



# CFAnews

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## Congress Ignores Consumers in Banking Bills

Congress failed to address consumer concerns during its consideration of several financial services bills this summer.

In the most sweeping bill considered, the House passed legislation to restructure the financial services industry on a 343-86 vote in July.

Unfortunately, that bill, like the Senate bill passed in May, contains inadequate protections to ensure the consumers benefit from the restructured marketplace, in which banks, securities firms, and insurance companies will be free to enter each other's businesses.

"Consumers deserve a financial services market that competes on price, quality products, and service," said CFA Legislative Director Travis Plunkett. "Without protections in the bill that guarantee privacy, provide consumers with essential information, and promote meaningful competition, consumers stand to be left out."

In a major defeat for consumers, the House Republican leadership refused to allow a vote on financial privacy protections adopted by the Commerce Committee during its mark-up of the bill.

Those provisions – crafted by Reps. Edward Markey (D-MA) and Joe Barton (R-TX) – would have required institutions to provide full disclosure of their information sharing policies, allowed consumers to refuse to have their information shared with either affiliates or third parties, and given consumers access to the information being shared and the ability to correct any errors.

### Weak Privacy Provisions Adopted

Instead, the House bowed to pressure from the credit industry and adopted weak privacy language requiring only that financial institutions notify consumers about their policies and practices related to information sharing with non-affiliated third parties and allow consumers to opt out of information sharing with these third parties.

Neither the disclosure nor the opt out would apply to internal affiliate sharing. And, even for consumers who opt out of having their information shared with third parties, the institution would still be able to share their information with third parties marketing financial products.

"Consumers should have a right to decide whether their personal financial data is for sale to the highest bidder or can be shared with a multitude of affiliated companies," said CFA Director of Consumer Protection Jean Ann Fox.

"Too often, information from consumers' financial transactions is used against them to market worthless or over-priced products, such as credit insur-

ance or credit card "protection," she said. "As adopted by the House, H.R. 10 offers no protection against these sorts of abuses," Fox said.

### Anti-consumer Demutualization Provision Included

The House also included a provision that would make it easier for mutual insurance companies to convert to stockholder-owned companies without providing fair compensation to policy holders.

In recent years, the mutual insurance industry has succeeded in winning passage in a number of states of laws that allow a mutual insurance company to reorganize as a stockholder-owned insurer that is a subsidiary of a mutual holding company. The subsidiary can go public, but with the holding company retaining control of a majority of the stock.

"These laws essentially allow management to rob control of the company from policy holders without providing them

with fair compensation," said CFA Insurance Director J. Robert Hunter.

The House bill would allow mutual insurance companies to switch states without permission of state insurance regulators in order to take advantage of another state's mutual holding company law.

### Final Passage Still Uncertain

Although both the House and Senate have now passed financial modernization bills, the legislation still has a way to go

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## Market Failures Plague Electric Restructuring

Wild price spikes in 1998 provide evidence of structural flaws and institutional failures in restructured electricity markets that require much more vigorous policies to protect consumers, according to a study released in June by CFA and Consumers Union.

"Last year's price spikes indicate that the electricity markets created by recent restructuring are not effectively competitive," said CFA Research Director Mark Cooper, author of the report.

"With more than half the electricity in the country now being consumed in states that have enacted restructuring plans, policy makers must do more to promote competition and protect consumers," he said.

The report was released just as House Energy and Power Subcommittee Chairman Joe Barton (R-TX) was pledging to bring an electric restructuring bill to the House floor before the August recess.

While the August deadline was not met, and it was not clear that Congress would be any more successful in passing a bill this session than it has been in recent years, passage of a restructuring bill continues to be a priority of the administration and of many in both parties in Congress.

Unfortunately, all the bills introduced to date have lacked adequate provisions to promote effective retail competition and protect consumers from abuse.

### Structural Problems Must Be Addressed

The report identifies the following structural problems that must be addressed by public policy if the restructured electricity market is to benefit all consumers:

- The breakdown of coordination as restructuring takes place eliminates the incentive for market participants to cooperate and makes it difficult for system operators to manage the electricity network.

- Inadequate transmission capacity and restrictions on access to transmission limit the flow of power.

