



December 15, 2005

Jennifer J. Johnson
Secretary
Board of Governors of
the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551

**Re: Second Advance Notice of Proposed Rulemaking Review of the Open End (Revolving)
Credit Rules of Regulation Z; Federal Reserve System; 12 CFR Part 226;
Docket No. R-127**

Dear Ms. Johnson:

We appreciate this opportunity to comment on the Federal Reserve Board's supplemental request for input regarding how the Board should apply the new disclosure requirements specified by the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005 (the Bankruptcy Act) to Regulation Z, which implements the Truth-in-Lending Act (TILA).

In our initial set of comments, submitted to the Board on March 28, 2005, we suggested a number of content changes to protect consumers of open end credit and to enhance consumer understanding of credit card costs and charges by providing them with the information to make intelligent choices about their credit. We acknowledge that there are a number of creative means to accomplish the goal of empowering credit card customers and also to give them the information tools for managing their credit card debt.

We believe that to do this, disclosures must be clear, accurate and informative. This objective is often given lip service as a requirement, and unfortunately rarely realized. In its supplemental request for comments the Board recognizes this weakness in rulemaking by noting that: "A 'clear and conspicuous' standard currently exists in Regulation Z, and this is the standard that will apply to all TILA disclosures, including the Bankruptcy Act amendments, until a new standard is adopted after notice and comment is sought in connection with the Regulation review." [FRB Release, 10/11/05, p. 6] Question 85, in the Board's supplemental request, highlights our concern with its directive to "... adopt standards that can be implemented in a manner that results in disclosures that are 'reasonably understandable and designed to call attention to the nature and significance of the information.'" [FRB Release, 10/11/05, p. 19] We would substitute the standard of 'in plain language' for 'reasonably understandable.'

In the interim, the Board proposes to address this weakness in rulemaking by stating its intention "to use consumer testing and focus groups to test the effectiveness of any proposed revisions." The challenge before the Board is to determine how the customer can have access to timely information that is characterized by a proper balance of completeness of costs and charges with clarity of presentation. We believe that when rules have such cross-cutting applicability to the

general public, as does Regulation Z, proposed alternatives to the status quo should be more widely and rigorously (statistically valid) field-tested than what is possible when only focus groups are used. As guiding principles, we believe that nationally effective financial disclosures should be measured against three fundamental standards:

- First, appropriate information that facilitates instrument (credit or debit card) comparison through standardization should be made readily available to consumers;
- Second, information should be presented to users in a timely fashion – without compromising its accuracy, reliability or accountability – to promote improved decision-making by ordinary consumers, and
- Third, before proposed rules are finally promulgated, they should be field-tested for problematic features in a way that corrective measures can be targeted to population segments that are affected and comparable across the broader market of revolving credit instruments.

As an example, one approach to identifying problematic content and presentation in proposed rule changes, using these standards, was a field-test of ordinary investor assessments in proposed mutual fund disclosure forms undertaken by AARP. [See the attached Appendix A on Methodology from the study, entitled: “A Public Assessment of the Proposed Mutual Fund Disclosure Forms,” AARP, 2004]

As we stated in the first advance notice, AARP believes that there is a significant void in the regulation of credit card industry practices given the few limits placed upon credit card practices at the federal level, and the almost complete preemption of state regulation. We continue to be concerned that the Board may not be able to fully redress all the question of fairness in the open end credit market by regulatory reform. As noted in our previous comments, both credit card debt and bankruptcies have increased dramatically among Americans 55 and older. AARP is concerned that the TILA-related provisions in the Bankruptcy Act will not have been tested to determine if the changes being proposed will help older Americans and their families to better manage their finances.

As more and more Americans enter retirement age with debt, they face increased difficulties in their ability to accumulate adequate savings in retirement. We urge the Federal Board not to implement new provisions without substantial research into how well consumers understand the information on their credit card statements. Specifically, we urge the Board to seek further research on consumers before implementing the Bankruptcy Act, TILA-related disclosures so that future implementation is helpful and not harmful to the open end credit market and consumers alike.

