CFA CFAnews
August/
September 1994
Volume 19, No. 5
ISSN #0732-8281

Senate Committee Approves Telecom Bill

In August, the Senate Commerce Committee gave overwhelming approval to telecommunications legislation designed to increase competition in the communications and information industries.

Like its counterpart which has passed the House, S. 1822 would allow regional Bell telephone companies into the previously restricted markets of information services, long distance, and equipment manufacturing. In return, the local telephone networks would also be open to competition.

As approved on an 18-2 vote, S. 1822 retains strong provisions to ensure that basic telephone rates remain low as the information superhighway gets built and that consumers pay only for those services they want.

On the other hand, a number of other consumer and competitive safeguards in the original bill were substantially weakened.

Universal Service Provisions Praised

CFA Legislative Counsel Bradley Stillman praised the provisions in the Senate bill which:

- "require everyone who uses the local network to share the costs, not just captive consumers;"
- prohibit monopoly local telephone companies from using basic telephone service revenues to cross subsidize competitive ventures; and
- create a mechanism to allow the definition of universal service to evolve based on consumer demand.

"It is critical that the information superhighway is not simply built on the backs of captive ratepayers, but is built instead by all of the companies that will benefit financially," Stillman said.

"We do remain concerned, however, that some of the most important consumer and competitive safeguards have been weakened or left out of the bill as voted out of committee," he added.

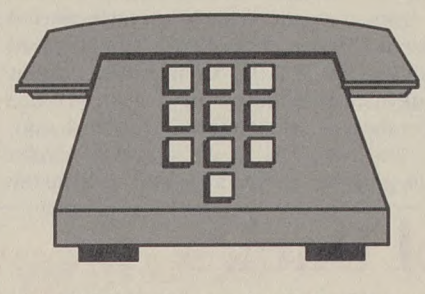
Consumer, Competitive Safeguards Weakened

Of particular concern are: the absence of post-entry safeguards against anti-competitive actions; the limited role given state regulators, particularly for defining and implementing universal service; the provisions governing entry into telecommunications by utilities; and the cable-telco buyout provisions.

The changes in the latter provisions, for example, would undermine the bill's competitive safeguards by allowing Bell companies to buy out cable companies in communities with populations under 50,000.

As a result, roughly 60 percent of the population may not benefit from head-to-head competition between cable and telephone companies.

In contrast, the House bill would allow buyouts only in communities of 10,000 or less that demonstrate some economic distress.



In addition, the test for Bell company entry into long distance services was substantially weakened. Originally, the bill required demonstrable competition for local services before Bells could enter long distance.

As approved by committee, the bill replaces that test with the current standard that allows entry when no substantial possibility exists that the company can use its market power to inhibit competition. The bill also includes technical requirements to make the local networks more accessible to competitors.

On the other hand, the Commerce Committee soundly rejected, on a 2-18 vote, an amendment offered by Sen. Conrad Burns (R-MT) designed to completely de regulate telephone service before competition develops.

Judiciary Hearing Scheduled

Sharing consumer advocates' concern that the bill's consumer and competitive safeguards had been excessively weakened by the Commerce Committee, Sen. Howard Metzenbaum (D-OH) said he will delay floor consideration of the bill until Judiciary Committee has had an opportunity to review it.

He has tentatively scheduled a hearing on S. 1822 for September 20 in his Subcommittee on Anti-Trust, Monopolies and Business Rights.

"Work still needs to be done to S. 1822 to make certain the pro-consumer, pro-competitive promise of the information age is fully realized," Stillman said.

"Congress must remember that this is not simply a battle between the Bell companies and the long distance companies. The consumer interest in low basic telephone rates, fair competition, and responsible deployment of the information superhighway should be the primary considerations in this debate," he said.

The House passed its version of telecommunications legislation in June. Substantial differences remain between the House and Senate versions which would have to be worked out before a final bill could be sent to the president.

Indoor Air Quality Bills Advance

The House advanced two indoor air quality bills this summer. In July, the House passed radon legislation, and, in August, the Energy and Commerce Committee reported out comprehensive indoor air quality legislation.

"This is the best opportunity we have ever had to win passage of these two important pieces of legislation. Together, they would go a long way to protect consumers' health against the hidden health risks posed by contaminated indoor air," said CFA Product Safety Director Mary Ellen Fise.