- A lack of incentives for utilities to keep capacity on line or to discipline their bidding for power overheats the market.

- Outdated demand-side mechanisms fail to give consumers adequate options either to adjust their demand as prices rise or to have assurances of stable prices that will not expose them to wild price volatility.

- A complete absence of objective, public information about prices and market conditions prevents buyers from making sound decisions.

- Highly concentrated, local markets enable large generators to drive up prices by withholding supplies.

- Bogus financial transactions, like daisy chains, fuel price spikes.

- "Uncontrollable factors, like weather and outages, that some claim were the cause of the price spikes, do not begin to account for 20- to 300-fold increases in price," Cooper said.

- "The price spikes were not accidents or aberrations," he said. "They are exactly the behavior one would expect when rational economic actors take advantage of market imperfections and institutional weaknesses."

### Policies To Promote Competition Advocated

The report outlines specific policies in four broad areas – basic conditions, competitive structures, conduct, and market performance – to promote competition and enhance consumer protections.

- **Basic Conditions** – The electricity market simply cannot function without open access to transmission and policies to prevent affiliate abuse and excessive market concentration.

- **Competitive Structures** – Transactions must be based on transparent pricing and enforceable terms and conditions. This requires registration and certifica-

tion of traders and controls on trading practices, including short selling, margin requirements, credit requirements, and option rules.

- **Conduct** – Sellers who take actions that tighten electricity markets, and then seek to exploit that situation through sales at inflated levels, should be presumed to have engaged in market manipulation. They should bear the burden of proving that they are not guilty of profiteering, and the penalty for market manipulation should be severe.

- **Market Performance** – Circuit breakers should be available to prevent markets from spinning out of control. These include suspension of trading, suspension of market-based pricing, or price ceilings.

- "Highly concentrated markets with bottleneck facilities that lack open access rules make the market prone to the exercise of market power," Cooper explained.

- "Undeveloped information and trading mechanisms are prone to manipulation," he added. "When abuse occurs under such circumstances, it is no accident. It is the result of bad public policy choices or poor policy implementation."

- "Before they unleash market forces, policy makers must ensure that the basic conditions are adequate to support competition and that state and local regulators have authority to monitor market conditions," added Senior Policy Analyst Janee Breisemeister of CU's Southwest Regional Office.

- "It is irresponsible to create markets that suffer from problems like inadequate generation or transmission capacity, or to let markets run wild as the result of abusive transactions or manipulative tactics," she added.

- For a copy of the report, access it for free at <http://www.consumerfed.org/spike.pdf> or send a check or money order for \$10 to Electricity Price Spikes, Consumer Federation of America, 1424 16th Street, N.W., Suite 604, Washington, D.C. 20036.

## States Fail to Provide Insurance Service Info

Thirty-two states fail to provide information to the public on the frequency of complaints against insurers, according to a CFA report released in June.

However, because many of the more populous states do provide at least some of this information, most Americans (62 percent) reside in a state where complaint information is available on at least one line of insurance.

The greatest missed opportunity, according to the report, is the refusal of the National Association of Insurance Commissioners (NAIC) to release its database of more than one million complaints to assist American consumers in their insurance purchases.

"Although the NAIC has this data by company in sufficient detail to make meaningful comparisons between insurers, it will neither publish this data nor

release it to others to publish," said CFA Director of Insurance J. Robert Hunter, report author.

"Complaint information is the only proxy that state insurance departments have devised to inform consumers of the relative quality of service to expect from an insurance company," Hunter said.

This is because the states have not undertaken surveys of consumer satisfaction, released comparative statistics based on market conduct examinations, or devised other measures to assist consumers in determining service quality, he said.

CFA asked states to supply them with the information they send to consumers for the four major lines of insurance (auto, home, life, and health). CFA then graded the information based upon the number of lines of insurance for which states supply this information.

Only 19 states supply such information for auto insurance, 15 for homeowners insurance, 14 for health insurance, and 12 for life insurance.

States that received an A grade, indicating they provide information for all four lines of insurance, are Florida, Illinois, Indiana, Kansas, Missouri, Oregon, Texas, and Wisconsin.

