdrafts	6.00	30.00
Stop payments	4.00	20.00
Copy of truncated check	0	5.00
Phone inquiry	0	3.00
Inactive account (mo.)	0	2.00
Early closure	0	25.00
<b>Miscellaneous Services</b>		
Annual safe-deposit box rental	0	40.00
Money order (nondepositor)	.75	10.00
Cashing a check (nondepositor)	0	7.00
<b>Regular Savings</b>		
Monthly service	0	5.00
Excess withdrawal	0	3.00
Inactive account (mo.)	0	1.50
Early closure	0	5.00
<b>Money Market Deposit Accounts</b>		
Excess withdrawal	1.00	25.00
<b>Installment Loans</b>		
Credit life insurance (mo.)	96.00	348.00
Accident & health insurance (mo.)	28.00	437.00
Processing fee	0	100.00
Late payment	5.00	(10%)
<b>Bank Cards</b>		
Annual fee (standard card)	0	50.00
Transaction fee	0	.12
Exceeding credit limit	0	15.00
Paying bill in full	0	4.00
Cash advance fee	0	(5%)
<b>Mortgage Loans</b>		
Loan application fee	0	300.00
Property appraisal	70.00	210.00
Credit check	0	50.00
Late payment	5.00	(6%)

\*Some fees levied only if minimum balance not met.

Source: 1984-85 survey of more than 150 banks and savings and loans conducted by Consumer Federation for *The Bank Book*.

## Range of CONSUMER LOAN RATES, AUGUST 1985



of consumer banking services. A few of the most important are:

- Place all bank deposits only in institutions insured by an agency of the federal government—the Federal Deposit Insurance Corporation (FDIC) for banks, the Federal Savings and Loan Insurance Corporation (FSLIC) for savings and loans, and the National Credit Union Share Insurance Fund (NCUSIF) for credit unions.
- For checking, use a NOW account with low minimum balance requirements to earn interest and avoid fees, or a credit union share draft, with short hold periods on deposited checks.
- Do not keep savings over \$1,000 in a passbook or statement savings account. Place them in a certificate of deposit or, if you need quick access to funds, in a money market deposit account or money market fund.

lose the "float" on subsequent purchases.

- The best way to finance a home is usually a fixed-rate mortgage paid back over the fewest possible years.
  - When interest rates drop, it is possible to avoid tens of thousands of dollars in mortgage interest charges by refinancing at a lower rate but keeping monthly payments at the same level, thus paying off the mortgage more quickly.
- Co-author with Brobeck of the banking guide is economics professor Naphtali Hoffman of Elmira College. Ten years ago, Hoffman and Brobeck collaborated on *The Cleveland BankBook*, a book-length guide to banking services in the Cleveland area.

The banking guide (222 pages/charts, tables) can be ordered by sending \$6.95 (which includes shipping costs) to *The Bank Book*, 1424 16th St., N.W., Suite 604, Washington, D.C. 20036.



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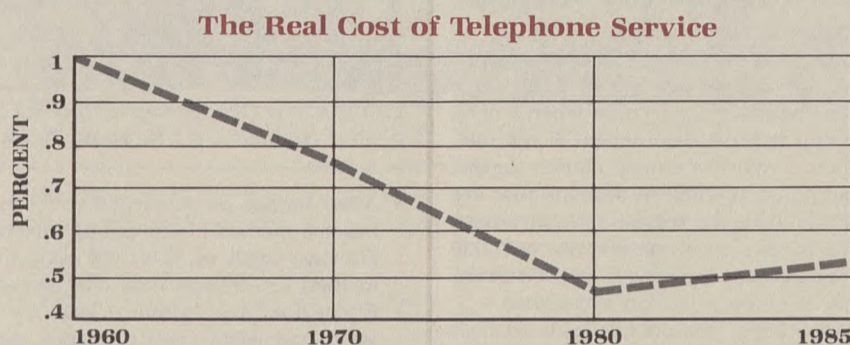
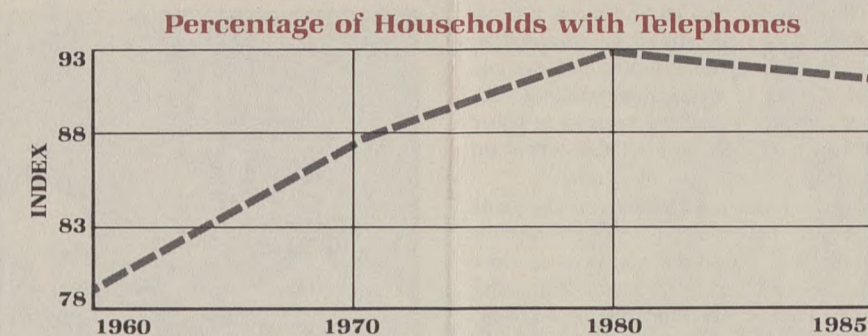
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# Congressional Focus Shifts to Telephone Ratepayer Protection

Congressional hearings intended to advance telephone legislation that would eliminate restrictions on local phone companies ended up focusing on the need to protect residential ratepayers. Under pointed questioning from Telecommunications Subcommittee members, representatives of two regional phone companies acknowledged that local rates should be stabilized near current levels if the terms of the Bell breakup are changed.