H.R. 2448, the Radon Abatement and Awareness Act, sponsored by Rep. Edward J. Markey (D-MA), was approved on a 255-164 vote.

Radon is the second leading cause of lung cancer in America, causing an estimated 7,000 to 30,000 deaths each year.

As approved by the House, the bill would:

- reauthorize key components of the Environmental Protection Agency's existing radon program;
- require real estate salespeople and homeowners to provide potential buyers and renters with an EPA pamphlet on radon hazards;
- give buyers the option to have the property tested before the final sale;
- require EPA to identify high radon areas and buildings and develop a plan to reduce those levels;
- mandate performance and proficiency standards for radon testing and mitigation products and services; and
- require EPA to develop construction standards and radon control techniques for new buildings in high-risk areas.

Weakening Amendment Defeated

Before approving the measure, the House defeated an amendment by Rep. Michael G. Oxley (R-OH) on a 227-193 vote that would have gutted the bill's requirement that radon risks be disclosed during real estate transactions.

The amendment, which had previously been defeated in committee on a 9-11 vote, would have replaced the real estate disclosure requirements with a requirement that EPA develop a program to distribute radon information in high-radon areas.

"In making the most expensive purchase of their lives — buying a home — consumers need to know the facts about this invisible gas," Fise said.

A similar, somewhat more comprehensive bill, S. 657, was reported out of the Senate Committee on Environment and Public Works last year and is awaiting floor action.

Radon legislation was approved by both the House and Senate in the last Congress but too late in the session to allow time to work out differences in the two bills.

Indoor Air Bill Clears Committee

For the first time, comprehensive indoor air quality legislation has been reported out of the full House Energy and Commerce Committee.

Introduced by Rep. Joseph P. Kennedy II (D-MA), H.R. 2919 would require EPA to:

- identify common significant indoor air health risks and provide voluntary guidance for reducing and preventing those risks;
- establish a voluntary indoor air contractor certification program to ensure that those engaged in identifying, reducing, or preventing indoor air risks are qualified to do so; and
- educate the public on how to reduce their risk through the publication of health advisories.

The Senate passed comprehensive indoor air quality legislation, S. 656, last fall. The bill is similar to bills that have passed the Senate in the two previous congresses but stalled due to House inaction.

"Years of research have clearly documented the threat to human health and lost productivity that result from the presence of a variety of contaminants in the air indoors," Fise said. "It is time for Congress to address these hazards in a comprehensive, coordinated fashion."

"We are very encouraged by the progress that has been made this Congress," she added. "We urge Congress to send radon and indoor air quality legislation to the president before the end of the session."

Credit Life Insurance Still Overpriced

Credit life insurance is still overpriced, according to a CFA and National Insurance Consumer Organization (NICO) report released in July.

Calling on states to improve the regulation of this product, CFA Executive Director Stephen Brobeck said that, despite rate cuts in many states, "in most states, credit life insurance is still overpriced."

"Consumers should be receiving at least 60 cents in benefits for each dollar in premiums paid, yet they actually get only 44 cents on the dollar," he said.

"This is a truly dismal performance, one that justifies the term 'rip-off' in more than half of the states," said NICO Director James H. Hunt. "Purchasers of the product are still overcharged more than $500 million a year," he added.

Entitled "Credit Life Insurance Revisited II," the study updates 1990 and 1992 CFA/NICO reports on credit life insurance. These previous reports urged states to lower authorized premium rates so that loss (or payout) ratios — the proportion of premium dollars collected that are paid out in benefits — would meet the 60 percent standard established by the National Association of Insurance Commissioners (NAIC).

Value Improves

The new report found that, in general, the value of credit life insurance held by consumers improved over the past five years.

Eighteen states lowered credit life insurance rates for an estimated annual savings to consumers of $200 million. More than 60 percent of this savings accrued to consumers in Texas, Georgia, North Carolina, and Florida.

Also, the nationwide loss ratio increased from 37.6 percent in 1989 to an estimated 44 percent in 1994. "Consumers of credit life insurance increasingly received more product for their money," Brobeck said.

The report stressed, however, that a 44 percent loss ratio is still well below the 60 percent NAIC standard.

Only the District of Columbia and three states — New York, Maine, and Vermont — have loss ratios above 60 percent. In 17 states, loss ratios are below 40 percent and rates are above $.50/$100 per year.