Sincerely,



David Certner
Director
Federal Affairs



A Public Assessment of the Proposed Mutual Fund Disclosure Forms:

A Report on Investor and Non-Investor Views of Form Content and Presentation

**Report written by Curt Davies
with assistance from Soheyila Taie and Anne Stewart**

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APPENDIX A

Methodology

The data for this study were collected from two separate national samples of adults age 35 and older in two surveys that were fielded simultaneously in March 2004 via Web TV. In total, 2,034 respondents completed questionnaires for the study. Of the 2,034 surveys completed, 1,011 were reviewers for the disclosures based on purchase of mutual fund class “A” shares and 1,023 were reviewers for the disclosures based on the purchase of mutual fund class “B” shares. The respondents were selected to review the proposed SEC disclosure forms (Point of Sale Form and Confirmation Form) related to either mutual fund Class “A” Shares or to Class “B” Shares, and to answer survey questions online concerning the information presented in the forms.

Respondents were able to view the SEC disclosure forms in their original design (all forms used in this study were downloaded directly from the Commission’s website without change). The sample disclosure forms were filled in by the SEC with mock fund names, figures, and information. We used these sample forms to simulate a real purchase of shares in a mutual fund. Respondents were encouraged to review the forms as often as they wished before and during the time they were completing our questionnaire. There was no overlap between those selected to respond to the Class A share survey and those selected to respond to the Class B share survey.

For this study, a confidence interval of 95% was used. The sampling error is ± 3 , which means that values presented in the report may be within a range of ± 3 .

Knowledge Networks Methodology and the WebTV Panel

Knowledge Networks has recruited the first online research panel that is designed to be representative of the entire U.S. population. The panel is representative because it was recruited using high-quality probability sampling techniques and was not limited to current Web users or computer owners. Knowledge Networks selects households using random digit dialing (RDD) and provides selected households with free hardware and Internet access. This method allows surveys to be administered using a Web browser and enables the inclusion of multimedia content.

Panel Recruitment Methodology

Knowledge Networks’ panel recruitment methodology uses the high-quality standards established by the best random digit dialing (RDD) surveys conducted for the Federal Government.

Knowledge Networks utilizes list-assisted RDD sampling techniques on the sample frame consisting of the entire U. S. telephone population. The sample frame is updated quarterly. Knowledge Networks excludes only those banks of telephone numbers (consisting of 100 telephone numbers) that have zero directory-listed phone numbers. Knowledge Networks’ telephone numbers are selected from the 1+ banks with equal probability of selection for each number. Note that the sampling is done without replacement to ensure that numbers already fielded by Knowledge Networks do not get fielded again.

Having generated the initial list of telephone numbers, the sample preparation system excludes confirmed disconnected and nonresidential telephone numbers. Next, the sample is screened to exclude numbers that are not in the WebTV Internet Service Provider network. This process results in the exclusion of approximately 6% to 8% of the U. S. population. This percentage is diminishing steadily, and as of July 2001, Knowledge Networks began to include a small sample from the out-of-WebTV Internet Service Provider network in the panel to represent these areas and reduce coverage error.

Telephone numbers for which Knowledge Networks is able to recover a valid postal address (about 50%) are sent an advance mailing informing them that they have been selected to participate in the Knowledge Networks Panel. In addition to information about the Knowledge Networks Panel, the advance mailing also contains a monetary incentive to encourage cooperation when the interviewer calls.

Following the mailing, the telephone recruitment process begins. The numbers called by interviewers consist of all numbers sent an advance mailing, as well as 50% of the numbers not sent an advance mailing. The resulting cost efficiency more than offsets the decrease in precision caused by the need for sample weights. Cases sent to telephone interviewers are dialed for up to 90 days, with at least 15 dial attempts on cases where no one answers the phone and 25 dial attempts on phone numbers known to be associated with households. Extensive refusal conversion is also performed.

Experienced interviewers conduct all recruitment interviews. An interview, which typically requires about 10 minutes, begins with the interviewer informing the household member that they have been selected to join the Knowledge Networks Panel. They are told that in return for completing a short survey weekly, the household will be given a WebTV set-top box and free monthly Internet access. All members in the household are then enumerated, and some initial demographic variables and background information of prior computer and Internet usage are collected.

To ensure consistent delivery of survey content, each household is provided with identical hardware, even if they currently own a computer or have Internet access. Microsoft's WebTV is the hardware platform currently used by the Knowledge Networks panel. The device consists of a set-top box that connects to a TV and the telephone. It also includes a remote keyboard and pointing device. WebTV has a built-in 56K modem that provides the household with a connection to the Internet. The base unit also has a small hard drive to accommodate large file downloads, including video files. File downloads do not require any user intervention and usually occur during off hours.

