JULY- AUGUST 2006, VOLUME 32, NO. 4, ISSN #0732-8281

CFAnews

CONSUMER FEDERATION OF AMERICA

Real Estate Cartel Sets Prices, Harms Consumers

Traditional real estate brokerage firms and their associations function as a cartel that tries to set prices and restrict service options, according to a CFA report released in June.

These efforts are often successful, and will continue to succeed "unless federal and state governments effectively oppose all anti-competitive practices and unless home sellers and buyers more aggressively question and negotiate with real estate brokers," said CFA Executive Director and report author Stephen Brobeck.

The desire of traditional brokers to maintain six to seven percent commissions and the opportunity to "double dip" — where one broker collects the entire commission — lies behind almost all of their anti-competitive actions, the report found.

"The preoccupation of many traditional brokers with maintaining their compensation largely explains not only their opposition to discount and fee-only brokers, but also their defense of seller-paid commissions, advocacy of anti-rebate and minimum service laws, and efforts to maintain control of multiple listing services," Brobeck said.

Anti-competitive Practices Harm Consumers

The harm to consumers from these practices takes three basic forms described in the report.

First, traditional brokers try to charge high, uniform prices regardless of the training and experience of the broker, the specific services offered, the number of brokers involved, and the function of the broker — as fiduciary agent or facilitator promoting the sale.

Second, traditional brokers who work with both seller and buyer in a home sale almost always function as facilitators even though consumers, especially sellers, have been led to believe the brokers are functioning as fiduciary agents.

Third, to increase the chances of a "double-dip," many traditional brokers promote their own listings to sellers and, if these are not attractive, the listings of their firm.

The report also describes five factors that allow traditional brokers to restrict price and service competition:

• **Seller-Paid Commissions.**
Sellers and seller brokers are reluctant to lower commission splits to brokers working with buyers for fear that properties will not be shown. "If sellers and buyers negotiated broker compensation separately, brokerage services and prices would quickly become unbundled," Brobeck said.

• **Discrimination Against Non-traditional Brokers.**
This discrimination takes the form of anti-rebate and minimum service laws, which traditional brokers have persuaded many state legislatures to pass, as well as more subtle forms, such as failing to show listings of discount or fee-only brokers or making access to property listings difficult for exclusive buyer brokers or rebaters.

• **Listing Services.**
The domination of unregulated multiple listing services by traditional brokers allows them to restrict full access to broker clients, to hide commission splits from consumers, and to restrict non-traditional brokers from access or full information.

• **Lack of Consumer Knowledge.**
First-time home buyers typically know very little about brokerage services and their pricing. Those selling one home and buying another tend to be preoccupied with matching these sales. "As a result, many consumers do not shop and negotiate for brokerage services as carefully as they would purchase a car or other expensive product," Brobeck said.

• **Regulatory Capture.**
Practicing real estate brokers make up a large majority of all state real estate commissioners who are supposed to regulate the industry. "If insurance leaders were to serve as insurance commissioners, or utility executives as public service commissioners, newspapers would report these blatant conflicts of interest on page one and editorialize against them, but that is the norm on real estate commissions," Brobeck said.

The latter issue is discussed in detail in a second CFA study released in July.

That report found that, in most states, state regulators have failed to adequately inform, educate, and protect home sellers and buyers using brokerage services, and in some states these regulators have instead acted to restrict competition and consumer choices.

"Several real estate commissions have supported controversial minimum service laws that have been actively opposed by the U.S. Department of Justice," said CFA Senior Researcher Patrick Woodall. "These laws were developed by traditional brokers who sought to restrict the services offered by non-traditional Internet-based or discount brokers."

Industry Dominates Commissions

The real estate licensure laws of every state establish a regulatory agency, usually called a real estate commission or board, which is granted broad and exclusive rule-making and enforcement powers. In all states but California, Illinois, and Minnesota — which have full-time professional regulators — commissions are dominated by practicing real estate brokers.

More than two-thirds (68 percent) of all real estate commissioners are required by statute to be active real estate salespeople, brokers, or licensees. In most states, agent commission members are required to have current licenses.

Four states — Idaho, Louisiana, Mississippi, and Nevada — require that all commissioners be real estate brokers or salespeople. An additional eleven states require at least four-fifths of commissioners to hold real estate licenses.

But actual broker participation on commissions is even more extensive than that required by law.