The 17 states are Alabama, Arkansas, Idaho, Indiana, Kansas, Kentucky, Louisiana, Mississippi, Montana, Nebraska, New Mexico, Nevada, Oklahoma, South Carolina, South Dakota, Tennessee, and West Virginia.

"These high-rate states should act immediately to lower prices and improve product value," Hunt said. "Bringing all the states into compliance with the NAIC standard would save consumers an additional $530 million."

States That Lowered Credit Life Insurance Rates Between 1990 and 1994

(Rates shown are per $100 of initial coverage per year in the term of debt)

State	1990 Rate	1994 Rate	% Reduction	Estimated Annual Savings
GA	$ .75	$.45	40%	$32.8 million
CO	.70	.49	30	5.6
NC[1]	.70	.50	29	27.6
TX	.50	.36	28	42.7
IA	.65	.47	28	6.8
AK	.60	.46	23	0.9
AL	1.00	.80	20	10.6
ND	.50	.40	20	1.2
OK	.85	.68	20	6.8
SC	.85	.68	20	11.3
OR	.55	.45	18	4.3
WI	.40	.33	18	6.5
VA[2]	.52	.43	17	9.7
FL	.60	.50	17	20.4
NE	.64	.55	14	1.9
ID	.60	.54	10	1.1
CA	.40	.38	10	7.1
MO	.60	.55	8	3.4
Total				$200.7 million

1) Only a quarter of the ulitmate savings in North Carolina will be achieved in 1994, but this chart shows the whole savings since the new rate schedule is a matter of law.
2) A Virginia law requires rates in 1995 to produce a 60 percent loss ratio. However, since the new rates had not been formally adopted at the time the report was released, the additional savings they will produce have not been included here.

Judiciary Panel Backs McCarran Repeal

The House Judiciary Committee voted 20-15 in July to phase in a partial repeal of the McCarran-Ferguson Act, which has exempted the insurance industry from federal antitrust laws for nearly 50 years.

The committee included the measure in health care legislation it passed August 1.

"While it does not provide for the total repeal of the McCarran-Ferguson Act, this bill represents a historic compromise that is supported by insurance industry, business, and consumer groups," said CFA Executive Director Stephen Brobeck. "It goes a long way to protect insurance consumers against anti-competitive insurance practices."

H.R. 9, sponsored by Judiciary Committee Chairman Jack Brooks (D-TX), is designed to make the industry more competitive and thus hold down premiums by prohibiting price-fixing and other anti-competitive actions.

Limits Phased In

The bill would phase in limits over three years on the industry's longstanding practice of sharing "trending" information. This information is used by insurance companies to project future costs and set prices.

Under the Brooks bill, companies would have to make their own projections or rely on private forecasting firms to do so.

To win support for the legislation, which has languished in committee for years, Rep. Brooks agreed to strip a number of provisions that had been contained in earlier versions.

As approved by committee, the bill would allow the industry to continue to share historical loss data, form liability pools to cover high-risk situations, use a uniform policy form, share information on occupational accidents and illnesses in order to set workers' compensation benefits, and use manuals that provide agents with common tables for calculating rates.

Compromise Wins Industry Support

This compromise, which CFA helped to broker, won the support of the American Insurance Association and the Independent Insurance Agents of America. The bill is also supported by CFA, Citizen Action, Consumers Union, the National Insurance Consumer Organization, Public Citizen, and U.S. Public Interest Research Group.

Those organizations wrote to House Majority Leader Richard Gephardt in August urging that H.R. 9 be included in any health care legislation passed by the House.

"As Congress moves to reform the health insurance industry, it presents a timely and appropriate opportunity to rein in the industry's anti-competitive behavior and eliminate this outdated and ill-conceived special exemption," the letter states. "American consumers need to be assured that the insurance marketplace in which they purchase products is a competitive one. In the absence of legislation doing away with the antitrust exemption, Americans will never have such assurance."

Campaign To Reform Baseball Launched

In August, CFA and Sports Fans United (SFU) kicked off a nationwide grassroots campaign to give baseball fans an opportunity to help bring an end to the current Major League Baseball strike and bring long-term reform to the game.

The goal of the campaign is to get Congress to pass legislation to repeal the antitrust exemption currently enjoyed by Major League Baseball and force it to abide by the nation's proconsumer, procompetitive antitrust laws.

Since the exemption was granted by the Supreme Court in 1922, every court that has heard a case on the issue has called on Congress to take action to end the exemption.

