

CONSUMER COMPLIANCE OUTLOOK

SECOND QUARTER 2008

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A FEDERAL RESERVE SYSTEM PUBLICATION WITH A FOCUS ON CONSUMER COMPLIANCE ISSUES

WELCOME

Dear Subscribers:

Welcome to the first edition of *Consumer Compliance Outlook*, a Federal Reserve System publication that focuses on consumer compliance issues. We hope that you find the newsletter helpful and informative and that you make it a part of your regular reading on consumer compliance, CRA, and other consumer regulatory matters.

Outlook holds a rather curious status for a new publication. Although this is the inaugural issue, *Outlook* isn't entirely a new concept. It is the successor to the Federal Reserve Bank of Philadelphia's *Compliance Corner*, which was distributed as an insert in a larger publication called *Insights*. *Compliance Corner* has a long tradition of providing valuable information on consumer compliance regulatory issues. *Outlook* follows in that tradition.

Why the change? Last year, the Federal Reserve System observed the banking scene and realized that although *Compliance Corner* was helpful to *Insights* readers, banking had become more national in nature and — as we have learned from the recent subprime crisis — more global in scope. This dynamic environment calls for a separate national publication to expand both the range and reach of information on consumer matters.

Therefore, in a collaborative effort, the 12 Federal Reserve Banks voluntarily joined forces to survey the national scene and comment on current and emerging issues that affect banks throughout the country. This edition combines the talents of consumer compliance field examiners from three Federal Reserve Districts, each with different perspectives and different issues, but all dedicated to providing information to a national audience. We will continue to follow that model in future editions.

Once again, welcome to *Consumer Compliance Outlook*. We hope that you will share your views on this publication with us.

Sincerely,



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FORECLOSURE PREVENTION ACTIVITIES AND THE COMMUNITY REINVESTMENT ACT

BY LISA DECLARK, CONSUMER AFFAIRS MANAGER
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"Troubled borrowers will always require individual attention, and the most immediate impacts of foreclosures are on local communities. Thus, the support of counselors, lenders, and organizations with local ties is critical. This situation calls for a vigorous response. Measures to reduce preventable foreclosures could help not only stressed borrowers but also their communities and, indeed, the broader economy."

Chairman Ben S. Bernanke, "Reducing Preventable Mortgage Foreclosures," at the Independent Community Bankers of America's annual convention, Orlando, Florida, March 4, 2008

The mortgage crisis has been front-page news for many months and has taken a toll on both consumers and lenders. Its effects include:

- A sharp increase in loan delinquencies and foreclosures for residential real estate mortgages, which are likely to continue to rise;
- A large number of borrowers who face the possibility of losing their homes and any accumulated home equity in foreclosure, damaging their credit record for several years, restricting their access to credit, and increasing the price of any credit they are able to obtain;
- A slowdown in home price increases, including declines in some areas, that has left many new homeowners with little or no home equity; and
- An increase in the number of borrowers who have difficulty obtaining refinancing (the typical way for some to avoid the payment shock of large, scheduled interest rate resets) because of declining real estate prices and, for some loans, negative amortization.

Because of the large increase in delinquencies and foreclosures of residential mortgage loans, foreclosure prevention activities may be a primary need in many local communities. Banks can play an important role in preventing foreclosures. By helping to address residential mortgage problems within their local communities, banks may also receive favorable consideration under the Community Reinvestment Act (CRA) for certain activities that are consistent with safe and sound banking practices. These activities can include counseling, loan refinancing, loss mitigation, and loan modification. This article discusses ways for banks to help borrowers in distress while simultaneously fulfilling their CRA obligation.

FORECLOSURE PREVENTION ACTIVITIES

On July 11, 2007, the federal banking agencies requested public comment on a series of new and revised interagency questions and answers pertaining to the CRA (2007 Q&A).¹ Although the agencies have not yet issued the final version of the 2007 Q&A, some of the proposed revisions relate to foreclosure preven-

tion and indicate how such activities will be evaluated in the future if the proposal is adopted as the final version without modification. The proposed revisions are expressly intended to encourage banks to work with homeowners who are unable to make mortgage payments by making foreclosure prevention programs available for low- and moderate-income homeowners. The proposed revisions state that community development services include providing credit counseling, financial planning, and other financial services education to promote community development and affordable housing. This includes credit counseling to assist borrowers in avoiding foreclosure on their homes. The revisions also state that qualified investments include investing in or donating to a fund providing foreclosure relief to low- and moderate-income homeowners.

Consumer Literacy and Education Counseling

Consumer literacy and education efforts, typically in the form of counseling, may help address the problems distressed borrowers face, especially if these efforts are undertaken in the early stages of delinquency. Counseling organizations provide information about and assistance with managing delinquencies, budgeting, negotiating with lenders, and understanding foreclosure laws. When it is not feasible for a distressed borrower to remain in the home, counselors will provide information about pre-foreclosure sales. Some counseling organizations go beyond providing information to distressed borrowers by offering special loan programs. For example, the Minnesota Housing Finance Agency offers a loan program through nonprofit organizations to provide mortgage payment and other financial assistance to borrowers facing short-term crises.

The *New York Times* recently published a front-page story about the successful efforts of the Belair-Edison Neighborhood Initiative, a community group in Baltimore that conducts counseling and outreach activities, to help distressed borrowers in the Belair-Edison neighborhood.² The Belair-Edison Neighborhood Ini-

tiative searched public records and coordinated with other housing groups to identify borrowers with high-interest or adjustable-rate mortgages and contacted them to discuss lower-cost alternatives. Its efforts paid off. For the period 1993-2003, Belair-Edison had one of the highest foreclosure rates in the city, but the

CONSUMER LITERACY AND EDUCATION EFFORTS, TYPICALLY IN THE FORM OF COUNSELING, MAY HELP ADDRESS THE PROBLEMS DISTRESSED BORROWERS FACE, ESPECIALLY IF THESE EFFORTS ARE UNDERTAKEN IN THE EARLY STAGES OF DELINQUENCY.

rate has since dropped by a third, which is largely attributed to the efforts of the Belair-Edison Neighborhood Initiative.

In Minnesota, a statewide association has defined its mission as providing support, networking, and information to people and organizations working in the field of mortgage foreclosure prevention and promoting sound policies and practices both in the public and private sectors related to foreclosure prevention counseling. It operates on three fronts: providing support, information, and networking for individuals and organizations working to prevent foreclosures; educating and training housing professionals to improve the quality and availability of mortgage foreclosure prevention programs and services; and advocating policies and practices that enhance foreclosure prevention counseling.

Banks can support these types of associations by serving on their boards of directors, counseling distressed borrowers, and educating housing professionals. Bankers have the specialized knowledge and skills that associations need to manage loan programs for distressed borrowers. As previously noted, counseling ac-

¹ <http://www.federalreserve.gov/newsevents/press/bcreg/20070711a.htm>

² John Leland, "Swift Steps Help Avert Foreclosures in Baltimore," *New York Times*, March 26, 2008. <http://www.nytimes.com/2008/03/26/us/26baltimore.html>

tivities may count as community development services because the activities are targeted to help meet the needs of low- and moderate-income individuals and thus have community development as their primary purpose.³ In addition to counseling services, banks can provide support to associations through investments, donations, or loans, all of which can count as a community development activity. Banks working either alone or in conjunction with other organizations may receive favorable CRA consideration for providing counseling in the area of foreclosure prevention⁴ because such activities target low- or moderate-income individuals and thus may count as community development services under the CRA's definition of community development.

Loan Refinance

During the course of counseling, distressed borrowers might seek to refinance the original mortgage loans that have caused their financial distress. Often, however, distressed borrowers are precluded from refinancing because of their delinquent status, lack of equity, or impaired credit. Despite these challenges, refinance loan programs with flexible underwriting standards may be available.