CFA research found that four-fifths (79 percent) of all commissioners earn a living through real estate transactions. Seventy percent of all commissioners are real estate brokers or salespeople. And another nine percent are affiliated with businesses — developers, appraisers, title agents, and real estate attorneys — with direct ties to the industry.

Moreover, those working for large real estate firms wield the most influence on the state commissions. More than one-fourth (26 percent) of all broker commissioners work for one of the three largest residential real estate brokerage services, and nearly one-tenth (9 percent) work for large regional firms that dominate local markets.

Regulatory Reform Needed

"There is a great and growing need for effective, independent regulation of residential real estate brokerage services," Brobeck said.

Over the past five years, more than 30 million houses and condos have been sold, and last year alone consumers spent more than $60 billion in commissions.

At the same time, complaints against brokers are increasing rapidly and are not always dealt with effectively by regulators. For example, existing consumer protections, such as state disclosure laws, are not being enforced effectively, according to a recent

(Continued on Page 2)

New Approach to Energy Policy Needed

One year after the administration's energy policy was signed into law, consumers are paying record high prices for gas, and the majority of the cost increases have gone to profits for domestic oil companies, according to a report released in August by CFA and Consumers Union (CU).

"Things have gone from bad to worse for consumers," said CFA Research Director and report author Mark Cooper.

"While drilling bills that can do little to lower prices or solve our national oil addiction in the long term have passed both houses of Congress, efficiency and consumer protection legislation is stalled," he said.

The report, "Time to Change the Record in Energy Policy," shows that, since last summer, the amount of money that oil companies take for domestic refining and marketing — the domestic spread — has increased by 34 cents per gallon, which is more than the 31 cents per gallon increase in crude oil costs over the same period. As a result, the report estimated that this year's summer driving bill would be about $12 billion higher than last summer's.

Furthermore, since 2002, which was the last time summer gasoline sold at $1.50 per gallon, domestic crude and refining/marketing have accounted for an 85-cent per gallon increase in the price of gasoline.

"Because the price increases are not driven by costs, oil industry profits have skyrocketed," Cooper said.

Current Policies Promote Excess Profits

Oil companies will make more money this year than they did in the years from 1995 to 1999 combined, he noted. When compared to the Standard and Poor Industrial, the industry will have $120 billion in excess profits in the 2001-2006 period.

"Cash flow has increased so fast that the industry simply cannot absorb it," Cooper said. "Cash flow has exceeded net new investment by $120 billion, yet Congress continues to lavish favors on the industry."

For example, recently enacted legislation to expand drilling in environmentally sensitive coastal areas "will do little to lower prices or free our nation from its addiction to oil," Cooper said.

According to the report, about 85 percent of the oil in coastal areas is already available for drilling, the small increment of oil to be drilled in the new areas constitutes less than two percent of global reserves, and it equals

(Continued on Page 2)

Wealth-Building Program Continues To Expand

America Saves, the initiative created by CFA to encourage moderate-income Americans to save and build wealth, continues to expand and add new programs.

Launched seven years ago with a single local campaign in Cleveland, the campaign enrolled its 50,000th Saver in March. Offering proof of the campaign's growing momentum, that number had already passed 57,000 by the end of August.

The campaign received a letter from the Board of Governors of the Federal Reserve System in recognition of this achievement. "We congratulate America Saves for helping people appreciate the importance of saving, for giving them the education and skills they need to translate that knowledge into action, and for helping people change their savings behaviors," stated the letter signed by Federal Reserve Board Chairman Ben Bernanke.

"We are gratified by the progress to date," said America Saves National Coordinator Nancy Register. "But we will not be satisfied until we have enrolled hundreds of thousands of Savers who make a serious commitment to personal wealth accumulation."

Among the latest initiatives in support of that goal is organization of an America Saves week designed to raise awareness of the program. Planning is underway for a launch the week of February 25, 2007, with participation by both local campaigns and national partners.

Savings Campaign Provides Hands-on Support

The America Saves campaign is built around the notion, supported by research, that people in virtually all income groups can save and build wealth, but they often need knowledge, encouragement, and support to do so.

The campaign combines motivational workshops to encourage participation with hands-on assistance from wealth coaches and financial planners. In many communities, supporting financial institutions offer no- or low-fee accounts to those who enroll as Savers.