"Congress cannot escape responsibility for the current baseball strike, which has shut down one of the finest seasons in years," said CFA Legislative Counsel Bradley Stillman.

"Major League Baseball is an unregulated monopoly," he explained. "Requiring it to play by the same fair competition laws that govern the other major league sports will improve the situation for everyone effected by the strike, especially the fans."

Legislation Introduced

Legislation to curb the antitrust exemption has been introduced in both houses of Congress this year, by Howard Metzenbaum (D-OH) in the Senate and by Michael Bilirakis (R-FL) in the House.

In July, however, the Senate Judiciary Committee voted down a more limited bill that would have eliminated the exemption for purposes of labor issues. The House has not acted on the issue, but House Judiciary Chairman Jack Brooks (D-TX) has said he would consider the matter.

In addition, Sen. Metzenbaum and Sen. Orrin Hatch (R-UT) and Rep. Major Owens (D-NY) have introduced extremely limited companion bills designed to bring an end to the current strike. These bills would make any unilateral term or condition imposed by any party subject to the antitrust laws until a new agreement is reached.

Petition Drive Begun

The grassroots campaign has enlisted fan and consumer groups from around the country to distribute a national petition and contact congressional offices. Organizers have also set up an Internet mailbox (baseball@essential.org) to collect signatures on the petition and distribute information about what individual fans can do.

In addition, they have set up a toll-free national strike hotline (1-800-441-FANS) which fans can call to register automatically for the petition drive, request copies for others to circulate, and sign and receive a "fan fax," which will indicate how fans can help influence Congress.

"Only Congress can take steps to eliminate baseball's unfair, irrational, and anti-competitive special treatment and thus bring long sought peace and stability to Major League Baseball's labor relations," Stillman concluded.

CFAnews

CONSUMER FEDERATION OF AMERICA
1424 16th Street, N.W., Washington, D.C. 20036
(202) 387-6121

President: *Jean Ann Fox*
Executive Director: *Stephen Brobeck*
Assistant Director: *Ann Lower*
Research Director: *Mark Cooper*
Public Affairs Director: *Jack Gillis*
Product Safety Director: *Mary Ellen Fise*
Banking and Housing Director: *Chris Lewis*
Health and Safety Coordinator: *Diana Neidle*
Legislative Counsel: *Bradley Stillman*
Conference Manager: *Adele Ellis*
Assistant to the Director: *Mary Ponder*
Administrator: *Miguel Carpio*
Executive Assistant: *Lydia Grogan*
Indoor Air Coordinator: *Katherine Hanemann*
Administrative Assistant: *Matthew Gordon*
Office Assistant: *Milena Carpio*
CFAnews Editor: *Barbara Roper*

CFAnews is published eight times a year. Annual subscription rate is $25 per year.

Design & Typeset by: Dahlman/Middour Design

Community Lending Bill Clears Congress

In August, Congress sent President Clinton a scaled down version of community development bank legislation he proposed last year as a means to provide credit to poor, under-served areas of the country.

"The commercial banking industry has largely abandoned the nation's low-income and minority communities. This legislation is a modest, but innovative step toward restoring a modicum of fairness to our nation's banking system and spurring capital provision into distressed communities," said CFA Director of Banking and Housing Policy Chris Lewis.

The bill establishes a new government corporation, the Community Development Financial Institutions Fund, to provide financial and technical assistance to alternative lenders that make loans in under-served areas.

Known as community development financial institutions (CDFIs), these lenders include community development banks, credit unions, and loan funds that have community development lending as their primary focus and operate principally in communities under-served by traditional lenders.

The fund, authorized at up to $382 million for fiscal years 1995 through 1998, will provide matching grants to the CDFIs.

The final version of the legislation contains a provision, strongly opposed by CFA and other consumer advocates, to funnel one-third of any money appropriated for the fund into rebates on deposit insurance premiums for commercial banks and thrifts that make loans or offer basic banking services in inner cities and other under-served areas, essentially rewarding compliance with the Community Reinvestment Act.

Modified somewhat from the provision originally included in the House bill, these rebates are to be provided to depository institutions primarily for activities that aid CDFIs.

A conference committee on the VA-HUD appropriations bill had agreed to fund the measure at $125 million in 1995 as this issue of the newsletter went to press.

Bill Addresses Home Equity Abuses

In a victory for consumers, the conference report contained provisions from the Senate bill to end certain abuses associated with high-cost home equity loans.