For example, the Department of Housing and Urban Development's (HUD) new FHASecure⁵ loan program offers qualified borrowers who are delinquent because of an interest-rate reset the opportunity to refinance into an FHA-insured mortgage. This loan program allows FHA-approved lenders to refinance adjustable-rate mortgage loans that have recently reset or will reset in the near future. To be eligible under the FHASecure program, a borrower must have, among other things, a history of on-time mortgage payments before the teaser rate expired and the loan reset.⁶ Lenders will not automatically disqualify distressed borrowers because of delinquency status, and

some may offer second mortgage loans to make up the difference between the property value and the amount owed, including standard refinancing costs.

HUD recently expanded this program by adding two new categories of borrowers eligible to participate: 1) borrowers with adjustable-rate mortgages who were late on two consecutive monthly mortgage payments or at two different times over the previous 12 months, for which the FHA will require a 97 percent loan-to-value (LTV) ratio; and 2) borrowers with adjustable-rate mortgages who were late on three consecutive monthly mortgage payments or at three different times over the past 12 months, for which the FHA will require a 90 percent LTV.⁷ HUD estimates that the expanded program will enable approximately 500,000 borrowers to refinance distressed mortgages into an FHA-insured mortgage with an attractive rate.

Banks can develop in-house refinancing programs or participate in third-party or government loan programs offering flexible underwriting standards like those described above. However, not all banks have the capacity to develop loan programs or make loans through third-party or government programs. In these cases, banks might simply take applications and provide settlement services to distressed borrowers; this type of activity can receive favorable consideration as a retail banking service or community development service under the CRA provided the activities are targeted to help meet the needs of low- and moderate-income individuals and the programs follow prudent underwriting standards.

Banks often ask examiners to treat loans that are especially responsive to the needs of low- and moderate-income borrowers as community development loans for CRA purposes. However, under the CRA regulations, a refinance loan involving a distressed borrower is not

³ Interagency CRA Questions and Answers, July 12, 2001 (2001 Q&A), §228.12(j) - 3. <http://www.ffiec.gov/cra/pdf/qa01.pdf>

⁴ Statement on Working with Mortgage Borrowers, April 17, 2007. <http://www.federalreserve.gov/newsevents/press/bcreg/20070417a.htm>

⁵ <http://www.hud.gov/news/fhasecure.cfm>

⁶ Additional requirements include: (1) interest rates must have or will reset between June 2005 and December 2008; (2) there must be 3 percent cash or equity in the home; (3) there must be a sustained history of employment; and (4) the borrower must have sufficient income to make the mortgage payment. <http://www.hud.gov/news/release.cfm?content=pr07-123.cfm>

⁷ <http://www.hud.gov/news/release.cfm?content=pr08-050.cfm>

a community development loan.⁸ These types of loans might, nonetheless, receive positive consideration under the CRA if they are made to low- and moderate-income borrowers or in low- and moderate-income areas. First, these loans can be captured in the analysis of the bank's home mortgage lending and might result in further strengthening of the bank's lending performance to low- and moderate-income borrowers and in low- and moderate-income areas, depending on the level of activity. Second, a bank's practice of making such loans might receive positive consid-

The federal banking agencies encourage financial institutions to consider prudent workout arrangements that increase the potential for distressed borrowers to keep their homes.⁹ When evaluating workout arrangements, banks should follow prudent underwriting practices. When prudent, some workout arrangements might be considered innovative or flexible lending practices under the CRA.¹⁰

Bank efforts in loss mitigation might involve either direct or indirect financing. Sometimes the loss mitigation activity may count as community development, and sometimes it may not. For example, if a bank makes a direct loan to a distressed borrower to cover the amount of a delinquency, the loan will not be counted as a community development loan, since it will most likely be categorized as a consumer or other retail loan under the CRA.¹¹ On the other hand, if a bank makes a loan to or an investment in an organization that provides these types of loans to low- and

THE FEDERAL BANKING AGENCIES ENCOURAGE FINANCIAL INSTITUTIONS TO CONSIDER PRUDENT WORKOUT ARRANGEMENTS THAT INCREASE THE POTENTIAL FOR DISTRESSED BORROWERS TO KEEP THEIR HOMES.

moderate-income borrowers, the loan or investment may count as community development. Even though a loss mitigation loan directly from a bank to a distressed borrower will not count as a community development loan, such activities might positively reflect on the bank under the CRA, as discussed above under loan refinancing.

Loss Mitigation

When foreclosure prevention in the form of refinancing is not available to a distressed borrower, the next option to consider may be loss mitigation (also known as a forbearance plan or loan workout) with the lender. Some lenders will establish repayment plans for past-due payments. The repayment plan will typically require a payment in addition to the regularly scheduled payment under the original mortgage loan.

Loss mitigation arrangements are not viable for all distressed borrowers, but they may be appropriate for those who have experienced a reversible financial setback, such as a job loss, medical situation, or divorce.

moderate-income borrowers, the loan or investment may count as community development. Even though a loss mitigation loan directly from a bank to a distressed borrower will not count as a community development loan, such activities might positively reflect on the bank under the CRA, as discussed above under loan refinancing.

Loan Modification

Another option for a distressed borrower may be a loan modification. A modification can sometimes benefit both the borrower and the lender by reducing the losses that would accompany foreclosure and sale of the property in a declining market.

A loan modification is a permanent change in the terms of the original mortgage loan. In such cases,

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⁸ Regulation BB, §228.12(h) defines community development loan.

⁹ Statement on Working with Mortgage Borrowers, April 17, 2007. <http://www.federalreserve.gov/newsevents/press/bcreg/20070417a.htm>

¹⁰ Consideration as a CRA innovative or flexible lending practice may be granted in instances where the practice helps to meet the credit needs of low- and moderate-income individuals or geographies within the institution's assessment area and is consistent with safe and sound lending practices. 2001 Q&A, § 228.22(b)(5)-1.

¹¹ Not only does the definition of community development loan exclude most home mortgage loans, but it also excludes consumer loans. Regulation BB, §228.12(h).

RESPONDING TO COUNTERFEIT CHECK FRAUD

BY KENNETH J. BENTON, CONSUMER REGULATIONS SPECIALIST
FEDERAL RESERVE BANK OF PHILADELPHIA

In the second quarter of 2007, *Compliance Corner*, the predecessor publication of *Consumer Compliance Outlook*, published an article entitled “How Banks Can Respond to Counterfeit Cashier’s Checks and Money Orders,” which discussed measures banks could adopt to respond to the problem of counterfeit cashier’s checks.¹ The combination of inexpensive desktop publishing tools, which make it fairly easy to produce high-quality counterfeits, and federal banking law, which requires next-day availability for deposits of certain types of checks,² has resulted in a large increase in counterfeit cashier’s checks, U.S. Treasury checks, and money orders. In the first three months of 2008, *Bankers Online* reported 81 new incidents of counterfeit checks and money orders, according to information obtained from bank regulators.³ For 2007, *Bankers Online* reported a total of 354 such incidents.⁴

WHEN CONSUMERS ARE EDUCATED ABOUT THE RISKS OF COUNTERFEIT CHECKS AND COMMON SCAMS, THEY CAN PROTECT THEMSELVES.

Because of the continued increase in the number of incidents of check fraud, we are publishing this follow-up article to discuss additional measures banks can adopt to address this problem. In addition to educating their customers and staff, banks can verify whether Treasury checks, U.S. postal money orders, Wal-Mart money orders, and American Express Traveler’s Cheques were actually issued. Bank personnel

should also become familiar with the security features of Treasury checks and postal money orders.