Upon enrolling, individuals adopt a wealth-building goal and commit to a plan for achieving that goal. The most popular savings goal is building an emergency fund, selected by approximately 21 percent of Savers, followed by investment and homeownership, chosen by 19 and 17 percent respectively.

Once they enroll, Savers can get help from wealth coaches on how to develop that plan and where to find extra money to save. Savers also have access to savings tips and other information in the American Saver newsletter and on the campaign website (www.AmericaSaves.org).

The campaign recently revamped its website to make it more user-friendly for Savers. The website also includes information for the media and for those interested in organizing a campaign.

Local, National Initiatives Promote Saving

America Saves combines national initiatives — such as Black America Saves, Hispanic America Saves, Youth Saves, and the newest national effort Military Saves — with state and local campaigns.

The majority of Savers, over 40,000 have enrolled through one of 30 state or local campaigns underway in 21 states.

These campaigns span the country: from the West (California, Arizona, Utah, Colorado, and Texas), to the Midwest (Kansas, Missouri, Wisconsin, Illinois, Indiana, and Ohio), to the Southeast (Kentucky, Tennessee, Alabama, Florida, Georgia, North Carolina, and Virginia), to the Northeast (Maryland, Pennsylvania, and New York). Many more campaigns are currently in the planning stages.

The first local campaign, Cleveland Saves, has enrolled the most Savers — at more than 7,000. Statewide campaigns in Tennessee and Georgia have enrolled more than 4,000 and 3,000 Savers respectively. And another five campaigns have enrolled between 2,000 and 3,000 Savers each.

Many of these campaigns are supported by Cooperative Extension offices, with Cooperative Extension staff providing leadership in 16 campaigns and participating in another 14 campaigns.

"Cooperative Extension has greatly strengthened America Saves," Register said. "Cooperative Extension agents are logical leaders because of their financial expertise and commitment to financial education of less affluent populations."

Military Saves Expands Reach

In addition to the partnership with Cooperative Extension, one of the most promising campaign developments in recent years is the growth of Military Saves.

CFA has hired Sarah Shirley, who oversaw the successful launch of Military Saves at Eglin Air Force in February, to work full-time with the Department of Defense, the military services, and supporting financial services and non-profit organizations on developing Military Saves.

Shirley, a military chaplain, continues to wear the uniform as an Air National Guardsman.

"The Departments of Navy and Army have caught the vision of troops building wealth through debt reduction and saving," Shirley said. "We will see life-changing, creative work from the military services as we ramp up for Military Saves Week in 2007."

In addition to targeting particular populations, such as the military and minorities, national initiatives are also built around specific savings strategies. These include Saving through Homeownership and Saving on Auto Purchases.

For example, using grants from settlement of discrimination lawsuits against two automotive finance companies, America Saves is seeking to inform minority consumers about how to purchase a car and related financing.

The campaign has secured funding from a variety of other sources as well and continues to expand that funding base.

Current financial supporters of the campaign include: Ford Foundation, Annie E. Casey Foundation, Cleveland Foundation, Fannie Mae Foundation, NASD Investor Education Foundation, InCharge Foundation, Fannie Mae, Freddie Mac, GE Consumer Finance, Genworth, New Century, and Wells Fargo Mortgage.

On the **Web**
www.AmericaSaves.org

Real Estate Cartel

Continued from Page 1

report by the National Association of Realtors, the industry's chief trade association.

The CFA report outlines a number of steps that should be taken to reform the system. Brobeck also described needed reforms in July testimony before the House Housing and Community Opportunity Subcommittee.

As a first step, CFA strongly recommends that states prohibit practicing brokers from serving as commissioners.

"An even more desirable regulatory system would allow brokers to serve on advisory groups, but allow full-time professionals to regulate brokerage services," Brobeck said. "That would make regulation of these services more like the regulation of other services, such as insurance and utilities."

Although the Department of Justice, Federal Trade Commission, and Government Accountability Office have taken steps to prevent the industry from restricting competition, more is needed, he said.

"Given the capture of state regulation by the industry, Congress should consider giving federal regulators a more explicit and authoritative mandate for regulating residential real estate brokerage services," he said.

As the national regulator of unfair and deceptive sales practices, the FTC is the most logical agency to be given increased responsibility and authority, he said, including responsibility for conducting new research on rates and listing services.