Prior to shipment, each unit is custom configured with individual email accounts, so that it is ready for immediate use by the household. Most households are able to install the hardware without additional assistance, though Knowledge Networks maintains a telephone technical support line and will, when needed, provide on-site installation. The Knowledge Networks Call Center also contacts household members who do not respond to e-mail and attempts to restore contact and cooperation.

All new panel members are sent an initial survey to confirm equipment installation and familiarize them with the WebTV unit. Demographics such as gender, age, race, income, and education are collected for each participant to create a member profile. This information can be used to determine eligibility for specific studies and need not be gathered with each survey.

Survey Administration

For client-based surveys, a sample is drawn at random from active panel members who meet the screening criteria (if any) for the client's study. The typical sample size is between 200 and 2000 persons, depending on the purpose of the study. Once selected, members can be sent an advance letter by mail several days prior to receiving the questionnaire through their WebTV appliance to notify them of an important upcoming survey.

Once assigned to a survey, members receive a notification email on their WebTV letting them know there is a new survey available for them to take. The email notification contains a button to start the survey. No login name or password is required. The field period depends on the client's needs, and can range anywhere from a few minutes to 2 weeks.

Email reminders are sent to uncooperative panel members. If email does not generate a response, a phone reminder is initiated. The usual protocol is to wait at least 3 days and to permit a weekend to pass before calling. Knowledge Networks also operates an ongoing incentive program to encourage participation and create member loyalty. To assist panel members with their survey taking, each individual has a personalized "home page" that lists all the surveys that were assigned to that member and have yet to be completed.

Survey Sampling from Panel

Once panel members are recruited and profiled, they become eligible for selection for specific surveys. In most cases, the specific survey sample represents a simple random sample from the panel. The sample is drawn from eligible members using an implicitly stratified systematic sample design. Customized stratified random sampling based on profile data is also conducted, as required by specific studies.

The primary sampling rule is not to assign more than one survey per week to members. In certain cases, a survey sample calls for prescreening, that is, members are drawn from a subsample of the panel (e.g., females, Republicans). In such cases, care is taken to ensure that all subsequent survey samples drawn that week are selected in such a way as to result in a sample that is representative of the panel distributions. Furthermore, panel members are not assigned surveys on the same topic in a given 3-month period.

Quality Assurance

Quality control is no substitute for quality assurance--identifying problems during quality control is a requisite of good survey practice, but it is much preferable to employ quality assurance processes that correct any potential problems before a survey is implemented.

Quality assurance in terms of survey implementation begins with a stable, well-understood data-capture system that, with extremely low-error rates, writes response data safely and accurately to disk. The proprietary Internet data collection system employed by Knowledge Networks writes response data to a centralized server with redundant backup systems after each question is administered; this is the safest method for data storage. The data collection system itself fully supports logic and inter-item and intra-item range checks.

A second consideration is the error-free implementation of the questionnaire itself. After a questionnaire has been programmed, the Quality Assurance team ascertains whether there is 100% agreement between the programmed instrument and two key documents: the text version of the questionnaire and a flow-chart documenting all skip patterns. Each skip pattern and question and response wording are verified to be in agreement with these key project documents.

Within 24 hours of a survey being fielded to the web-enabled panel, a research analyst examines the data collected to verify that all data are within the valid ranges and to confirm that all skip pattern logic is working correctly.

Item nonresponse is a trivial problem at Knowledge Networks; panel members rarely breakoff from surveys, and item nonresponse for attitudinal questions is typically about half that observed in telephone surveys, with which there are potential interviewer effects. We have not found this to be a problem justifying any special follow-up procedures, except for allowing panel members to resume self-administration of broken-off surveys at their convenience.

After all the survey data are collected, supplemental data are added to the survey data set. These supplemental data, called *profile data*, constitute pre-banked information collected previously on panel members' demographics and relevant background information. This information is provided at no extra charge, and includes the following variables:

- Gender
- Age (in 7 categories)
- Race
- Hispanic Ethnicity
- Marital Status
- Education (highest obtained level)
- Current Employment Status
- Head of household Indicator
- Language Primarily Spoken in the Home
- Ownership Status of Living Quarters
- Housing Type
- Household Income in Last Calendar Year
- Number of Household Member's Age 0-1, 2-5, 6-12, 13 to 17, and 18 or older
- Household Size
- Use of Internet Indicator for Use Prior to Receiving the WebTV
- Number of Computers or Laptops in the Household
- Number of Computers in the Household Connected to the Internet
- Census Region (9 Regions)
- Metropolitan Status

Finally, data quality control checks are made to assure that the analysis file is clean. The following checks are performed:

- Profile data attached
- No duplicate records
- Valid value range/missing data codes
- Analysis of item nonresponse
- Demographic sample balance (sample versus completed cases)
- Skip logic performance
- Clear variable and value labeling
- Confidentiality check
- Interviews where one-third or more of the responses are missing are flagged as invalid.