EDUCATING CUSTOMERS AND BANK STAFF

One reason that counterfeit check incidents continue to increase is that some consumers are still unaware of this problem. As discussed in the earlier article, educating bank customers is the single most important response banks can initiate to thwart counterfeit check fraud. Banks should therefore be proactive in educating their customers. One method of educating customers is to display educational brochures and posters in bank branches near the area where deposit slips are made available. For example, the FBI publishes an “FBI Fraud Alert”⁵ poster that could be used to help alert consumers. More information is available at the FBI’s Internet Crime Complaint Center.⁶ In addition, the Federal Trade Commission publishes two helpful brochures: “Check Overpayment Scams: Seller Beware,”⁷ and “Giving the Bounce to Counterfeit Check Scams.”⁸

Banks can also train their tellers and customer service representatives to inform customers who deposit checks subject to next-day availability that federal law requires banks to make funds available for certain types of checks on the next business day on a provisional basis, but that the availability of the deposit does not necessarily mean that the check has cleared and will not be returned as counterfeit. When consumers are educated about the risks of counterfeit checks and common scams, they can protect themselves.

VERIFYING SUSPECTED COUNTERFEIT CHECKS

Another tool banks can use to combat counterfeit check fraud is the database records of validly issued Treasury checks, postal money orders, Wal-Mart money orders, and American Express Traveler’s Cheques

¹ http://www.philadelphiafed.org/src/srcinsights/srcinsights/2007/CCorner2_07.pdf

² http://www.law.cornell.edu/uscode/12/usc_sup_01_12_10_41.html

³ <http://www.bankersonline.com/security/aandc.html>

⁴ <http://www.bankersonline.com/security/aandc2007.html>

⁵ http://www.fbi.gov/majcases/fraud/fraud_alert.pdf

⁶ <http://www.ic3.gov/>

⁷ <http://www.ftc.gov/bcp/online/pubs/alerts/overpayalrt.pdf>

⁸ <http://www.ftc.gov/bcp/edu/pubs/consumer/credit/cre40.pdf>

(a separate database is maintained for each type of check). Staff can use the databases to authenticate suspected counterfeit checks.

Treasury Checks

All federal agencies that issue U.S. Treasury checks enter information about the checks into a database, including the date the check was issued, its amount, the check number, and the payee. Banks can call the Treasury Services Department of the Federal Reserve Bank of Richmond to verify if a Treasury check was issued. The number is 804-697-2605 and the hours are 8:30 a.m. to 6:30 p.m. EST, Monday through Friday. Note, however, that the telephone line is subject to the following restrictions:

- Only depository institutions (commercial banks, savings institutions, credit unions, and thrifts) can use this service;
- An institution cannot verify more than five Treasury checks during one call;
- The amount of the check must exceed \$500; and
- Banks can call only about Treasury checks that appear to be counterfeit because the line is not staffed to answer inquiries about all Treasury checks.

To help banks determine if a Treasury check is counterfeit, the Treasury Department publishes a brochure titled "U.S. Treasury Check Security Features" with a guide to the six security features of Treasury checks: watermark, symbol and serial check digit numbers, signature block, ultraviolet overprinting, bleeding ink, and microprinted endorsement line. These features are discussed below.

- **Watermark:** Treasury checks contain a watermark that reads "U.S. Treasury." The watermark is visible only when the check is held up to the light and it cannot be reproduced by a copier. Some counterfeits include a watermark that is always visible. This should raise a red flag because the watermark on a genuine Treasury check is visible only when it is held up to the light.
- **Symbol and serial check digit numbers:** Every Treasury check has a four-digit symbol number and eight-digit serial number in the upper right-hand corner. This information is repeated in the MICR line in the bottom center of the check.

- **Signature block:** Some Treasury checks have a seal in the bottom right-hand corner that contains check-specific information that can be decoded to verify that it matches the information on the check. Because the secure seal is not used on all Treasury checks, its omission does not necessarily indicate a counterfeit.
- **Ultraviolet overprinting:** Treasury checks contain an invisible pattern of the letters FMS (an abbreviation for Financial Management Service) and the seal for FMS that can be seen only under a black light, which will cause the ink for the seal and the FMS letters to glow. If the box displaying the amount of the check has been altered, a space will appear in the box when examined under a black light.
- **Bleeding ink:** Treasury checks contain the Treasury Department's seal in the upper left-hand corner to the right of the Statue of Liberty. Special ink is applied to the seal that will cause it to turn red when moisture is applied to the black ink of the seal.
- **Microprinted endorsement line:** The endorsement line of the Treasury check contains micro printing, meaning text printed so small that it appears as a solid line. When the line is magnified, the letters USA appear in sequence. Most counterfeiters do not have the ability to micro print.

Banks should train employees who handle Treasury checks about these security features so they can flag suspicious Treasury checks. When employees detect a suspicious check, they can contact the Treasury check verification number to determine if the check was issued by the Treasury. Banks should also be aware that the Treasury Department holds check fraud seminars at banking conferences to educate banks about how they can identify a counterfeit Treasury check. The Treasury Department can be reached at 202-874-7640 to arrange a seminar.

The verification line and training are especially timely because starting in May 2008, the Treasury Department will begin issuing approximately 130 million tax rebate checks as a result of the Economic Stimulus Act of 2008 that President Bush recently signed into law. Given the large volume of Treasury rebate checks, fraudsters may attempt to exploit this opportunity by creating counterfeit Treasury checks.

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COMPLEX ISSUES IN FLOOD INSURANCE COMPLIANCE

BY ALEX KUNIGENAS, CONSUMER COMPLIANCE ANALYST
FEDERAL RESERVE BANK OF SAN FRANCISCO

Compliance with federal flood insurance regulations has become an increasingly important issue for financial institutions and consumers.¹ Incorrect amounts of flood insurance can negatively affect property owners and increase lenders' legal and financial risks. Some areas of recent concern that examiners have observed include using blanket insurance policies (also known as gap or master policies),² calculating replacement cost value (RCV), determining when to obtain insurance for buildings under construction, and determin-

ing the insurance requirements for condominiums. This article reviews the compliance requirements for these four problematic areas in light of recent guidance contained in the Interagency Questions and Answers Regarding Flood Insurance (Flood Q&A), which were proposed by the banking agencies³ on March 21, 2008, and guidance from the September 2007 "Mandatory Purchase of Flood Insurance Guidelines" (FEMA guidelines) issued by the Federal Emergency Management Agency (FEMA).⁴ The Flood Q&A is a proposed amendment currently in the 60-day public comment period of the rulemaking process. The agencies could make further changes in response to public comments. The deadline to submit comments is May 20, 2008. The discussion here is intended to serve as general guidance and not to address all possible scenarios.

WHILE [BLANKET] POLICIES MAY PROTECT THE LENDER, THEY TYPICALLY DO NOT PROTECT A BORROWER'S INTERESTS AND, THEREFORE, IN MOST INSTANCES, ARE NOT CONSIDERED A SUITABLE SUBSTITUTE FOR INDIVIDUAL NATIONAL FLOOD INSURANCE PROGRAM (NFIP) POLICIES.

BLANKET INSURANCE POLICIES

Compliance examinations occasionally reveal instances of banks' relying on blanket insurance policies to satisfy the requirements of the flood insurance provisions of Regulation H. Typically, the lender obtains a blanket policy to protect its collateral in one or more locations. While these policies may protect the lender, they typically do not protect a borrower's interests and, therefore, in most instances, are not considered a suitable substitute for individual National

Flood Insurance Program (NFIP) policies.