On the **Web**
www.consumerfed.org/pdfs/Real_Estate_Cartel_Study061906.pdf
www.consumerfed.org/pdfs/Real_Estate_Cartel_Release061906.pdf
www.consumerfed.org/pdfs/CFA_Real_Estate_Commissioner_Report.pdf
www.consumerfed.org/pdfs/CFA_Real_Estate_Commissioner_Release.pdf
www.consumerfed.org/pdfs/CFA_Executive_Director_Brobeck_Testimony_on_Residential%20Real_Estate_Brokerage_Services.pdf

Energy Policy

Continued from Page 1

just two years of U.S. consumption.

In light of those facts, the drilling legislation "is hardly a long-term solution," Cooper said. Furthermore, it will simply "fatten the oil industry's bottom line," he said, "since the oil companies will find cheap oil but charge the world price."

"While the administration and congressional leadership continue to push traditional supply-side strategies by promoting drilling, many of the polices we have been advocating for years are garnering bipartisan support," said CU Senior Policy Analyst Ann Wright.

Pro-consumer Reforms Enjoy Bipartisan Support

The report points out, for example, that members from both sides of the aisle have co-sponsored important proposals to:

- cut oil consumption and imports by as much as 10 million barrels per day (almost 40 percent) over the next quarter century;
- dramatically increase auto and truck fuel economy standards (see related article, page 4);
- require the Environmental Protection Agency to update miles per gallon estimates on new vehicle window stickers and require manufacturers to use accurate estimates in compliance with federal mileage standards;
- make mileage information readily accessible on new car stickers, in advertising, and even on real-time dashboard displays during driving; and
- empower antitrust and commodity market regulators to scrutinize the price-raising business practices of the oil industry and commodity speculators.

"These aggressive efficiency measures will deliver five to ten times as much capacity to the oil market as the drilling bills recently passed by the House and Senate," Cooper noted. Furthermore, "fuel economy-driven oil savings are sustainable for the long term while the small increase in production that results from expanded drilling is not," he said.

People are ready for a change in energy policy, according to a recent CFA-sponsored public opinion poll. That poll found that over three-quarters of respondents support requiring major increases in the fuel efficiency of cars, requiring auto companies to boost alternative fuel vehicles from three percent to 25 percent of the new car fleet, and making mileage information more readily available.

"Hopefully, if the members of Congress get an earful from their constituents, the congressional leadership will feel the heat and give these important efficiency measures and consumer protection bills votes when they return

On the **Web**
www.consumerfed.org/Time_to_Change_the_Record_on_Oil_Policy080806.pdf
www.consumerfed.org/US_Energy_Policy_Release080806.pdf

Credit Counseling Serves as Early Warning Sign

The act of seeking credit counseling serves as a valuable "early warning" indicator of serious financial trouble, according to the initial findings of research into the effectiveness of credit counseling released in June by CFA and American Express.

At a time when credit counseling agencies are experiencing both increased regulatory scrutiny and greater demand — in part because the Bankruptcy Reform Act of 2005 requires consumers who file for bankruptcy to receive credit counseling — CFA and American Express are trying to understand what aspects of counseling programs are most effective in reducing consumer credit risk as measured by changes in credit scores.

"CFA commends American Express for generously supporting this important research," said CFA Executive Director Stephen Brobeck. "Debt-ridden consumers, as well as all credit issuers and counseling agencies, will be the beneficiaries."

The research was undertaken by the Georgetown University Credit Research Center using data supplied by ten leading consumer credit counseling agencies.

This first phase of the research included analysis of client credit profiles and history two years after their counseling session to determine the impact of the counseling delivery method (in-person and telephone) on client outcomes.

Delivery Methods Appear Equivalent

That research suggests that telephone and face-to-face delivery of the initial counseling appear to generate equivalent outcomes for consumers' creditworthiness two years later. Furthermore, this is true both for clients who complete only an initial counseling session and those who enter debt management programs (DMPs).

"While some may find this result surprising, it does not, at this stage of our research, lead to the conclusion that the two delivery methods are equally effective for all debtors," said principal researcher Dr. Michael Staten.

The second year of research will examine more specific client characteristics to learn if certain types of debtors benefit more from one delivery method than from another, he said.

The research also indicated that the act of seeking counseling facilitates timely intervention and assistance for those in serious financial trouble.

Credit bureau information available at the time of counseling often does not reflect private information that many counseled clients possess regarding recent or impending negative changes to their financial condition, the research found.

As a result, "risk scores for these borrowers underestimate the likelihood that they will have credit problems in the future," Staten said, and "creditors have limited indicators that such borrowers may need assistance."