"The 26 percent of the nation's people residing in these states are getting excellent information," Hunter said.

Another 12 percent of the nation's population lives in the following states, which received a grade of B because they provide the information for three lines of insurance: Colorado, Iowa, Ohio, and Pennsylvania.

California, Connecticut, New York, and Washington, representing 22 percent of the population, received C grades; while Arizona, Nevada, and New Mexico, repre-

senting three percent of the population, received D grades.

The remaining 32 states – representing 38 percent of the nation's population – received an F, either because they do not provide complaint information or because they did not reply to repeated requests for the information.

"We congratulate the states that are supplying this information to their consumers," Hunter said. "States with poor grades should look to the states with A and B grades as examples of how to help consumers," he added.

CFA also urged NAIC to begin releasing its complaint data as soon as possible.

Consumers should both ask for this information from their state insurance departments and ask their state commissioner to vote at the NAIC for the release of the complaint database, Hunter said.

### Financial Services Legislation (Continued from Page 1)

before final passage.

The two versions contain substantial differences that must be worked out in conference committee before a final bill can be adopted.

In August, CFA, Consumers Union, and U.S. Public Interest Research Group wrote to conferees outlining the provisions needed to ensure that consumers, as well as industry, benefit from financial restructuring.

In addition to urging restoration of the stronger privacy protections and deletion of the mutual insurance holding company provision, the groups argued that consumers will only benefit if the bill contains:

- strong and effective retail sales protections;
- provisions to ensure access to financial services;
- a repeal of banks' exemption from investor protection rules;
- improved disclosure of costs and fees; and
- preservation of state authority to regulate businesses operating within their borders, including national banks.

Although the bill has come closer to passage this year than at any other time, its enactment is far from certain.

President Clinton has said he would veto a bill that rolls back the Community Reinvestment Act, as the Senate bill does, while Senate Banking Committee

Chairman Phil Gramm (R-TX) has refused to consider a bill that fails to scale back the community lending law.

"The earliest this bill will get to the president's desk is during the first half of September. There is still time to let Congress and the president know that the bill must be made more consumer friendly," Plunkett said.

#### Anti-Consumer Bankruptcy Bill Stalls

In at least a temporary victory for consumers, proponents of bankruptcy legislation left for the August recess still without a timetable for bringing the anti-consumer bill to the Senate floor for a vote.

The bill would make it more difficult for financially strapped consumers to make a fresh start in bankruptcy.

Although the Senate gave strong bipartisan support to a more balanced bill last year, the version reported out of the Senate Judiciary Committee in April is virtually devoid of consumer protections.

When the House passed its bill in May, Senate sponsors announced they expected to win Senate passage by the July 4th recess.

However, Senate Democrats, with backing from the White House, were successful in delaying consideration while they attempted to build support

for a more consumer-friendly approach.

"CFA is working with other advocacy organizations and Senate Democrats to craft amendments to S. 625 that will better protect a wide variety of Americans in bankruptcy proceedings, especially single moms trying to collect child support and alimony," Plunkett said.

"We are also supporting amendments to guard against creditor abuses, such as violations of the Truth in Lending Act," he said.

#### Congress Urged To Adopt Consumer Banking Protections

In May testimony before the House Subcommittee on Financial Institutions and Consumer Credit, Fox urged the committee to adopt a series of pro-consumer reforms as part of its regulatory relief bill.

Specifically, Fox urged the committee to incorporate legislation (H.R. 1332) introduced by Rep. John LaFalce (D-NY) to modernize the Truth in Lending law and to add a provision to close the loophole that allows payday lending through national banks.

Needed TILA reforms include raising the dollar limits on loans covered from \$25,000 to at least \$50,000 (and applying similar changes to the Consumer Leasing Act) and outlawing the use of the Rule of 78s to compute interest rebates on installment loan contracts for borrowers who repay loans early, refinancing, or default on loans.

"The Rule of 78s is a 'back-of-the-envelope' rough approximation of actuarial interest," Fox said. "The only reason this inaccurate rebate computation method is still used in this era of computers and hand-held calculators is because it is a lucrative method of extracting higher interest than disclosed to borrowers."