The bill imposes additional disclosure requirements — including a warning that defaulting could cause the home owner to lose the home — on loans with interest rates higher than 10 percentage points over comparable Treasury securities or with up front points and fees totalling more than eight percent or $400, whichever is greater.

Other practices are prohibited altogether, including negative amortization loans, most balloon payments, and abusive prepayment penalties.

Conferees also adopted House language to prohibit lenders from making loans without regard to consumers' repayment ability and to prohibit lenders from making payments directly to home improvement contractors.

"While we would have preferred a broader approach that codified prohibitions against unfair and deceptive practices and created stronger incentives against engaging in such practices, this legislation will help to end some of the worst abuses currently operating in the home equity marketplace," Lewis said.

Interstate Branching Bill Cleared

As this issue of the newsletter went to press, the Senate cleared interstate branching legislation on a 94-4 vote September 13.

The House gave final approval to interstate branching legislation in August, but the bill had stalled in the Senate because of a disagreement between Rep. Henry Gonzalez (D-TX) and Sen. Phil Gramm (R-TX).

Rep. Gonzalez succeeded in inserting a provision in the conference report, over Sen. Gramm's objections, overturning a recent federal court decision that preempted a Texas Constitution prohibition on second mortgages.

Sen. Gramm, a supporter of interstate branching, had said he would attempt to remove the provision on a procedural motion during Senate floor debate. Ultimately, however, he decided not to follow through on that threat.

The bill removes the few remaining barriers to interstate banking, preempting states' rights to continue to restrict such activities. In addition, bank holding companies that own multi-state networks will be permitted to consolidate these banks into branches, rather than retaining them as separately capitalized banks.

"Congress is determined to tear down long-standing branching safeguards without sufficient measures to ensure the accountability of the nation's largest banking corporations to consumers," Lewis said.

Consumer groups have long opposed interstate bank branching on the grounds that it would lead to anti-competitive concentration and to reduced lending and fewer banking services in many communities, particularly poor communities.

The president is expected to sign the bill.

House Passes Weak Insurance Anti-Redlining Bill

The House gave voice vote approval in July to a bill designed to curb "redlining" by insurance companies, but which contained so many concessions to the insurance industry that it was not supported by consumer groups.

Consumer groups had endorsed a far stronger measure by Rep. Joseph P. Kennedy II (D-MA), which was approved by the Banking Committee last year.

But the Banking Committee lost a jurisdictional fight with Energy and Commerce Committee on the issue.

As reported out of Energy and Commerce, the bill would require most large insurance companies writing home and automobile policies in the nation's 25 largest metropolitan areas to begin in 1995 to report information on the type and number of policies issued, broken down by five-digit zip code. The requirement would sunset after five years, with an optional two-year extension.

Attempts to strengthen the measure on the House floor were unsuccessful.

Companion legislation has been introduced in the Senate, but committee action on the Senate legislation is considered unlikely. The Senate may, however, consider adopting the House bill without amendments.

Roper Named To SEC Advisory Panel

Barbara Roper, Director of Investor Protection at CFA, has been named to the U.S. Securities and Exchange Commission's newly created Consumer Affairs Advisory Committee.

The panel was created by SEC Chairman Arthur Levitt to "improve the SEC's outreach to investors in their role as consumers of financial services and products" and to make the SEC "more responsive to consumer needs."

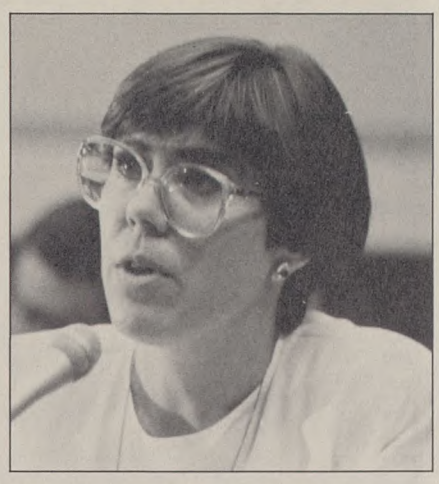
"Chairman Levitt has made a genuine effort — through creation of this committee and through other initiatives — to improve communication between consumers and the SEC," Roper said. "I am optimistic that participating on this committee will allow me and other consumer advocates to have a voice in shaping the SEC agenda."