However, in the limited circumstances discussed below, a blanket policy can be appropriate provided that its coverage is at least as broad as the coverage under the NFIP standard flood insurance policy, including deductibles, exclusions, and conditions.⁵

ing the insurance requirements for condominiums. This article reviews the compliance requirements for these four problematic areas in light of recent guidance contained in the Interagency Questions and Answers Regarding Flood Insurance (Flood Q&A), which were proposed by the banking agencies³ on March 21, 2008, and guidance from the September 2007 "Man-

¹ The National Flood Insurance Reform Act of 1994 (the Reform Act) (Title V of the Riegle Community Development and Regulatory Improvement Act of 1994) comprehensively revised the two federal flood insurance statutes: the National Flood Insurance Act of 1968 and the Flood Disaster Protection Act of 1973. The Reform Act required the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Office of Thrift Supervision, and the National Credit Union Administration to revise their flood insurance regulations and required the Farm Credit Administration to promulgate flood insurance regulations for the first time. Each agency has adopted its own regulation to implement the Reform Act for the institutions it supervises. The Board's implementing regulation for the Reform Act is section 208.25 of Regulation H.

² The terms blanket, gap, and master are used interchangeably to refer to various types of insurance obtained by institutions to cover their entire portfolio of loans for insurance shortfalls or expired policies.

³ Board of Governors of the Federal Reserve System, Farm Credit Administration, Federal Deposit Insurance Corporation, National Credit Union Administration, Office of the Comptroller of the Currency, and Office of Thrift Supervision.

⁴ National Flood Insurance Program, "Mandatory Purchase of Flood Insurance Guidelines," FEMA (September 2007), available at <http://www.fema.gov/library/viewRecord.do?id=2954>.

⁵ The requirements are discussed on page 58 of the FEMA guidelines.

A blanket policy can be used when NFIP and private insurance are unavailable or when a policy has expired and the borrower has failed to renew coverage.⁶ For example, when a designated loan has a policy with insufficient coverage but the borrower refuses to increase coverage, a blanket policy may be appropriate when the lender is unable to force-place private insurance for some reason. When a policy has expired and the borrower has failed to renew coverage, a blanket policy can be adequate protection for the bank during the 15-day gap in coverage between the end of the 30-day grace period after the policy has expired and the end of the 45-day force-placement notice period. However, the lender must force-place insurance in a timely manner and may not rely on the blanket policy as a permanent solution.

With the exception of these limited circumstances, a blanket insurance policy obtained by the lender for its protection is not an acceptable substitute for flood insurance obtained by the borrower for his or her protection and does not comply with the requirements of section 208.25(c)(1) of the Board's Regulation H or §4012a(b) of the Reform Act.

Blanket insurance should not be confused with private flood insurance obtained by the borrower. The NFIP allows a borrower to obtain private flood insurance as a substitute for an NFIP policy as long as it is comparable to an NFIP policy in coverage, deductibles, exclusions, and conditions. The critical difference between a blanket policy and private flood insurance is that a lender obtains a blanket policy for its protection, while a borrower can obtain private insurance for his or her protection.⁷

REPLACEMENT COST VALUE

The new reference in the FEMA guidelines to 100 percent RCV has raised a number of questions from lenders about how to determine RCV when calculating the amount of insurance that must be obtained and how examiners will determine minimum coverage amounts in the future.

To comply with the guidelines, banks must ensure that the amount of flood insurance borrowers obtain is at least an amount equal to the lesser of:

- The outstanding principal balance of the loan(s);
or

- The maximum amount of coverage available under the NFIP for the particular type of building; or
- The full insurable value of the building and/or its contents, which is the same as 100 percent RCV.⁸

Generally speaking, the traditional method employed by many banks (and referenced in the old FEMA guidelines) of calculating the full insurable value of the building and/or its contents based on total appraised value minus the value of the land is still appropriate. FEMA's new guidelines do not require lenders to change this methodology. However, banks now have the option of using RCV to determine insurable value. If a lender uses RCV, examiners will typically review the method used to calculate the RCV to verify that it is reasonable. In addition, examiners will likely compare any RCV to the amount that would be required under the traditional calculation method. If the RCV determination were substantially lower, examiners would review the calculation methodology for the RCV in greater detail.

BUILDINGS UNDER CONSTRUCTION

Another problematic flood insurance issue involves buildings under construction. Bankers frequently raise questions about the point at which a flood policy must be in place for such buildings. It is a prudent practice to have insurance coverage during the construction period for buildings that will be located in a special flood hazard area. This coverage can be purchased when the loan is made, even though construction has not yet begun.

Because the Reform Act does not explicitly address this issue, the new FEMA guidelines state that the federal banking agencies and lenders must determine at what point in the construction process insurance coverage is required. FEMA's guidelines highlight two options: requiring the purchase of insurance at the time the development loan is made or when a specified draw-down of the loan for actual construction is made.⁹

⁶ The agencies recently addressed this issue in question 57 of the Flood Q&A.

⁷ Private insurance is discussed on page 57 of the FEMA guidelines.

⁸ RCV is discussed on page 27 of the FEMA guidelines.

⁹ FEMA guidelines, p. 30.

The latter option is more complicated and requires close monitoring of the loan to determine when construction actually begins. Accordingly, it may be more practical to require insurance at the time the loan is made.

Under the proposed amendments to the Flood Q&A,¹⁰ lenders must ensure that borrowers have adequate insurance in place at the time of loan origination. As an alternative, proposed question 19 of the Flood Q&A states that insurance must be in place once a foundation slab has been poured or an elevation certificate has been issued, provided that the lender requires flood insurance prior to the disbursement of funds to pay for building construction. In the latter case, the lender must have adequate controls in place to en-

THE POTENTIAL IMPACT ON CONSUMERS AND THE ASSOCIATED RISKS TO LENDERS MAKE THE CORRECT APPLICATION AND MONITORING OF FLOOD INSURANCE REQUIREMENTS PARTICULARLY IMPORTANT.

sure that insurance is obtained no later than when the foundation slab has been poured and/or an elevation certificate has been issued.

CONDOMINIUMS

Questions often arise regarding the flood policy requirement for condominium units, especially in multi-story complexes. Flood insurance requirements do apply to loans secured by individual residential condominium units, including multi-story condominium complexes.

The amount of flood insurance coverage required on a particular condominium unit must, at a minimum, equal the lesser of the outstanding balance of the loan, the insurable value of the unit, or the maximum amount available under the NFIP.¹¹ One way to meet the insurance requirements is through a residential

condominium building association policy (RCBAP), purchased by the condominium association, which would cover both the common areas and the individually owned units in the building. To be considered sufficient from a regulatory perspective, under the proposed amendments to the Flood Q&A, if the outstanding balance of the loan exceeds the maximum amount available under the NFIP, the RCBAP should cover either 100 percent of the replacement cost of the building or the total number of units in the building times \$250,000, whichever is less. If there is no RCBAP or if the RCBAP is insufficient, lenders must require unit owners to purchase individual dwelling policies for the amount of the shortfall.¹² The NFIP offers individual coverage to borrowers under a dwelling form policy.¹³ In either case, the mortgage lender is responsible for obtaining copies of any policies, RCBAP or otherwise, showing sufficient coverage for individual units.

CONCLUSION

Regulators are likely to continue to focus on flood insurance. The potential impact on consumers and the associated risks to lenders make the correct application and

monitoring of flood insurance requirements particularly important. While clearly not exhausting all of the possible complexities of the flood insurance rules, this article discussed some aspects of the requirements of the Reform Act, the Federal Reserve's flood regulation, FEMA's guidance, and the proposed amendments to the Flood Q&A. Specific issues, questions, or unique fact patterns should be raised with the consumer compliance contact at your supervising Reserve Bank or with your primary regulator. ©

¹⁰Flood Q&A, 73 FR 15269 (March 21, 2008).