Fox also urged the committee to close the loophole that allows payday lenders to evade state credit laws by offering the extremely high cost loans through federally chartered financial institutions located in states without interest rate or fee caps.

One possible approach would be to adopt legislation (H.R. 1684), introduced by Rep. Bobby Rush (D-IL), that would set

minimum standards for state payday loan laws, limit the finance charges banks can make, and require banks to comply with the payday loan laws of the state in which the borrower lives, she said.

Another possibility would be simply to prohibit banks from making loans based on personal checks or electronic withdrawals from accounts, she added.

"Banks should not be in the business of profiteering from desperate borrowers by enticing consumers to write bad checks to borrow money at exorbitant rates," she said. "Since a few banks seem unable to pass up this lucrative business, Congress should streamline and simplify banking laws by prohibiting banks from making payday loans."



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### Consumers Overpay for Credit (Continued from Page 4)

Elimination of the tax treatment for credit unions would constrain their ability to raise capital, because, as non-profit institutions, they cannot issue stock, he explained. The result, given their capital structure, would be to severely restrict their ability to grow.

If banks were to keep their own favorable tax treatment, while eliminating that enjoyed by credit unions, they would gain an unfair tax-subsidized competitive advantage, he added.

Finally, eliminating credit unions' tax exemption "would undermine one segment of the financial institutions industry that has traditionally passed lower operating costs through to members in

the form of lower rates charged on loans, higher interest rates paid on deposits, and lower fees on transactions," he said.

"This would enable banks to achieve higher profits, because they would be able to hold onto a larger share of their subsidies. The pressure to pass benefits through to the public would be reduced," Cooper said.

"If policy makers consider the full range of tax, safety net, and loan treatment afforded banks and credit unions, they will find that banks have the advantage," Cooper concluded. "Taking away the credit union federal income tax exemption would tilt the playing field even more in favor of banks."

## Health and Safety Update:

## Imported Food Safety Initiative Announced

President Clinton announced a new initiative in July designed to improve the safety of imported foods, particularly fruits and vegetables.

Under the initiative, food inspectors at American ports will prominently mark products rejected for health or safety reasons as "Refused U.S."

The initiative is designed to cut down on "port shopping," taking food rejected at one port to another in the hope of getting it through without being checked.

As part of the initiative, the president has also instructed the Customs Service and the Food and Drug Administration to "rigorously enforce and expand" the policy of destroying imported food that poses a serious health threat to prevent it from reaching the marketplace.

"It is reassuring to know that one branch of government cares deeply about the safety of our food supply," said Carol Tucker Foreman, Director of CFA's Food Policy Institute.

"The president has done just about all he can do through the executive branch to assure the safety of imported food," she added. "With Americans eating increasingly from an international plate, this is an important issue for all of us."

CFA has endorsed legislation by Sens. Barbara Mikulski (D-MD), Richard Durbin (D-IL), and Ted Kennedy (D-MA) and Rep. Anna Eshoo (D-CA) to improve the FDA's ability to protect American consumers from adulterated imported food.

Although the president's action accomplishes part of the bills' goal, legislation is still needed to give the FDA the same authority the U.S. Department of Agriculture has to require that imported foods under its jurisdiction be produced and packaged under circumstances that provide the same level of health protection required for domestic food producers and processors.

### Congress Considers Anti-consumer Patent Extension Legislation

Bills have been introduced in both the House and Senate that would allow patent extensions for top-selling prescription drugs.

"At a time when Americans are calling on Congress to take decisive action to make prescription drugs more affordable, [these bills would] place an additional financial burden on American consumers and the health system," CFA Chairman Sen. Howard Metzenbaum (Ret.) said in August testimony before the Senate Judiciary Committee.

Patent extension legislation "is essentially a tax on the uninsured, the poor, the sick, and the elderly," he said.

The bills (H.R. 1598, S. 1172) would allow manufacturers of Claritin and six other prescription drugs to petition the Patent and Trademark Office for patent extensions beyond those permitted by law.

Because the review process outlined in the bills stacks the deck in favor of drug manufacturers, it would likely delay competition from generic versions of these drugs.

A 1996 Congressional Research Service report found that generic competition reduced the price of a drug between 30 and 60 percent.

