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DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT—INDEPENDENT AGENCIES APPROPRIATIONS FOR 1981

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HEARINGS

BEFORE A

SUBCOMMITTEE OF THE

COMMITTEE ON APPROPRIATIONS

HOUSE OF REPRESENTATIVES

NINETY-SIXTH CONGRESS

SECOND SESSION

SUBCOMMITTEE ON HUD—INDEPENDENT AGENCIES

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RICHARD N. MALOW, PAUL E. THOMSON, and DELACROIX DAVIS III, *Staff Assistants*

PART 2

Consumer Information Center 67
Consumer Product Safety Commission 88
Federal Home Loan Bank Board 317
National Consumer Cooperative Bank 241
Office of Consumer Affairs 1

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DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT—INDEPENDENT AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1981

TUESDAY, FEBRUARY 5, 1980.

UNITED STATES OFFICE OF CONSUMER AFFAIRS

WITNESSES

ESTHER PETERSON, DIRECTOR, OFFICE OF CONSUMER AFFAIRS, AND SPECIAL ASSISTANT TO THE PRESIDENT FOR CONSUMER AFFAIRS
EDWARD B. COHEN, DEPUTY DIRECTOR, OFFICE OF CONSUMER AFFAIRS
FRANK R. MARVIN, DIRECTOR, MANAGEMENT AND CONSUMER COMPLAINTS, OFFICE OF CONSUMER AFFAIRS
JOHN P. SCULLY, DIRECTOR, DIVISION OF O. S. BUDGET SERVICES, DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

	Appropriations	Positions
1979 actual	$1,732,000	50
1980 estimate	[1] 1,946,000	50
1981 request	2,489,000	57
Increase	+543,000	+7

[1] Includes supplemental request of $85,000 for increased pay costs.

Mr. BOLAND. The committee will come to order. We are delighted to have this morning the United States Office of Consumer Affairs, represented by the Director of the United States Office of Consumer Affairs, who incidently wears a couple of hats.

Mrs. Peterson, we are glad to have you. I don't know of anyone who has traveled the halls of this Congress and has worn so many shoes out in traveling office to office in the interest of consumers; also, your advice to the President of the United States as Special Assistant to the President on Consumer Affairs.

We will be very pleased to hear you this morning.

Let me first of all say the budget request this year is for $2,489,000. That is an increase of $543,000 over last year. You are requesting 57 positions. That is an increase of 7 over last year. The 1980 estimate, $1,946,000, includes a proposed supplemental of $85,000 to meet the October 1979 pay raise.

You may proceed with your prepared statement.

Mrs. PETERSON. With your permission, Mr. Chairman, I would like my statement inserted in full in the record, and I will summarize it here.

[The statement follows:]

STATEMENT OF ESTHER PETERSON, SPECIAL ASSISTANT TO THE PRESIDENT FOR CONSUMER AFFAIRS AND DIRECTOR, U.S. OFFICE OF CONSUMER AFFAIRS

Dear Mr. Chairman and members of the subcommittee: I would like to begin by thanking the Subcommittee for this opportunity to describe the accomplishments and activities of the United States Office of Consumer Affairs (USOCA) and to explain our plans for the future. We have submitted to the Subcommittee our formal budget justification for fiscal year 1981. In this document, we have provided the Subcommittee with specific details on how we have allocated our resources in the past and how we propose to do so in the future. I would, of course, be pleasd to respond to any specific questions that you may have with regard to our request.

Mr. Chairman, as our nation begins to face the realities of the 1980's, government programs must change if they are to remain responsive to citizen needs. In this decade, consumers will be faced with increasingly greater resource shortages which will effect virtually every aspect of their daily lives. Shortages of energy, in particular, has caused the inflation rate in this country to exceed what we have seen in many years. The cost of a home mortgage is out of the grasp of many of our citizens and the cost of health care, food, transportation, and the other necessities of life continue to spiral.

Each day, agencies of the Federal government make decisions which have direct and substantial bearing on the American consumer. In a complex technological society such as ours where the actions of one sector of the economy so directly effect the interests of others, government often serves as the arbiter of those interests. It is not only the prominent, headline grabing decisions that effect consumer interests, it is also a myriad of low profile, seemingly technical decisions, which have major ramifications for consumers. One of the major goals of our office is to assure that Federal agencies are fully cognizant of these ramifications when decisions are being made. Indeed, this principle is the cornerstone of the President's Executive Order 12160.