The March hearings before the Telecommunications Subcommittee of the House Energy and Commerce Committee considered legislation (HR 3800) that would allow Bell operating companies to expand into competitive information services and manufacture equipment. Co-sponsored by Reps. Al Swift (D-Wash.) and Tom Tauke (R-Iowa), the bill would permit the companies to offer services such as voice storage, as well as network data processing under minimal Federal Communications Commission regulations.

Yet, as CFA Legislative Director Gene Kimmelman emphasized at the hearings, this regulatory scheme cannot prevent phone companies from unfairly allocating much of the cost of new services to local rates. The principal limitation of the regulations is that the FCC's proposed accounting methods cannot properly allocate costs between monopoly and competitive services. The Bell companies could force residential rate-



Source: Bureau of the Census, 1960, 1970 and 1980 Census of Population and Housing; Current Population Surveys, March 1983-July 1985.

Bureau of Labor Statistics, Consumer Price Index.

payers to pay a disproportionate share of the enormous cost of network equipment and resources that both types of services use.

CFA's testimony succeeded in directing

the attention of Rep. Swift and other subcommittee members including Tom Luken (D-Ohio) and Dan Coats (R-Ind.) to ratepayer protection. Their sharp questioning of witnesses from Pacific Bell and U.S. West

elicited promises that a portion of all network costs, including fixed costs (such as lines and poles), would be allocated to new services. Such a cost allocation, Kimmelman pointed out, "runs counter to the controversial end-user access charges."

Proposed changes in FCC regulation of long-distance carriers and Bell operating companies aroused fears that residential rates would continue to escalate. (Past CFA studies have revealed increases in flat rates of 35 percent during the first two years of divestiture.) Under its Computer II rules, the FCC required these companies to separate competitive and regulated services.

But in its recent Computer II waivers and proposed Computer III rules, the commission would substitute accounting controls and, under certain circumstances, tariffing regulations for this separation. Even the U.S. Justice Department has expressed concern about Computer III, calling its cost-allocation accounting approach "presently but a hope, not a demonstrated reality."

Kimmelman said it was unlikely HR 3800 would move further through Congress this year, but noted it could well progress next year. There is no analogous legislation in the Senate, though Sen. Albert Gore (D-Tenn.) has introduced legislation that would allow phone companies to manufacture phone equipment and offer information services after abolishing end-user access charges.

## Utility Regulation Needs Basic Reform, CFA Says

Dramatic changes taking place in the electric utility industry require new principles of regulation on the state and federal levels, CFA Energy Director Dr. Mark Cooper recently noted in congressional testimony.

In a statement before the Subcommittee on Energy Conservation and Power of the House Committee on Energy and Power, Cooper criticized the "monumental failure of utility management and regulation" in investing billions of dollars in white-elephant nuclear power plants. This has led to excess, or excessively costly, generating capacity on which utilities cannot earn a full rate of return.

In the past, utilities have expected ratepayers to absorb the burden of mistakes in retrospect: "the industry expects to be rewarded for prudence, no matter how disastrous the result," Cooper said. Increasingly, however, mismanagement is leading to closer scrutiny of utility decision-making by state legislatures and public utility commissions.

Cooper outlined a series of principles of utility regulation that could be readily translated into concrete policies, including:

- Investment decisions must be proven to make consumers better off compared to some reasonable alternative before they are allowed to earn a return.
- Collection of revenues should be allowed when benefits are realized and only in proportion to the magnitude of the benefits.
- Utilities should not be allowed to threaten bankruptcy in order to be paid for bad investments.
- Incentives and penalties should flow through the rate of return.
- There should be a sharing of penalties and incentives, with the extremes of bankruptcy and large windfalls avoided.

"In order to ensure that we effectively achieve the goal of more efficient and equitable regulation, I believe that federal policy should lead by example, not preemption," Cooper said. "The vast majority of these decisions are and should remain state decisions."

Cooper concluded by further outlining the federal role: "Where the federal government has the lead responsibility in interstate and international commerce, it should encourage efficiency and lower costs. The mixed form of ownership in the industry—private, public and cooperative—should be encouraged. It improves the overall performance of a natural monopoly industry," he said.

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