Using those figures, consumers would be expected to save between \$2.2 and \$4.5 billion dollars over three years on the

seven drugs covered by the legislation if they were subject to competition from generics.

"This legislation should be rejected outright as unjustifiable and costly to consumers," Sen. Metzenbaum said.

### Senate Adopts Weak Health Care Reform Measure

For the second year in a row, meaningful managed care reform legislation was defeated, this time in the Senate.

Following the pattern set in the House last session, the Senate voted down strong "Patients' Bill of Rights" legislation in July, opting instead to pass the weak Republican alternative.

"Americans are clamoring for managed care reform, but this bill would only offer minimal protections to a minority of managed care consumers," said CFA Legislative Director Travis Plunkett.

During four days of debate, the Senate defeated numerous Democratic amendments to strengthen the bill, including measures: to extend the bill's coverage to all Americans with private health insurance instead of the fraction covered under the Republican bill; to guarantee access to specialists; to ban gag clauses and financial incentives to deny care; to ensure that doctors, not the health plan, have the final say over what is medically necessary for the patient; and, to hold health plans legally accountable when they make medical decisions that result in harm to the patient.

Just before leaving for August recess, a group of moderate House Republicans joined with Democrats to introduce a bipartisan bill substantially stronger than the bill that passed the Senate.

They were expected to push for a vote this year.

### Proposed Rule Would Improve Notice of Drinking Water Risks

The Environmental Protection Agency has proposed a rule to improve the system for notifying the public about drinking water violations that pose a hazard to public health.

"Only when they receive timely notification can people take precautions — such as boiling their tap water — to avoid debilitating or even deadly waterborne disease," said CFA Public Policy Associate Diana Neidle.

In July, CFA submitted comments on behalf of itself and 19 of its state and local consumer group members in general support of the rule. The groups noted, however, that additional improvements to the rule are needed to fully protect the public.

The groups praised the agency, in particular, for recognizing that the public must be alerted to potential risks.

"To delay notification while a violation is being corrected or while further proof of the health threat is being sought would seriously erode the rule's effectiveness and would pose an undue threat to public health," Neidle said.

The proposed rule adopts some of the reforms suggested by the General Accounting Office in a 1992 study that found high rates of non-compliance with the current rule. However, one important recommendation — for increased enforcement — is not included.

### Enforcement Needs Strengthening

The EPA has never tracked compliance with the public notification rule.

In their comment letter, the consumer groups urged EPA to amend the rule to require state agencies to submit data to

EPA on compliance with the rule. EPA should, in turn, use that data and independent audits to track water system compliance and report its findings in future National Public Water Systems Compliance Reports, the groups argued.

"Only when water systems are convinced by such attention to enforcement that the requirements for timely public notification are to be taken seriously will full compliance with the rule be significantly increased," they wrote.

The comments proposed additional improvements to the rule, including:

- requiring 24-hour public notification for turbidity (water cloudiness) violations, since spikes in turbidity have been the only predictor of cryptosporidiosis outbreaks, which are often fatal for immune-compromised individuals, and have also been associated with gastrointestinal cases requiring hospitalizations of children;

- revising the definition of waterborne disease outbreak to allow for immediate public notification when an outbreak is suspected, rather than waiting until a formal and lengthy study confirming the outbreak has been conducted;

- improving the timeliness of notification for violations that are classified as tier two violations, because they "may have the potential for serious adverse effect on human health, but are not significant or urgent enough to require an emergency notice;" and

- improving the public notification procedures, particularly for notifying non-customers.

"These rule proposals, with the improvements that we've suggested, will significantly increase the effectiveness of the public notification process," Neidle concluded.

## CFA Mourns the Loss of Ann Lower

Longtime CFA staffer Ann K. Lower died in July after battling cancer. She was 61.

Lower had served first as assistant director and then as associate director of CFA since 1988, operating in recent years out of her home in Austin, Texas. This was Lower's second stint at CFA, which she initially served as information director and energy representative from 1981 to 1983.

Among her many duties, Lower oversaw CFA's financial and administrative operation, and she administered CFA's highly successful state and local grants program.