"Effective credit counseling agencies can help to identify borrowers who are in financial distress and focus resources to help them improve their financial condition."

DMP Participation Boosts Creditworthiness

The research also indicated that creditworthiness of consumers who participated in debt management plans improved as a result.

Over the two years following counseling, consumers who were recommended for a DMP by agencies and chose to start payments had a significantly lower incidence of bankruptcy than did those who were recommended for a DMP and chose not to start. They also had improved bankruptcy and delinquency risk scores.

"This preliminary finding ... suggests that the discipline of DMP participation for qualified individuals, coupled with ongoing interaction with the counseling agency, helps clients improve their credit scores," Staten said.

Phase two of the research will seek to uncover the characteristics of those who are likely to see the greatest benefit from participation in DMPs and to understand the size of the impact, he added.

On the **Web**
www.consumerfed.org/pdfs/Credit_Counseling_Release061206.pdf
www.consumerfed.org/pdfs/Credit_Counseling_Report061206.pdf

Court Forces USDA Officials To Disclose Meetings

In an important victory for consumers, the U.S. Court of Appeals for the District of Columbia ruled in June that U.S. Department of Agriculture (USDA) officials cannot refuse to disclose records of their meetings with industry officials.

"This decision is a victory for open government and could have important public health results," said Carol Tucker Foreman, Director of CFA's Food Policy Institute.

CFA, which was represented in the proceedings by the Georgetown University Law School Institute for Public Representation, had filed a request for the meeting records of six USDA officials under the Freedom of Information Act (FOIA). The records in question relate to a key period in meat inspection rule-making.

USDA originally asserted that the calendars of its public officials were "personal records" and not subject to disclosure under the Freedom of Information Act.

The Court of Appeals rejected that argument and determined that five of the six calendars were, in fact, "agency records" and ordered USDA to turn over the calendars. (The Court determined that the sixth calendar did not meet the same requirements for being considered a public record as the other calendars.)

"It is important to know that these so-called private calendars charted the schedules of high-ranking public officials," Foreman said. "They were prepared by employees of the U.S. government during their work hours and using government computers. They circulated to other government employees to help them schedule these public officials.

"This was an extraordinarily blatant effort to dodge legal requirements, conceal the influence of industry lobbyists, and prevent consumers from meaningful participation in government decision making," she added. "We are grateful that the court has rejected it."

Among the meetings USDA officials were attempting to conceal were meetings with industry officials during the period that USDA was making key decisions regarding its rule on *Listeria monocytogenes*, Foreman noted.

Following those meetings, USDA weakened previous proposals to require meat and poultry processors to take effective steps to reduce Listeria food poisoning.

Even before the court issued its decision, current Under Secretary for Food Safety Dr. Richard Raymond had directed that his calendar and records of his meetings with people from outside government be posted on the FSIS website.

On the **Web**
www.consumerfed.org/pdfs/CFA_USDA_lawsuit_decision_DC_Circuit_6.30.061.pdf

CFAnews

Consumer Federation of America
1620 I Street, N.W., Suite 200, Washington, D.C. 20006
(202) 387-6121 • www.consumerfed.org

President: Irene Leech
Chairman: Sen. Howard M. Metzenbaum
Executive Director: Stephen Brobeck
Research Director: Mark Cooper
Public Affairs Director: Jack Gillis
Director of Consumer Protection: Jean Ann Fox
Legislative Director: Travis Plunkett
Associate Director: Nancy Register
Director of International Issues: Mark Silbergeld
Director of Financial Education: George Barany
Administrative Director: Miguel Carpio
Assistant General Counsel: Rachel Weintraub
Project Director: Mel Hall-Crawford
Project Director: Sarah Shirley
Public Policy Specialist: Diana Neidle
Conference Manager: Adele Ellis
Senior Researcher: Patrick Woodall
Project Coordinator: Michelle Watts
Database Manager: Milena Carpio
Legislative Assistant: Christina Ross
Financial Education Associate: Autumn Pickhover
Administrative Associate: Beatrice Willie

CFA's Center for Insurance Policy
Director of Insurance: J. Robert Hunter
Life Insurance Actuary: James H. Hunt

CFA's Food Policy Institute
Director: Carol Tucker Foreman
Deputy Director: Chris Waldrop

CFA's Center for Housing/Credit Policy
Director: Allen Fishbein

CFAnews Editor: Barbara Roper

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

USDA Cuts Mad Cow Testing

Putting consumers at grave risk, the U.S. Department of Agriculture (USDA) announced in July that it was reducing testing of U.S. cattle for mad cow disease by 90 percent, to 40,000 animals each year.