Last year when I testified before the Subcommittee, I described the Federal task force that was assembled to evaluate existing consumer programs and to make recommendations on how they could be improved. That task force concluded that many Federal consumer programs were declining in effectiveness due to low priority within their agencies, lack of skilled management attention, and the failure to allocate sufficient resources to these programs. We found that too many programs were "public relations" oriented and did not meet basic consumer needs for information and participation in agency processes.

The new Executive Order will address the pressing needs that consumers have in the 1980's: to be an integral part of decision-making in the Federal government. Under the Order, each Executive branch agency must have a consumer staff which participates on a regular basis in the formulation of agency rules, policies, programs and legislation. Agencies must take steps to insure that individual consumers and consumer organizations are able to participate in the development of agency rules, policies and programs; and comprehensive, understandable information materials must be produced and distributed. Each agency must also establish systematic procedures for the efficient handling of consumer complaints.

In implementing this Order, each agency has been required to publish in the Federal Register its plans for compliance with the very specific requirements of the Order. In addition, the agencies must submit a separate budget exhibit to the Office of Management and Budget detailing their expenditures for Federal consumer programs.

The Executive Order creates a new Consumer Affairs Council composed of senior-level department representatives and other participating Federal agencies. The Council, which I will chair in my capacity of Special Assistant to the President for Consumer Affairs, will provide leadership and coordination for government consumer programs.

Finally, the Executive Order provides for USOCA staff support to the Chairperson of the Council whose responsibility it is to assure proper implementation of the Executive Order. It is for this reason that our budget requests seeks an additional $329,000 which would provide $182,000 for seven new positions, $127,000 for public information programs, and $20,000 for attendance of consumers at workshops and hearings.

Specifically, the staff will be utilized to evaluate each agency's program and to provide technical assistance when necessary to implement the Executive Order. It will also evaluate the agencies' budget exhibits to determine whether proper resources are being allocated for the agency consumer programs. In addition, this process will allow our staff to effectively coordinate Federal consumer programs to identify potential duplications and indeed, to help make these programs more

complementary. These resources will also be used to support the activities of the Consumer Affairs Council which will include some limited research and analysis for the Council's consumer advisory role, administration of formal Council meetings, workshops and conferences, implementation of the OPM personnel initiatives required by the Order, and other similar activities. These resources will enable improving the handling of consumer complaints in the Federal government, will provide staff to prepare an annual report to the President on the status of Federal agency programs, and will enhance our public information programs to enable consumer leaders and citizens to become more aware of their consumer rights and of new opportunities for participation in government decisionmaking as a result of Executive Order 12160.

The new Executive Order represents only one area of new direction for USOCA in the 1980's. Important other changes, which will result in a reorientation of our priorities and resources, will be made to assure that our program is responsive to the new needs of the American consumer. Let me give you some examples. In general, our issues staff will seek only limited involvement in those activities in which there is adequate representation by others on behalf of consumers. As a general policy, we will focus on those policymaking activities for which there is little likelihood of effective consumer representation by anyone other than USOCA.

In a functional sense, this means that USOCA will participate to a lesser extent in rulemaking proceedings which are open to and available for public participation. Through our information and education programs and our outreach program, we will place an emphasis on assuring that grassroots consumer groups are aware of the opportunity to participate in general and are informed about specific rulemaking activities which have a direct impact on their health, safety or pocketbook. We will also enhance our efforts to let consumers know how they can participate and how they can effect the governmental decisionmaking process.

The resources that will be available as a result of our decreased involvement in rulemaking proceedings will now be used in other ways. First, USOCA will enhance its participation in interagency task forces within the Administration and within the Executive Office of the President. These task forces are formed for the purpose of studying options for new initiatives or changes in government policy and for making recommendations to the President. Because these task forces are limited to inter-government participation, consumer and citizen groups do not have an opportunity to effect their work. As a result, if the consumer interest is to be represented as these policies are being developed, it must be done by USOCA. The same is true of the legislative clearance process of the Administration which is administered by the Office of Management and Budget.

Another area in which we plan to devote increased resources is in our intervention program. Last year, we reported to the Subcommittee our involvement in a case before the Federal Energy Regulatory Commission in which a public utility was seeking to include the cost of construction work in progress in its rate base. While this may appear to be a technical point, the ramifications for consumers from such an adopted precedented change would be enormous. Accordingly, for the first time in its history, USOCA asked the presiding officer if USOCA could be a full party to this proceeding. The presiding officer concurred.

We learned quite a bit by our involvement in this proceeding. We became fully aware of how complicated, technical and expensive it was for full party participation in an intervention proceeding. Indeed, it is for this reason that so few consumer representatives are normally a part of these proceedings. Nevertheless, since broad policy can be set in this case-by-case adjudicative process, and if our mission is to assure that consumers are represented in policy-making in the government, interventions must be a part of USOCA activities.