¹¹FEMA guidelines, p. 46.

¹²Flood Q&A, 73 FR 15270 (March 21, 2008).

¹³FEMA guidelines, p. 48.

RESPONDING TO COUNTERFEIT CHECK FRAUD

U. S. Postal Money Orders

The United States Postal Service offers a service similar to the Treasury's for verifying postal money orders. The phone number is 866-459-7822. In contrast to the Treasury phone line, the postal number is automated. The caller is prompted to provide certain information about the suspected counterfeit postal money order, and the automated system verifies if the money order was issued on the date and for the amount listed. To assist people in identifying a counterfeit money order, the postal service publishes a brochure ("Look Before You Cash!") that identifies the following security features of a postal money order:

- A watermark of Benjamin Franklin on the left-hand side of the money order, and running from top to bottom, is visible when the money order is held to the light;
- A security line of the word USPS repeated from top to bottom appears when the money order is held to the light; and
- The dollar amount should be free from discoloration, which could indicate that the amount was changed.

The maximum amount is \$1,000 for domestic and \$700 for international money orders, so any amount in excess of these limits is a red flag for a counterfeit.

Other Checks

Wal-Mart money orders can be verified by calling Traveler's Express at 800-542-3590. American Express Traveler's Cheques, which are not subject to next-day availability, can also be verified at 800-525-7641.

CONCLUSION

Counterfeit checks continue to be a problem for banks because of the low cost of desktop publishing tools and creative scams to exploit the requirement of federal banking law that banks make check deposits available the next banking day for certain types of checks. To combat this problem, banks can verify whether certain types of checks were actually issued, educate their staff about the security features of Treasury checks and postal money orders, and educate their customers about the risks of counterfeit check scams. In the long run, as the banking system adopts Check 21 and its electronic processing of checks, the problem of counterfeit checks may be significantly reduced.

Specific issues and questions about this article should be raised with the consumer compliance contact at your supervising Reserve Bank or with your primary regulator. ©

WOULD YOU LIKE TO SUBSCRIBE TO CONSUMER COMPLIANCE OUTLOOK?

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ON THE DOCKET: RECENT FEDERAL COURT OPINIONS

REGULATION Z – TRUTH IN LENDING ACT (TILA)

Lender's failure to identify payment period on disclosure statement violates Regulation Z. *Hamm v. Ameriquest Mortgage Co.*, 506 F.3d 525 (7th Cir. 2007). The Seventh Circuit held that a lender's failure to state on a TILA disclosure statement that payments were due monthly violates §18(g)(1) of Regulation Z, which requires creditors to disclose "the number, amount, and timing of payments scheduled to repay the obligation." The court relied on ¶18(g)(4) of the [Official Staff Commentary](#) and noted that while it might be possible to determine monthly payments by carefully reading the disclosure statement, that did not constitute compliance. This case underscores the importance of adhering to Regulation Z's technical requirements.

Right of rescission. *Vermurlen v. Ameriquest Mortgage Co.*, 2007 WL 2963637 (W.D. Mich. Oct. 9, 2007). After the plaintiffs defaulted on their mortgage, they entered into a forbearance agreement, which contained a release of claims. When they defaulted on the forbearance agreement, the lender foreclosed, and the plaintiffs invoked rescission because the lender used the wrong model rescission form. Whether rescission rights are triggered because a lender uses the wrong form has not been decided in the Sixth Circuit, where the trial court is located. The court looked to conflicting cases from the [Seventh](#) and [First](#) Circuits. The Seventh Circuit allows rescission when the wrong form is used because it believes Regulation Z requires hypertechnical compliance, while the First Circuit examines whether the consumer was notified of the right to rescind and its effects, even though the wrong form was used. The court predicted that the Sixth Circuit would adopt the First Circuit's rule and held that the lender's rescission notice satisfied that standard. The court also had to determine whether the release waived rescission rights. The court held that statutory rights affecting the public interest, like TILA, cannot be waived unless the statute or regulation itself permits waiver, and TILA's limited waiver of the rescission waiting period for bona fide emergencies did not apply here.

FAIR CREDIT REPORTING ACT (FCRA)

Large damage award for failing to correct credit report after identity theft reported. *Sloane v. Equifax Information Services*, 510 F.3d 495 (4th Cir. 2007). After suffering identity theft, the plaintiff asked the credit bureaus and CitiFinancial to correct erroneous information in her credit report, but they failed to do so. She sued them for violating the FCRA. Equifax went to trial, while the other parties settled. The plaintiff won \$351,000 in damages and \$181,083 in attorney's fees against Equifax in the district court. The Fourth Circuit reduced the damage award to \$150,000 and ordered reconsideration of the attorney's fees on procedural grounds. The court noted that Equifax took 21 months to correct the errors in the credit report, a period during which the plaintiff experienced difficulties in her marriage and suffered severe emotional distress. While lawsuits under the FCRA are typically against consumer reporting agencies, it is important to recognize that §623(b) of the FCRA may impose liability on a furnisher of credit information, like CitiFinancial, if it fails to investigate a dispute about information it furnishes after receiving notice from a consumer reporting agency and fails to correct the information if it is found to be inaccurate or incomplete in accordance with §623(b) of the FCRA. It is important for financial institutions and consumer reporting agencies to act promptly when a consumer files a credit report dispute, particularly in identity theft cases where the potential harm to the consumer is great.



REGULATION X – REAL ESTATE SETTLEMENT PROCEDURES ACT (RESPA)

RESPA §8(b) violation for single party to charge a fee without performing services in a single-party transaction. In two separate cases, *Cohen v. JP Morgan Chase*, 498 F.3d 111 (2d Cir. 2007) and *Busby v. JRHBW Realty, Inc.*, 513 F.3d 1314 (11th Cir. 2008), the Second and Eleventh Circuits ruled that §8(b) of the Real Estate Settlement Procedures Act (RESPA) prohibits a single party from collecting a fee without performing services (known as an unearned, undivided fee). In *Cohen*, the bank charged a borrower a “post-closing fee,” while in *Busby*, a class action, a real estate agent charged the borrower an administrative brokerage commission fee. In both cases, the plaintiffs alleged that no services were provided for the fee. The federal appeals courts are divided on whether §8(b) applies to a single-party fee. The Fourth, Eighth, and Seventh Circuits hold that the language in §8(b) (“No person shall give and no person shall accept...”) limits its scope to multiple-party transactions, where a party performs services and splits or kicks back a fee with someone who did not perform services (known as an unearned, divided fee). The Eleventh and Second Circuits hold that §8(b) applies to a single-party fee based on HUD’s 2001 policy statement and §14(c) of HUD’s Regulation X (“A charge by a person for which no or nominal services are performed or for which duplicative fees are charged is an unearned fee and violates this section”). The other circuits reject HUD’s interpretation as contrary to RESPA’s statutory language. The Eleventh Circuit emphasized a distinction between charging a fee without providing services, which RESPA prohibits, and providing services and charging a fee that seems high in relationship to the services, which, according to the Eleventh Circuit, RESPA does not prohibit. Regardless of the outcome of this circuit split, when making loans subject to RESPA, it makes good business and legal sense for banks to charge fees only when they provide services.

Increasing fees for credit reports does not violate RESPA. *Krupa v. Landsafe, Inc.*, 514 F.3d 1153 (11th Cir. 2008). The Eleventh Circuit affirmed the dismissal of a RESPA class action alleging prohibited referrals. Countrywide charged a \$25 fee to obtain a credit report from Landsafe, an affiliated company, when a loan applicant applied for and accepted a loan. Unsuccessful applicants were not charged a fee. To offset the expense of obtaining credit reports for unsuccessful applicants, Landsafe agreed to increase the fee to \$35. The issue was whether the increased fee was a prohibited markup. The Eleventh Circuit held that Countrywide had not marked up the fee because it turned over all fees to Landsafe, which performed services. The court also rejected an illegal referral theory because Landsafe was not referred any more business, and the total value of business referred to Landsafe remained the same after the price increase.