Interview records are inspected to determine whether any completed cases should be discarded. Since the data set includes only those records in which the respondent completed the last question of the survey, the raw data set generally contains only fully completed interviews. **However, there are situations where certain questions are regarded as “critical items,” and records are discarded that have missing data for these items or are flagged as invalid if one-third or more or more of the response are missing for the close-ended questions.**

Validation of a random percentage of cases is an optional service provided by Knowledge Networks. Validation may be performed by telephone or by a second administration of critical items from the questionnaire. This is not a standard service, however, because past analysis has demonstrated a high level of reliability in survey response data.

Another aspect of data file cleaning are measures to assure respondent confidentiality and privacy. Knowledge Networks is well aware that respect for respondent confidentiality is a requirement for survey research. In the current era of the Federal Belmont Report, Human Subjects Committees, Institutional Review Boards, and an active news media, survey organizations are well reminded of the requirement to assure that respondent information is handled with absolute care for privacy.

Knowledge Networks maintains a strict confidentiality policy for all of its employees. Parts of this policy are described below.

Member IDs, Names, and Telephone Numbers. As a general principle, panel members and panel household IDs, names (first or last), and telephone numbers will not be released to individuals and organizations outside Knowledge Networks. If there is a need to link data back to the original database, a separate set of IDs should be used and the map linking the true with the fictitious numbers should be kept in a restricted-access folder. Names and telephone numbers will be made available within Knowledge Networks on a restricted basis, only to those Knowledge Networks employees or consultants who have a need for this information and only for the duration of the project. Files containing names or telephone numbers must be deleted as soon as the files have served their purpose, or the files may be stored but only after deletion of these identifiers.

Geographical Identifiers. Knowledge Networks will strip all geographical identifiers from any file released for external use. This includes but is not limited to state, Congressional District, CMSA, PMSA, MSA, DMA, zip code, city, Census place, Census MCD, county name, FIPS code, tract, block-group, and address (consisting of any combination of street name, street number, and additional data such as apartment number). For certain studies, geographical boundaries will be outlined for the study, or specific geographical entities such as state and MSA will be specified. In these cases, care must be taken to release only the required geographical data and to be sensitive to how this could influence identifiability. As a general rule, Knowledge Networks will not release information for a geographical unit containing fewer than 500 sampled panel members (though this can vary and will depend somewhat on the number of variables and codes included in the file). Please consult with the statistics department if you find the limit excessively restrictive.

Geographical identifiers will be made available within Knowledge Networks on a restricted basis, only to those analysts who have a legitimate need for this information and only for the duration of the project. Files containing geographical information must be deleted as soon as the files have served their purpose, or the files may be stored but only after deletion of these identifiers.

Outliers. We need to ensure that we do not release data that identifies outliers (e.g., age=120 or income=\$5 million). We must recode outliers to make them indistinguishable from the remaining values in the data file. Analysts should as a matter of course review the distributions of the data and suppress units that are clearly far out in either of the tail regions of the distribution. Outliers need not be limited to univariate distributions. Analysts must also review selected multivariate cross-tabulations to ensure that no panel member is an obvious outlier in the sample and, by possible extension, in the population.

Tabulations. In addition to micro-level data (i.e., individual data at the panel member level), we must be vigilant when releasing data in tabulated form. Geographical information is removed unless explicitly required for the study in question and with Vice President or higher approval. Again, as a general rule, Knowledge Networks will not release information for a geographical unit containing fewer than 500 sampled panel members.

In addition, we must identify and suppress sparse cells, rows, or columns in a table to reduce the risk of disclosure. The general rule is that each cell should be based on at least three unweighted sample panel members. If necessary, cells will be suppressed or collapsed with adjacent cells in order to reduce the risk of identifiability.

Non-Dissemination of panel member's Identifying Information. Under no circumstances will information be shared with clients that will enable the identification of research participants. All survey data are reported in aggregate format. Panel members' identifying information is never sold or distributed for any purpose.