In the last year, we have sought to intervene in two additional proceedings, both at the Federal Communications Commission, and both involving AT&T. The issue in the first case is whether AT&T exceeded its allowable rate of return in 1978 and, if so, whether the company should refund the excess revenues. In the second case, the major issues involved were the appropriate rate of return for AT&T and the proper capital structure for the company. Incidentally, to the best of my knowledge, this is the first time that consumers have been represented before the FCC in an AT&T rate of return proceeding.

As I mentioned earlier, one of the new thrusts of our information and education program is assuring that consumers are aware of opportunities to participate in decisionmaking in government and helping them to understand how to participate in the process. In the past year, the information and education program has also concentrated on providing consumers with immediately useful information on how to cope with inflation. This has been done through our monthly publication of the

National Consumer Buying Alert, which is published the day after the Consumer Price Index is issued. It helps consumers to understand what the CPI means in terms of future trends and identifies the best buys and other consumer tips for the coming month. To make sure that this information gets into the hands of those who need it most, we have undertaken an internal effort to identify and target organizations that serve predominantly low income constituencies such as 2,000 black churches and several hundred Hispanic organizations.

Our information and education program will also be emphasizing the concept of "self-help." As I travel around the country, I find that there is a new people's movement afoot throughout our land. Citizens are banding together to seek and find new ways to provide the basic necessities of their own lives in a more effective and efficient manner. Food, health and housing cooperatives are being established; buying clubs are being formed; innovative programs to rehabilitate homes, apartments and neighborhoods are being initiated; and a whole myriad of energy conservation projects are being installed. I find that American consumers want to become more self-sufficient, while saving money in the basic necessities of life.

In order to assist and foster this movement, in July we will be publishing a new book tentatively titled, "Cutting Costs Where It Counts." This book will be a self-help guide for citizen groups giving detailed information based on actual case studies on how to begin projects that can stretch consumer dollars in the areas of food, energy, housing, and health care. It will be released in conjunction with our self-help, low income consumer education conference co-sponsored by Howard University, which is part of our consumer outreach efforts.

Mr. Chairman, USOCA is publishing this week a new "Consumer's Resource Handbook" which is designed to teach consumers how and where to get assistance and redress if they experience problems with a product, or service or government-related program. It also includes a comprehensive directory of some 600 State and local consumer protection offices. The purpose of this Handbook is to help consumers take advantage of the resources currently available to help them exercise their rights.

Part of our reason for publishing the Consumer's Resource Handbook, was to adopt one of the recommendations included in a five-year study of complaint handling conducted by Tarp, Inc. This study concluded that in general, many Federal agencies did a poor job of handling consumer complaints and that there was little systematic analysis of complaint data used for development of agency policy. The study recommended that consumer complaints could be more effectively and efficiently handled if they were sent to the right party in the first instance. By identifying the proper State or local government agency, voluntary group or business with which to file a complaint, consumers will reap more satisfactory results in obtaining redress. Hopefully, the Resource Handbook will assist in these efforts.

In fiscal year 1981, USOCA will continue its trend towards de-emphasizing the handling of individual consumer problems and instead provide assistance to other Federal agencies and the private sector in more effectively responding to consumer complaints. Our goal in this regard is to continue to foster recent improvements in Federal agency complaint handling by encouraging agencies to institute procedures which facilitate the efficient preparation of timely and substantive replies to citizens with marketplace or government-service related problems. This will be accomplished by on-site visits, training, and through interagency technical committees.

We will also serve as a clearing house for the exchange of complaint handling ideas and technology by State and local governments, including the design of consumer complaint classification systems, and the development of more accurate statistics on specific types and volumes of complaints. We also will continue to visit Congressional offices to assist in their efforts to resolve constituent complaints.

Our other program increases are detailed on pages 17–18 of the budget request and relate to increased costs for postage, funding of base positions, charges for GSA's CIC publications' distribution, and other selected items.

Mr. Chairman, there are some who say the consumer movement is dead. I do not accept this. While it is clear that consumers have suffered some setbacks in Congress, I believe that they are only temporary and that we will find in the years to come that some of the actions that have been taken have been unwise.

The consumer movement is alive and well. At the grassroots level, citizens are discovering ways to improve their lives in the provision of basic necessities and their ability to function in the marketplace. As a result of the consumer movement, consumers have recognized that they are indeed the sovereign. They are more discriminating in their purchasing habits and are less willing to accept shoddy marketplace practices.