REGULATION E – ELECTRONIC FUND TRANSFER ACT (EFTA)

Liability for failing to post notice of ATM fee. *Savrnock v. First Am. Bankcard, Inc.*, (E.D. Wis. Oct. 26, 2007). The plaintiff in this class action under the EFTA and Regulation E sought damages because the bank imposed a \$3.25 ATM fee without providing the proper notice about the fee on the ATM, in violation of §1693(d)(3)(c) of EFTA and §16(c)(1) of Regulation E. The bank sought to dismiss the case, relying, in part, on the holding in *Brown v. Bank of America*, 457 F. Supp. 2d 82 (D. Mass. 2006). The court found that *Brown* concerned a violation of §1693(d)(3)(b) for a defective notice, whereas in *Savrnock* the plaintiff alleged a violation of §1693(d)(3)(b). The court found this distinction to be crucial in denying the bank’s motion to dismiss.

FORECLOSURE PREVENTION ACTIVITIES AND THE COMMUNITY REINVESTMENT ACT

the monthly payment is reduced by permanently lowering the interest rate, extending the maturity date, or writing down the principal balance of the loan. A loan modification might also limit interest-rate adjustments to the current market rate plus a reasonable margin, convert an adjustable-rate mortgage to a fixed-rate loan, or capitalize delinquent principal, interest, or escrow items. The loan modification option may be appropriate for those distressed borrowers who cannot cope with the higher payments associated with a repayment plan under a loss mitigation

LOAN MODIFICATIONS ARE NOT CONSIDERED REFINANCINGS UNLESS THE EXISTING LOAN OBLIGATION IS SATISFIED AND REPLACED WITH A NEW OBLIGATION; THUS, LOAN MODIFICATIONS ARE NOT EVALUATED AS HOME MORTGAGE LOANS UNDER THE CRA.

arrangement or who face long-term problems making mortgage payments.

The federal banking agencies have stated that banks engaging in activities that move low- or moderate-income homeowners from high-cost loans to low-cost loans may receive favorable consideration under the CRA.¹² Loan modifications are not considered refinancings unless the existing loan obligation is satisfied and replaced with a new obligation; thus, loan modifications are not evaluated as home mortgage loans under the CRA. Since loan modifications often have the same results as refinancings, they can be evaluated

under the CRA if the bank presents data about the modifications for consideration.¹³

CRA ACTIVITIES AFTER FORECLOSURE

Even when the loss of a home through foreclosure or some other process is not prevented and a property reverts to the bank, CRA consideration may be given depending on how the bank disposed of the property. The bank can receive credit for making a qualified investment by donating the property to an organization engaged in community development. For example, the

bank might donate the property to an organization providing affordable housing to low- or moderate-income individuals or an organization that provides community services targeted to low- or moderate-income individuals. Donations of properties might even count as efforts to revitalize or stabilize low- or moderate-income areas or distressed or underserved nonmetropolitan middle-income areas. For example, the Neighborhood Housing Services Redevelopment Corporation in Chicago has acquired hundreds of abandoned properties

from such sources as the Department of Housing and Urban Development, the city of Chicago, bank foreclosures, and private owners. Sometimes the properties are rehabilitated and sold to new owner-occupants. In highly depressed housing markets, the worst-quality units are often demolished to mitigate safety hazards and reduce supply.

Similar programs are developing in metropolitan areas across the nation. Under the CRA regulations, the value of the donation involving a discounted sale of a property is generally the difference between the market value and sales price of the property. If the

¹² Statement on Working with Mortgage Borrowers, April 17, 2007. <http://www.federalreserve.gov/newsevents/press/bcreg/20070417a.htm>

¹³ 2001 Q&A, § 228.22(a)(2) - 3

bank transfers the property with no sale, the value of the donation is the market value of the property. Donations might be appropriate for some banks on a case-by-case basis to respond to the needs of low- and moderate-income people or revitalize and stabilize low- and moderate-income areas or designated distressed, underserved or disaster areas.

CONCLUSION

“The issues surrounding each mortgage delinquency or foreclosure vary, as does the solution that is best for helping a particular borrower. Thus, loss mitigation and foreclosure intervention efforts typically involve customized assistance in order to devise remedies appropriate to the situation. Fortunately, many community leaders, government officials, and lend-

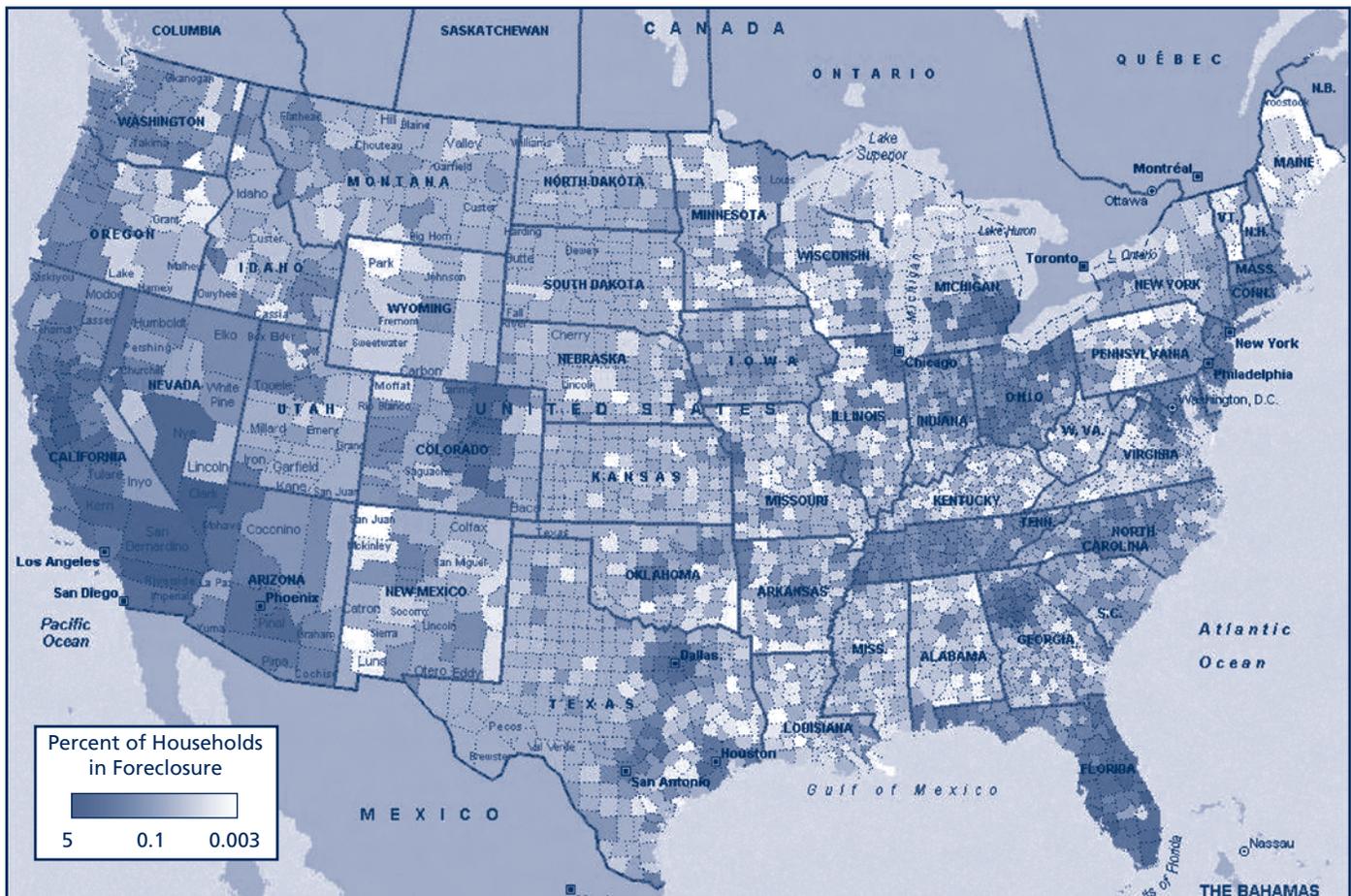
ers across the country are now collaborating to develop approaches and protocols to help borrowers who are experiencing mortgage delinquencies avoid foreclosure.”¹⁴

Banks are well positioned to provide the specialized assistance needed by individual distressed borrowers. By taking the opportunity to fulfill the needs of distressed borrowers, whether through loans, investments, or services, banks will likely receive favorable CRA consideration for the activities.