The department justified its decision on the grounds that human and animal health is adequately protected by a ruminant-to-ruminant feed ban and the removal of specified risk materials (SRMs) from the food supply. SRMs are the tissues that are believed to contain the disease-causing protein.

"USDA is basing its decision to reduce testing on faulty premises," warned Chris Waldrop, Deputy Director of CFA's Food Policy Institute. "The department places too much faith in its firewalls, which are not as fool-proof as the department thinks they are."

In fact, both the feed ban and SRM removal programs "are subject to loopholes and lax enforcement," he said.

Since the department introduced the ban on SRMs in the human food supply, for example, there have been no changes to the inspection process and no additional inspectors employed to ensure adequate removal of SRMs, Waldrop noted.

A January Office of Inspector General report found that many plants did not have adequate plans for removing SRMs, while other plants did not even comply with the plans they did have. In addition, companies have not been required to slow their line speeds or utilize new technology to provide for complete removal of these materials.

"The feed ban, as administered by the Food and Drug Administration (FDA), is equally flawed," Waldrop said.

FDA still allows meat and bone from cattle to be fed to chickens and pigs, still allows poultry litter to be fed back to cattle, and still permits cow's blood to be fed to calves.

"Each of these practices could contribute to the spread of mad cow disease," Waldrop said.

In addition, GAO reported last year that FDA did not know where all the animal feed is being made or transported, did not routinely sample for prohibited material in feed, and had not inspected many facilities for five years or more.

"If USDA wants to reduce testing, it needs to make sure its safeguards are really safe," Waldrop said. "Otherwise, it's just wishful thinking."

On the **Web**
www.consumerfed.org/pdfs/CFA_stmt_on_Reduced_USDA_testing_7.20.06.pdf

Legislative Update

Credit Rating Agency Bills Advance

Legislation designed to introduce greater competition into the credit rating industry passed the full House in July and the Senate Banking Committee in August.

Both bills would create a simplified process by which credit rating agencies can register as Nationally Recognized Statistical Rating Organizations (NRSROs) whose ratings are eligible to be used for a variety of regulatory purposes.

Both would also require ratings agencies to disclose the methodology behind their ratings as well as short-, medium-, and long-term performance data for those ratings.

The Senate legislation includes additional provisions designed to ensure that only agencies producing generally accepted and reliable ratings receive the NRSRO designation. For that reason, CFA endorsed the Senate but not the House bill.

"NRSROs play an increasingly important role in our nation's securities markets," said CFA Director of Investor Protection Barbara Roper. "Credit ratings from NRSROs affect everything from an issuer's access to and cost of capital to the ability of pension and money market fund managers to make particular investments.

"It is absolutely essential to the protection of investors and the efficient functioning of our securities markets that only credible and reliable ratings agencies are authorized to make those assessments," she added.

Currently, the Securities and Exchange Commission (SEC) uses a "no action" letter process to grant NRSRO status. That process has been criticized as opaque, unpredictable, and lengthy. It also has led to the dominance of the industry by two large firms — Standard & Poor's and Moody's Investors Services — which control an estimated 80 percent of the market.

The House bill would essentially make registration as an NRSRO automatic for any credit rating agency that had been in operation for three years and completed an application.

The Senate bill, on the other hand, requires applicants to show proof that their ratings are used by sophisticated institutional investors. It also gives the SEC authority to deny NRSRO status to rating agencies that lack the financial and managerial resources to produce ratings of integrity.

Finally, the Senate bill requires credit rating agencies to apply for NRSRO status (and show proof that they are used by institutional investors) for each of the types of ratings for which they seek NRSRO recognition.

"This should make it easier for smaller, more specialized ratings agencies to gain NRSRO status without running the risk that the recognition will extend to types of ratings for which they lack experience and expertise," Roper said. "That's good for enhanced competition and good for investors."

Congress Urged To Reinstate Food Safety Funding

The Safe Food Coalition wrote to members of the U.S. House and Senate in August urging them to reinstate funding for the U.S. Department of Agriculture's Food Safety and Inspection Service (FSIS).