Roper said one of her top priorities on the committee is to push for improved disclosure in a variety of areas, including more detailed investment adviser compensation disclosure and plain English mutual fund disclosure in advance of fund sales.

"The entire securities regulatory system is based on the premise that, given adequate information, investors can make informed choices and, thus, protect themselves," Roper said. "For that to work, investors need access to key information in an understandable format before they make investment decisions.

"Too often the information provided investors is either inadequate or incomprehensible, or it is provided after the investment decision has been made," she added. "A major overhaul of the disclosure system, a sort of 'truth-in-investing' initiative, is needed."

Roper also said she hopes to use her position on the committee to support efforts initiated by Chairman Levitt to reform abuses in the securities industry's compensation system.



CFA Director of Investor Protection Barbara Roper

"We have argued for some time that compensation reform is needed. Chairman Levitt deserves a lot of credit for raising this highly controversial issue and forcing the industry to examine the conflicts of interest inherent in its compensation system," she said. "We are anxious to work with the SEC to minimize those conflicts."

The committee includes representatives of consumer organizations, investor groups, and state regulators, as well as industry representatives.

The first meeting was held in late May and focused on the issues of securities litigation reform, the mutual fund off-the-page prospectus proposal, and "rogue" brokers.

NASD Drops Anti-Investor Arbitration Rule

Having received an overwhelmingly negative response, the National Association of Securities Dealers has withdrawn its proposed rule change regarding pre-hearing offers of award in arbitration.

"The proposed rule would have further tilted the arbitration system against investors by intimidating them into accepting unfair settlement offers," said CFA Director of Investor Protection Barbara Roper. "The NASD made the right decision in withdrawing it."

Under the rule, investors who refused a settlement offer would have been liable to pay the defendant's attorney's fees and costs if they later won less in arbitration, even if they ultimately prevailed.

The rule would have been triggered when total claims exceeded $250,000. By including punitive damages in the trigger, the rule would have discouraged investors from filing for punitive damages that would have pushed their claim above the threshold.

CFA and the American Association of Retired Persons submitted joint comments in opposition to the rule change, stating that it was particularly unfair "in light of the limited discovery available in arbitration and the highly unpredictable nature of arbitration awards."

"The rights of defrauded investors are under attack in litigation 'reform' legislation currently before Congress and in industry proposals to eliminate punitive damages and limit their representation options in arbitration," Roper said. "The withdrawal of this proposal is one small step in the right direction."

Competition Should Build Info Superhighway

The information superhighway should be built through competition, with consumer-driven demand determining the way it develops, Federal Communications Commission Chairman Reed Hundt said in a keynote address at CFA's utilities conference.

The various parallel networks that currently serve our communities — telephone, cable, electric utilities — should be encouraged to compete, not just in providing product over the network, but in building the network itself, he said.

"The race to build the broadband interactive network is probably the ultimate competition that we as consumers are going to be able to enjoy," Hundt said.

Instead of having the government pick technological and applications winners and losers, "what we should commit to is letting consumer demand drive this revolution, but insist that it is a revolution based on competition," he said.

Hundt acknowledged that "transitions to competition are difficult," but he insisted that "it is worth it." "Competition can and will do a better job of creating markets where you have choice than regulation can ever do," he said.

The development of the information superhighway also raises questions of universal access, he said, and one area of access the administration is particularly concerned about is access for children through schools.

"We basically have in our country a Third World standard of communications in our classrooms," he said, adding that President Clinton is committed to getting all classrooms wired.

"The information superhighway represents the gateway to our future prosperity," Hunt said.

Universal Access Focus Misguided

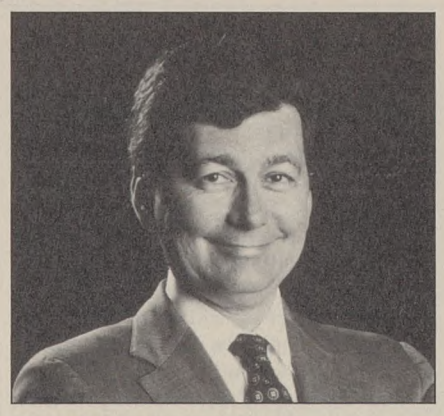
Consumer advocates have taken the "path of least resistance" in focusing on the technological aspects of universal access when they should be focusing on the need to educate people to take advantage of these new technologies, said Michael Schrage, a columnist for the *Los Angeles Times* and a Research Associate at the Massachusetts Institute of Technology's Sloan School.