Specific issues and questions about this article should be raised with the consumer compliance contact at your supervising Reserve Bank or with your primary regulator. ©

¹⁴ Sandra Braunstein, Director, Division of Consumer and Community Affairs, “Bank Mergers, Community Reinvestment Act Enforcement, Subprime Mortgage Lending, and Foreclosures,” remarks before the Subcommittee on Domestic Policy, Committee on Oversight and Government Reform, U.S. House of Representatives, at the Carl B. Stokes U.S. Court House, Cleveland, Ohio, May 21, 2007.

U.S. FORECLOSURE ACTIVITY - FEBRUARY 2008



Source: RealtyTrac

NEWS FROM WASHINGTON: REGULATORY UPDATES

While not necessarily exhaustive, the following list of notices of final and proposed rule makings were recently released.

Agencies Issue Proposed Changes to Flood Insurance Questions and Answers

On March 21, 2008, the Board of Governors of the Federal Reserve System, the Farm Credit Administration, the Federal Deposit Insurance Corporation, the National Credit Union Administration, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision requested public comment on new and revised interagency questions and answers¹ regarding flood insurance. The agencies are proposing new questions and answers, as well as substantive and technical revisions to the existing guidance, to help financial institutions meet their responsibilities under federal flood insurance legislation and to increase public understanding of the flood insurance regulations. Comments were due May 20, 2008.

U.S. Department of Housing and Urban Development (HUD) Proposes Revisions to the Real Estate Settlement Procedures Act (RESPA) Disclosures

On March 14, 2008, HUD released proposed revisions² to RESPA to help consumers better understand their loan terms so that they can shop more effectively for mortgage loans. HUD's proposal is designed to improve disclosure of the loan terms and closing costs consumers pay when they buy or refinance their homes, providing homebuyers with more complete, accurate, and understandable information about their mortgages. Comments were due May 13, 2008.

Board Issues Proposed Changes to Mortgage Lending Rules

On January 9, 2008, the Federal Reserve Board proposed³ and asked for public comment on changes to Regulation Z (Truth in Lending) to protect consumers

¹ <http://edocket.access.gpo.gov/2008/pdf/E8-5787.pdf>

² <http://a257.g.akamaitech.net/7/257/2422/01jan20081800/edocket.access.gpo.gov/2008/pdf/08-1015.pdf>

³ <http://edocket.access.gpo.gov/2008/pdf/E7-25058.pdf>

from unfair or deceptive home mortgage lending and advertising practices. The rule, which would be adopted under the Home Ownership and Equity Protection Act (HOEPA), would restrict certain mortgage lending practices and would also require certain mortgage disclosures to be provided earlier in the transaction.

The proposal includes key protections for "higher-priced mortgage loans" secured by a consumer's principal dwelling as well as additional protections that would apply to all loans secured by a consumer's principal dwelling, regardless of the loan's APR. Additionally, the amendments would also ban seven deceptive or misleading advertising practices. Comments were due April 8, 2008. The Board is currently reviewing comments and working on a final rule.

Agencies Propose Rules Related to Accuracy and Integrity of Consumer Report Information and Rules to Allow Direct Disputes

On November 29, 2007, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Federal Trade Commission, the National Credit Union Administration, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision issued proposed regulations and guidelines⁴ to help ensure the accuracy and integrity of information provided to consumer reporting agencies and to allow consumers to directly dispute inaccuracies with financial institutions and other entities that furnish information to consumer reporting agencies. The proposal would implement §312 of the Fair and Accurate Credit Transactions Act of 2003, which amends the Fair Credit Reporting Act. Comments were due February 11, 2008. The agencies are currently reviewing comments and working on a final rule.

Agencies Issue New Rules for Identity Theft Red Flags and Address Discrepancies

On October 31, 2007, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Federal Trade Commission, the National Credit Union Administration, the Office of the Comptrol-

⁴ <http://edocket.access.gpo.gov/2007/pdf/E7-23549.pdf>



ler of the Currency, and the Office of Thrift Supervision issued final rules⁵ and guidelines for complying with §§114 and 315 of the Fair and Accurate Credit Transactions Act of 2003. The new rules require financial institutions to implement identity theft prevention programs and develop policies and procedures to assess the validity of a change of address that is followed closely by a request for an additional or replacement debit or credit card. The final rules also require users of consumer reports to develop policies and procedures to apply upon receipt of a notice of address discrepancy from a consumer reporting agency. Appendix J of the regulation includes guidelines to assist financial institutions and creditors in developing and implementing their programs.

The rules became effective January 1, 2008, and mandatory compliance is required by November 1, 2008.

Agencies Issue Final Rules on Affiliate Marketing

On October 25, 2007, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the National Credit Union Administration, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision issued final rules⁶ and guidelines for complying with §214 of the Fair and Accurate Credit Transactions Act of 2003, which amends the Fair Credit Reporting Act (FCRA).

The final rules provide consumers with an opportunity to “opt out” before a financial institution uses information provided by an affiliated company to market its products and services to the consumer. These rules apply to information obtained from the consumer’s transactions or account relationships with an affiliate, any application the consumer submitted to an affiliate, and third-party sources, such as credit reports, if the information is to be used to send marketing solicitations. Nothing in the final rules supersedes or amends a consumer’s existing right to opt out of the sharing of nontransaction or experience information under §603(d) of the FCRA.

⁵ <http://edocket.access.gpo.gov/2007/pdf/07-5453.pdf>

⁶ <http://edocket.access.gpo.gov/2007/pdf/07-5349.pdf>

The final rules also implement the statutory exceptions to the affiliate marketing notice and opt-out requirement. The appendix to the final rules contains model forms to facilitate compliance with the notice and opt-out requirements.

The rules governing affiliate marketing became effective January 1, 2008. Mandatory compliance is required by October 1, 2008. Financial institutions should be developing plans to implement these new rules, paying particular attention to the overlap between these rules and existing information-sharing rules contained in the FCRA and in Regulation P, which implements title V, subtitle A of the Gramm-Leach-Bliley Act.

Department of Defense Publishes Final Rule on Limitations on Terms of Consumer Credit Extended to Service Members and Dependents (Talent Amendment)

On August 31, 2007 the Department of Defense published the final rule⁷ that implements the consumer protection provisions of §670 of the John Warner National Defense Authorization Act for Fiscal Year 2007. The rule applies to all persons engaged in the business of extending certain types of consumer credit to active-duty service members or their dependents and their assignees and covers limitations and requirements for payday loans, motor vehicle title loans, and tax refund anticipation loans.