"Ann's contributions over the years were extensive and varied," said CFA Executive Director Stephen Brobeck. "Not only did she build a strong administrative staff, but she also served as an effective advocate on energy issues, professionalized much of our fundraising, helped push CFA into the computer age, and expanded our grassroots program."

A memorial service for Lower was held in Austin in July.

Speakers, including former mayor of Houston Fred Hofheinz, former congress-



man Robert Eckhardt, Texas activist Ernie Cortez, as well as current Texas elected officials and Brobeck, recognized Lower's dedication to improving the lives of everyday working people in this country.

"I will remember Ann even more for her character than her many contributions — for her total commitment to progressive values, her firm determination to realize these values, and her skill at effecting change,"

Brobeck said.

"He announced that CFA would rename its state and local grants program, which she pioneered and which Consumers Union funds, the Ann K. Lower State and Local Grants.

Brobeck also quoted letters from CFA board member Katie Smith Sloan, of the American Association of Retired Persons, and from Consumers Union's Rhoda Karpatkin, Mark Silbergeld, and Chuck Bell.

"Ann has been an inspiration — for her in-depth knowledge of consumer groups all across the country, for her deep commitment to their continued vitality, and for her devotion to CFA and the strength

of the consumer movement," Sloan wrote. "Ann was a tireless champion of the unserved and underserved consumers and of struggling consumer organizations."

"We will remember Ann especially for her strong and enduring commitment to strengthening grassroots consumer organizations around the United States," Karpatkin, Silbergeld, and Bell wrote. "We will remember her fondly as a stalwart leader, mentor, and colleague in the consumer movement."

Born in San Antonio, Texas, Lower completed her bachelor's degree and most of the course work for a Ph.D. in economics at the University of Texas at Austin in the mid-1960s.

After two decades of local political organizing and campaign management, including a term as assistant director of the Houston parks department, she came to Washington in 1977 to head the staff of then congressman Eckhardt.

Between her two stints at CFA, she served as an energy consultant, specializing in natural gas economics and coal transportation issues.

She is survived by her husband of 41 years, Dr. Milton D. Lower, of Austin, and brother William Klemt and family, also of Austin.

## Consumers Overpay Billions For Credit

Despite declining loan rates, many consumers still overpay for credit, according to information on consumer loan rates, volumes, and trends released in June by CFA and the Credit Union National Association.

CFA and CUNA analyzed information pertaining to seven types of loans: new car, unsecured personal, credit card, one-year adjustable-rate mortgage, 15-year fixed-rate mortgage, 30-year fixed-rate mortgage, and home equity line of credit. The data analyzed was collected by Bank Rate Monitor and CUNA.

"Across the board, consumers pay more for credit at banks than at credit unions," said CFA Executive Director Stephen Brobeck.

The credit union difference reflects mainly the fact that the non-profit cooperatives exist principally to serve their members," he added.

The difference between the loan rates charged by banks and credit unions ranged from a low of 0.08 percentage points for a 30-year fixed rate mortgage to a high of 2.7 percentage points for a credit card.

"Cardholders could save more than \$10 billion by shifting credit card debt from banks to credit unions," said CUNA Chief Economist Bill Hampel. "They could save an additional \$50 billion-plus by paying off this debt completely."

Individual consumers could also achieve considerable savings by shifting their loans from banks to credit unions.

A household with \$7,500 in credit card

debt, for example, would pay \$197.86 less, just during the first year, to service that debt at a credit union charging the average credit union rate than at a bank charging the average bank rate.

A household with a \$20,000 home equity loan would pay \$138.23 less in interest during the first year to a credit union charging the average rate than to a bank charging the average rate.

### Consumer Loan Rate Gap Narrows, Mortgage Rate Gap Widens

The data also indicates that the gap between bank and credit union consumer loan rates has narrowed considerably over the past five years.

At the end of 1994, for example, the bank-credit union credit card interest rate gap was 5.2 percentage points. By the end of May 1999, this gap had shrunk to 2.7 percentage points.

The gap for new car and personal loans shrunk by about two-thirds of a percentage point.

On the other hand, the gap for the four types of mortgage loan rates rose slightly during the same period.