In a speech on "Utility Deregulation: Consumer Challenges and Opportunities," Schrage said that it is not enough just to wire the schools, for example, you have to make sure that there are tutors available and provide matching grants for training and education.

"If one really cares about issues of access, you have to be willing to make just as much investment in human capital as in technology," he said.

Schrage also emphasized the importance of allowing competition to develop before proceeding with wholesale deregulation.

As the communications industries are deregulated, the goal should be to encourage them "to produce the broadest range of services at competitive prices," he said.



FCC Chairman Reed Hundt

To accomplish that goal, however, Schrage said we must learn the lessons from past efforts at deregulation. He cited three such lessons:

"Deregulation without disclosure assures deceptive and fraudulent practices;"

"Deregulation without supervision and accountability means management will mismanage risk;" and

"Deregulation without competition guarantees that vendors will try to behave like monopolists."

A Consumer-Friendly Superhighway

In a session on "Building a Consumer-Friendly Information Superhighway," Susan G. Hadden, Professor of Public Affairs at the University of Texas LBJ School of Public Affairs, questioned the wisdom of relying too heavily on competition to determine the development of the information superhighway.

If the network is simply allowed to evolve based on competition, "the way it will evolve is a superhighway in and a dirt path out for most consumers," she said. For consumers to benefit, however, the network must be truly interactive, she said.

Eli M. Noam, Professor of Finance and Economics at Columbia University and Director of the Columbia Institute for Tele-Information, advocated a more hands-off approach.

"We really should let things take place through the marketplace," as long as ratepayer money is not at risk, he said. "If the shareholders want to invest money in these things . . . I don't care how much they spend," he added.

Noam accused consumer advocates of protecting the monopoly and advocated lowering the barriers to allow competition to develop.

The problem is that shareholders generally do not bear the risk, said CFA Research Director Mark Cooper. The network is being built largely with "back door taxes" in the form of excess profits paid by ratepayers, he said.

Perhaps the most important protection to ensure that the information superhighway develops in a consumer-friendly fashion is to have a workable economic test of competition, and not to deregulate until competition is in place, he said.

"Simply creating the conditions may or may not create competition," he said.

Coop Housing Advocates Brief Senate Staffers

Advocates of federally subsidized cooperative housing for the poor and elderly briefed Senate staffers in June on proposals to remove barriers to cooperative home ownership.

The proposals are based on findings of a study commissioned by the National Cooperative Bank and conducted by two Urban Institute economists. The study, which tracked the Department of Housing and Urban Development's insured loan performance between 1958 and 1993, showed that cooperatively owned properties have experienced lower default rates than non-profit or for-profit owned projects and have incurred lower "bail-out" costs than other forms of ownership.

"One of the problems of the poor is that, except for the perpetuation of welfare programs, they don't have a stake in society. Cooperative housing can provide that stake — something that disadvantaged families can own, build equity in, and be responsible for maintaining and improving," said CFA Executive Director Stephen Brobeck, who participated in the briefing. Cooperative housing has the additional benefit of providing a natural support group for low income families, he added.

Despite these advantages, federal policies discriminate against cooperative home ownership, the study found. For example, federal tax policy favors rental housing over home ownership; Freddie Mac only purchases share loans on a pilot basis; and Fannie Mae charges a greater premium for cooperative loans than for single-family loans.

The report recommends the following policy changes:

- Cooperatives should be given full access to subsidized housing programs on a par with other ownership types, including non-profit. For example, the HOME program sets aside 15 percent of each year's allocation for community-based non-profit housing developers. Cooperatives should be given access to this and other program preferences.
- The rules governing the development of cooperative housing nationwide should be expanded. Relaxed limits on cooperative housing as part of the overall affordable housing base could open up additional sources of financing to cooperative housing developers at relatively low financial risk to the federal government.

HUD is reportedly considering several of the recommendations made by the study, including changing certain Federal Housing Authority rules that have prevented some cooperatives from accessing HUD's traditional development programs and putting cooperatives on more equal footing with non-profits in a number of HUD programs.

CFAnews

Consumer Federation of America
1424 16th Street, N.W. • Washington, D.C. 20036 • (202) 387-6121

Mark Your Calendar

Financial Services Conference

December 1-2, 1994