Effective October 1, 2007, the rule limits the military annual percentage rate (MAPR) to 36 percent and requires that certain disclosures be provided before the issuance of the covered transaction. The MAPR comprises all interest fees and charges, including those for single premium credit insurance and other credit-related ancillary products sold in conjunction with the covered transaction. Creditors that knowingly violate the rules may be subject to criminal penalties, and covered transactions not in compliance with the rule will be deemed void from inception.

⁷ <http://edocket.access.gpo.gov/2007/pdf/07-4264.pdf>

CONSUMER COMPLIANCE RESOURCES

Listed below are important compliance resources for financial institutions. Links to these resources are available on Consumer Compliance Outlook's web page at: <http://www.philadelphiafed.org/src/consumer-compliance-outlook/links.cfm>.

RESOURCE	DESCRIPTION
<i>Overall Consumer Compliance</i>	
Federal Reserve's Consumer Compliance Handbook	The comprehensive manual used by Federal Reserve Bank examiners to conduct compliance examinations of regulated entities
Federal Reserve Board's Regulations	The Board's regulations, including a description of the regulation and summary of recent amendments
Federal Reserve Board's Consumer Affairs Letters	Letters address policy and procedural matters related to Federal Reserve System's consumer compliance supervisory responsibilities
<i>Fair Lending and Equal Credit Opportunity Act (ECOA) — Regulation B</i>	
Interagency Fair Lending Exam Procedures	The exam procedures the federal banking agencies use for conducting fair lending examinations
Justice Department's Fair Lending Site	Links to fair lending resources, including a listing of fair lending cases that Justice has filed and litigated
Justice Department's Fair Housing Site	Links to fair housing resources, including a listing of fair housing cases that Justice has filed and litigated
HUD's Fair Lending Page	HUD links and information about fair lending
<i>Home Mortgage Disclosure Act (HMDA) — Regulation C</i>	
FFIEC HMDA Resource Page	Collection of useful HMDA links
HMDA Getting It Right	Guide to recording and reporting HMDA data
FFIEC Geo-Coding Page	Web-based geo-coding system
<i>Flood Insurance — Regulation H</i>	
FEMA's Mandatory Purchase of Flood Insurance Guidelines	FEMA requirements when purchasing flood insurance
FEMA's Flood Manual	FEMA's in-depth guidance for flood insurance
FEMA's Flood Insurance Regulation	FEMA's regulation about flood insurance coverage and rates
Floodsmart: FEMA's Flood Insurance Purchase Page	Information about FEMA's flood insurance program
National Flood Insurance Act of 1968 and Flood Disaster Protection Act of 1973	Text of the flood statute along with an index
<i>Real Estate Settlement Procedures Act (RESPA) — Regulation X</i>	
HUD's RESPA Page	Links and resources for RESPA
<i>Truth in Lending Act (TILA) — Regulation Z</i>	
OCC APR Calculator	Software to verify annual percentage rates
<i>Community Reinvestment Act (CRA) — Regulation BB</i>	
FFIEC CRA Resource Page	Federal Financial Institutions Examination Council (FFIEC) collection of useful CRA links
CRA Interagency Questions & Answers	Frequently asked questions about community reinvestment
CRA Examinations	FFIEC resource pages for CRA examinations
<i>Truth in Savings Act (TISA) — Regulation DD</i>	
OCC APY Calculator	Software to verify annual percentage yields
<i>Payment Cards Center</i>	
Payment Cards Center	Resources and links for issues related to payment cards
<i>Fair Credit Reporting Act (FCRA)</i>	
FTC Fair Credit Reporting Act Page	FTC page with links related to FCRA issues

THE FEDERAL RESERVE'S PARTNERSHIP FOR PROGRESS PROGRAM

The Partnership for Progress program is intended to preserve and promote minority-owned institutions and enhance their ability to thrive in an increasingly competitive banking environment.

Supporting minority-owned institutions is fundamental to the Federal Reserve's mission to provide a safe, sound, and accessible banking system that protects consumers and promotes competition. Minority-owned institutions that remain stable, operate in a safe and sound manner, and grow to a size that allows them to meet credit needs and provide financial services, often to underserved populations and markets, add strength and vitality to the communities they serve and provide stability to the U.S. economy.

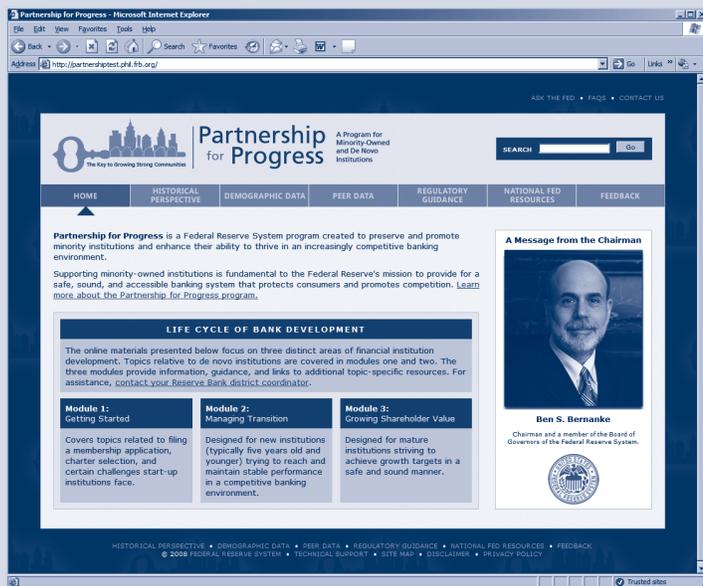
The Partnership for Progress outreach program will serve as a premier source of information for minority-owned institutions. The program has multiple distribution channels to ensure that it has a broad reach and a variety and depth of resource materials

BOARD OF GOVERNORS CONTACTS	
Deborah Bailey, Deputy Director, BS&R National Coordinator	(202) 452-2634
Kevin Bertsch	(202) 452-5265
Beverly Smith	(202) 452-5291
Vitus Ukwuoma	(202) 452-3163

DISTRICT COORDINATORS		
Federal Reserve District	Name	Contact Information
Atlanta	Robert Hawkins	(404) 498-7317
Boston	Andy Olszowy	(617) 973-3992
Chicago	Colette Fried	(312) 322-6846
Cleveland	Paul Kaboth	(216) 579-2951
Dallas	Rob Jolley	(214) 922-6071
Kansas City	Forest Myers	(816) 881-2879
Minneapolis	Dan Hanger	(612) 204-5066
New York	William Hilton	(212) 720-7551
	Kenneth Tiongson	(212) 720-8137
Philadelphia	Michael Collins, Chair	(215) 574-4142
	John Fields	(215) 574-6044
Richmond	Gene Johnson	(804) 697-8228
San Francisco	Ken Binning	(415) 974-3007
St. Louis	Allen North	(314) 444-8826

to address the diverse needs of different minority-owned institutions. The online feature of the program will provide bankers with the opportunity to review a wealth of information on their own. Workshops will provide a channel for participant feedback that will be used to enhance the program. Although the program's primary target audience is minority-owned institutions, portions of the program apply more broadly to de novo institutions, which may find the information and participation in the program useful.

The Partnership for Progress program website will be available soon. For more information on the program, please contact H. Robert Tillman, program manager, at 215-574-4155.



CALENDAR OF EVENTS

June 8-11 American Bankers Association Regulatory Compliance Conference
Hyatt Regency Chicago - Chicago, Illinois

July 5-6 Payments Fraud: Perception versus Reality
2008 Payments Conference
Federal Reserve Bank of Chicago - Chicago, Illinois

July 16-18 Annual Interagency Minority Depository Institutions Conference
Westin Hotel - Chicago, Illinois

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