For home equity loans, for example, the gap was only 0.16 percentage points at the end of 1994. By the end of May 1999, the difference had widened to 0.73 percentage points.

The gap between bank and credit union consumer loan rates was unusually high in 1994, because banks had just raised their rates in response to a sharp

increase in short-term market interest rates that began in early 1994," Hampel explained. Since then, banks have gradually backed off from some of those increases."

The differences, however, remain significant, Brobeck said.

"The \$1 billion that banks say credit unions should pay in federal taxes represents only a small fraction of the interest rate difference between these for-profit and non-profit financial institutions," he said.

### Federal Policies Favor Banks Over Credit Unions

Banks enjoy favorable federal deposit insurance, tax, and loan treatments that vastly exceed those enjoyed by credit unions, according to a research paper by CFA Research Director Mark Cooper that was released by Consumer Action.

"While it is true that credit unions receive some favorable federal income tax treatment, it is also true that many federally insured commercial banks and savings institutions do so as well," Cooper said in a June speech based on the report, "Banks and Credit Unions: Keeping the Playing Field Level."

"More importantly, federally insured commercial banks and savings institutions are given many other policy advantages that credit unions are not," he added.

Some of the deposit insurance, tax, and loan programs available to banks are not available to credit unions, he noted.

In addition, while credit unions partici-

pate in some of the same programs that federally insured commercial banks and savings institutions do, they frequently do so to a much lesser extent.

"On balance, federally insured commercial banks and savings institutions receive much more favorable treatment by federal policymakers," Cooper said.

The report estimates the total credit union benefit is in the range of \$1.1 billion to \$2.3 billion per year, including the federal income tax exemption and the benefits afforded by the safety net.

A comparable figure for the benefits enjoyed by banks is in the range of \$30 billion to \$65 billion per year.

The rate of subsidization, in which the total benefits received are divided by the asset base, also favors banks, Cooper said.

Specifically, federally insured commercial banks and savings institutions of comparable size to credit unions receive a total federal benefit/subsidy rate of 48 to 144 basis points, while credit unions receive federal benefits/subsidies at a rate that is in the range of 26 to 60 basis points, the report found.

### Eliminating Tax Exemption Would Harm Public

In recent years, banks have pushed legislation to eliminate the credit unions' tax exemption as well as their ability to expand their membership.

"The effort by banks to eliminate the credit union federal tax exemption would help banks, but would harm the public," Cooper said.

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## FTC Proposes Children's Online Privacy Rules

The Federal Trade Commission has issued a proposed rule to implement the Children's Online Privacy Protection Act that should go a long way toward improving protections for children who use the Internet.

"This rule implements one of the most important laws in recent history providing marketplace protections for children," said CFA General Counsel Mary Ellen Fise.

CFA joined with the Center for Media Education and a broad coalition of child advocacy, education, health, and parents' groups to endorse the rule proposals in comments filed with the FTC in June. The groups noted, however, that certain improvements and clarifications to the rule are needed to ensure that they serve the goals of the act.

The act's effectiveness will be determined in part by how the rules define the responsibilities of site operators and the third parties that have access to information collected from children, the groups argued. In general, they praised the FTC for casting a wide net but urged the agency to do more to clarify that the rule's full range of protections apply equally to all those with access to children's information.

Also of central importance, the groups noted, is how verifiable parental consent will be obtained. "Parents must be involved in the decision whether or not to disclose children's personal information. Therefore, the methods of verifying parental involvement must meet a high standard," Fise said.

Verification that relies on e-mail alone is not adequate, the groups stressed, because there is no means of verifying either that the e-mail address given is a parent's, rather than a child's, or that a child does not have access to a parent's e-mail account.

Although industry has pushed for e-mail verification on the grounds of convenience, "the purpose of the legislation is to reduce the collection of data from children, not to facilitate it," Fise said.

Fise took that same message to an FTC workshop in July, which was organized specifically to obtain additional comment on the issue of appropriate mechanisms for obtaining verifiable parental consent.

Ultimately, digital signatures and other technological advances will make interaction seamless, she noted. In the meantime, however, simple and effective methods of verifying parental consent are available, by obtaining a parent's signature on a consent form that is either mailed or faxed back.

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