

# About...



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## The Consumer Affairs Department

### Protecting consumers through bank supervision

**F**inancial institutions and consumers both have a third party working on their behalf: the Consumer Affairs Department of the Federal Reserve Bank of Kansas City.

“We’re helping consumers through our supervision of banks,” says Alinda Murphy, a senior examiner. “Our primary responsibility is to examine banks to make sure they are following the rules designed to protect consumers. Additionally, we work directly with consumers who have questions or concerns about interactions with their bank.”

The number of federal laws to protect consumers has grown since the late 1960s, when Congress first enacted consumer protection and civil rights laws in relation to financial institutions. Consumer Affairs staff, such as Murphy, administers and enforces more than 20 federal laws and regulations through oversight and examination as a part of the Federal Reserve’s broader mission to ensure sound banking practices.

“It’s our duty, as assigned by Congress, to enforce regulations so all consumers receive information they need to make good financial

decisions,” says Esther George, senior vice president of the Supervision and Risk Management Division of the Federal Reserve Bank of Kansas City. “Our Consumer Affairs Department promotes fair treatment for consumers to ensure the banking system is accessible to everyone.”

## **Bank compliance, consumer protection**

Many consumers’ financial transactions—including credit and debit purchases, ATM withdrawals, account deposits, and mortgage loans—are protected by federal law. The Consumer Affairs staff conducts bank examinations to determine how well a bank is managing its compliance with these laws.

The examination process generally includes discussions with bank management and lending personnel regarding loan policies, operating procedures, audit programs and internal controls for fair lending practices, says Michael Steckline, assistant vice president of the Consumer Affairs Department in Kansas City.

During an exam, Federal Reserve examiners evaluate the overall effectiveness of a bank’s:

- management,
- board oversight,
- system of internal controls,
- training program and
- compliance program.

The scope of the examination is tailored to each institution and depends on the complexity of deposit and loan products and services offered, the severity of problems noted at previous exams, a review of consumer complaints, the examiners’ assessment of risks, and the effectiveness of policies and procedures relating to consumer protection laws and regulations, Steckline says.

As a result of the examination, banks are assigned a numeric compliance rating ranging from one (strong compliance) to five (needs the strongest level of supervisory attention). These ratings are not publicly disclosed but provide

a bank’s board of directors and management with a performance assessment.

The frequency of a bank’s examination typically ranges from one to five years, depending on the bank’s size, complexity and past examination ratings.

Examiners are also specially trained to evaluate Community Reinvestment Act (CRA) performance, which requires banks to meet the community and credit development needs of the area they serve, including low- and moderate-income neighborhoods.

Examiners look at the extent to which a bank has contributed to building affordable housing and other community development in these areas. CRA performance is considered when a bank applies for an acquisition or merger, Steckline says.

An evaluation of the bank’s performance under the CRA can occur on a more or less frequent basis, depending upon its prior performance. During this evaluation, examiners may contact members of the local community to gauge the credit needs in the bank’s market area and determine its ability to meet those needs.

The CRA performance ratings range from “outstanding” to “substantial noncompliance” and are available to the public.

Mark A. Sutko, president and CEO of Platte Valley State Bank & Trust Co. in Kearney, Neb., says the examination process reinforces a financial institution’s stability and the integrity of the country’s financial system, ultimately for the good of the consumer.

“Bank regulation plays an important role in protecting the customer, which is the nucleus of every law passed at the state and federal level,” Sutko says. “Carrying out the intent of the law is an obligation banks do not take lightly.”

## **‘Balancing act’**

While bank examinations are not exclusive to the Federal Reserve, its staff has a unique role in writing and interpreting consumer



protection regulations, George says.

These regulations protect consumers in dealings with certain businesses such as finance companies, mortgage brokers, retailers and automobile dealers, in addition to banks. For example, Regulation Z requires banks and other creditors to provide detailed information to consumers about the terms and costs of mortgages, vehicle loans, credit cards and other credit-related products. Its purpose is to help consumers make informed decisions about banking products and services.

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THE FEDERAL RESERVE BANK OF KANSAS CITY recently launched a new Consumer Protection website. Accessible at [www.KansasCityFed.org](http://www.KansasCityFed.org), it provides a wealth of information about consumer rights and online filing for consumer complaints.

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A goal of the Consumer Affairs staff is to help customers understand the regulations and how they pertain to them, Murphy says.

“The best consumer protection is a well-informed consumer,” George says. “We want them to know their rights and have educational resources available to them.”

Sutko views his bank’s relationship with the Federal Reserve as a partnership.

“The balancing act of maintaining the integrity of the banking industry, the protection of the consumer and the bank delivery system can be challenging at times, but the outcome is well worth it,” Sutko says, adding, “It means a sense of confidence and security that their bank is safe, sound and reliable.”

## Making the connection

“Many consumers don’t fully understand what banks can and can’t do,” Murphy says.

# Protect and serve

As part of its mission, the Consumer Affairs Department of the Federal Reserve Bank of Kansas City ensures banks comply with more than 20 federal consumer protection laws and regulations, including the following:

**Fair Housing Act (1968):** Prohibits discrimination in the extension of housing credit on the basis of race, color, religion, national origin, sex, handicap or family status.

**Federal Trade Commission Improvement Act (1980):** Authorizes the Federal Reserve to identify unfair or deceptive acts or practices by banks and to issue regulations to prohibit them.

**Home Ownership and Equity Protection Act of 1994:** Provides additional disclosure requirements and substantive limitations on home-equity loans with rates or fees above a certain amount.



PHOTO BY BOB GREENSPAN

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**PLATTE VALLEY STATE BANK & TRUST CO.** in Kearney, Neb., is just one financial institution that the Federal Reserve oversees to protect consumers and ensure sound banking practices.

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“That’s where we can assist them.”

In response to questions and complaints consumers have about the practices and rules banks must follow, Murphy and other staff spend time investigating their complaints. This is an opportunity for consumers to be proactive and be heard, she says.

Complaints received from consumers are reviewed to identify potential problems in individual financial institutions and to uncover unfair practices, as required by the Federal Trade Commission Improvement Act.

“These data are a vital part of the risk-focused supervisory program, and are used to determine the need for future regulations and educational efforts,” George says.

Bank examinations and educational programs are critical to both the Federal

Reserve and its state member banks for one overarching reason: to best meet the needs of the consumer.

“This connects the Fed to the public,” George says. “And they are why we’re here.”



**BY BRYE STEEVES**, SENIOR WRITER

## FURTHER RESOURCES

**FOR MORE INFORMATION ABOUT CONSUMER PROTECTION,**

visit [www.KansasCityFed.org/TEN](http://www.KansasCityFed.org/TEN).

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**COMMENTS/QUESTIONS** are welcome and should be sent to [teneditors@kc.frb.org](mailto:teneditors@kc.frb.org).