In part because of a one percent recision of their 2006 budget to support Hurricane Katrina rebuilding costs, USDA's food safety program, which Congress had originally funded at $837 million for fiscal year 2006, will experience a $37.3 million shortfall.

Without a funding increase, "fewer inspectors will be checking more meat than ever before," the groups wrote. Already, inspector shortages have prevented the agency from inspecting each plant every day, as is statutorily mandated, they warned.

Also suffering are: training for food inspectors, public health veterinarians, and enforcement officers and the agency's ability to maintain its critical information technology infrastructure. Furthermore, USDA is being forced to reduce bioterrorism checks at plants and reduce intensive reviews at plants that consistently fail USDA's pathogen reduction program.

"Clearly, the imposed funding cuts drastically limit FSIS' ability to ensure the safety of our food supply," the groups wrote.

The groups urged that funding be reinstated, "specifically dedicated for staffing, computer infrastructure, and critical food safety needs."

Stiffer Fuel Economy Standards Advocated in House

A group of 18 national, state, and local consumer organizations, including CFA, wrote to members of the House of Representatives in July urging support for a bipartisan proposal to increase corporate average fuel economy (CAFÉ) standards.

The proposal, put forward by Rep. Sherwood Boehlert (R-NY) and Rep. Edward Markey (D-MA), would authorize a fuel economy increase for new vehicles from the current level of 24.6 miles per gallon to 33 miles per gallon by 2016.

"Reducing America's consumption of transportation fuel is the single best way to shrink the nation's growing demand for oil and to relieve pressures on rising gas prices," the groups wrote. "The Boehlert-Markey CAFÉ provision would send a strong signal that Congress is serious about reducing our oil consumption."

In May, the House Energy and Commerce Committee instead approved legislation (H.R. 5359) that "sidesteps meaningful reform by failing to call for specific improvements for CAFÉ standards, which translate into fuel savings," the groups wrote.

In fact, because the legislation gives broad authority to the Administration to reform the CAFÉ program without requiring any changes to fuel efficiency standards, it could result in "lower overall fleet averages and fewer fuel efficient cars on the lot for consumers," groups warned.

"Reform of CAFÉ, without meaningful improvements to fuel efficiency standards is a cruel hoax that will cost consumers in the years ahead," they wrote.

Hill Addresses Insurance Issues

CFA Legislative Director Travis Plunkett countered industry arguments that a new federal catastrophe insurance program is needed in June testimony before the House Subcommittee on Housing and Community Opportunity and critiqued industry regulatory proposals in July testimony before the Senate Banking committee.

Recent rate hikes, coverage cutbacks, and non-renewals of homeowner's insurance in the wake of natural disasters "are a betrayal of the promises property casualty insurers made to consumers and regulators in the wake of Hurricane Andrew in 1992," he said, and indicate "either mismanagement or duplicity."

Insurers who are now proposing that the federal government pay for some catastrophe losses have failed to make the case that the private market cannot handle those losses, calling into question the need for a federal catastrophe insurance program, he added.

Should Congress nonetheless consider developing such a program, at the very least it should only consider plans that "mandate and enforce wise construction in coastal areas, that are actuarially sound, and that do not impinge on the ability of the private market to cover these losses," he said.

In analyzing insurance regulatory reform proposals, Plunkett noted that, "Consumers — especially those with low and moderate incomes — are presently facing a number of very serious problems in the insurance market regarding insurance availability, affordability, and the hollowing out of insurance coverage."

"However, insurance industry proposals that have been introduced recently in the Senate and the House ... would likely increase these problems while further eroding incentives for loss prevention," he said.

He urged the committee to reject these anti-consumer proposals and to examine instead options that will improve competition in and oversight of the insurance market while increasing regulatory uniformity and protecting consumers.

Groups Urge Investigation of Credit Card Interchange Fees

CFA joined with the U.S. Public Interest Research Group and Consumer Action in filing comments with the Senate Judiciary Committee in July calling on the committee to investigate the negative impact of credit card interchange fees on consumers.

The groups expressed concern that these hidden fees, which are charged by banks to merchants for credit card transactions, are passed on to all consumers, including those who do not pay with credit cards, in the form of higher product prices.

This is possible, they argued, because "the credit card market lacks the critical foundations of healthy competition — choice and adequate information."

Mark Your Calendar

Financial Services Conference

Nov. 30 – Dec. 1, 2006
Washington, D.C.