Nevertheless, there continues to be an important role for the Federal government on behalf of consumers. Basic health and safety protection must be provided through vigorous regulatory programs. The government must maintain a presence to assure that those who perpetrate unfair or deceptive commercial acts and practices are not permitted to keep their gains. And we must provide a means to assure that consumers are a part of and involved in their government. It is to these goals that the U.S. Office of Consumer Affairs subscribes itself in its fiscal year 1981 budget proposal.

Thank you very much.

SUMMARY OF THE STATEMENT

If you remember, last year I talked to you about the need of really seeing what we can do to beef up the consumer programs in the agencies. I hoped we would have an Executive Order and I am happy to say that has been accomplished. Our major goal in this budget is to put that in place.

My experience has been that what we must do is really improve the concern for the consumer within the Federal establishment. That is exactly what we are after.

I have spelled out in my prepared statement and in our budget justification how we intend to do that, and what those elements are in the Executive Order. I will be glad to go into these if you wish.

Mr. BOLAND. Brief us on the elements in the Executive Order. That is the keystone.

Mrs. PETERSON. The biggest thing that the Executive Order ensures is for more consumer concern within the agencies. There must be consideration of the consumer in decision-making. Too often—and I sat at the White House and learned this—decisions come up, and it isn't until they get to the top that they say, "Wait a minute, is the consumer factored into this?" This is the thing we are trying to change.

What it does is set up a consumer staff. It must have an identifiable staff that reports to the head of the agency as that has the authority to really work within the agencies.

It sets up a way to ensure that there is participation by the consumer in rulemaking and in agency proceedings. It sets up systematic procedures for consumer complaints; it calls for separate budget exhibits; it sets up a system so that we can train and develop some professionalism in the consumer area, and it sets up a Consumer Affairs Council composed of senior-level representatives from the participating agencies.

That Council is chaired by the Special Assistant to the President for Consumer Affairs and the reason we are asking for the increase is to staff up to accomplish what we are really trying to do in those areas.

Mr. BOLAND. I take it the greater part of the $543,000 increase over 1980 is occasioned by the Executive Order.

Mrs. PETERSON. It is occasioned by that and the other items which Frank Marvin will go into such as postage and supporting costs that are catch-up increases.

INTRODUCTION OF SUPPORTING WITNESSES

Mr. BOLAND. You are Edward Cohen, I presume?

Mrs. PETERSON. He is the Deputy Director of the U.S. Office of Consumer Affairs.

Mr. BOLAND. Were you here last year, Mr. Cohen?

Mr. COHEN. I was, but as General Counsel.

Mr. BOLAND. Were you sitting at the table?

Mr. COHEN. No, I was sitting with other senior staff members.

Mr. BOLAND. John Scully was here last year, and Frank Marvin.

Mrs. PETERSON. Yes. Also with me today are other USOCA division director level staff officers.

PROGRAM ACTIVITIES

Mr. BOLAND. I looked at the program activity chart in the back of your budget justification. It is a pretty good workload. We are not going to discuss it now. I take it for granted that is what they do and the number of hours they spent in the particular activities.

Mrs. PETERSON. I think we work very hard, Mr. Chairman, to justify the time and money being provided.

Mr. BOLAND. How do you do it with such a small budget?

Mrs. PETERSON. We work hard and try to be efficient.

Let me identify the key points. The Executive Order has been set in motion. There are also other changes in direction. We have commented on proposed rulemaking, because otherwise the consumer would not have been heard. We are now changing that a bit because we are seeking to improve the competence of the staff within the agencies. We are also moving in to some of the other areas, mainly participating with Federal working groups and task forces that are in policy-making areas where the outside consumers cannot normally participate. We are doing more in Outreach Programs; we are doing lots more in education; and we are doing much more in intervention—in new areas where we have not previously moved.

We are trying to be sensitive to the needs of consumers and to adjust our policy to these needs. That is a quick summary of the 27-page budget justification which spells it out in detail.

ISSUANCE OF AGENCY CONSUMER PLANS

Mr. BOLAND. Your statement estimates that in implementing the Executive Order, each agency has been required to publish in the Federal Register compliance with specific requirements of the Order. Have all the agencies complied with the Order?

Mrs. PETERSON. There are 37 agencies that have already sent in their plans.

Mr. BOLAND. What about the others?

Mrs. PETERSON. We have only the authority to require under the Executive Order that Executive branch agencies comply. The independent agencies are coming in, most of them, voluntarily.

Mr. BOLAND. Within what time frame must they publish their plans for compliance?

Ms. O'BRIEN. The second set of plans has been published in the Federal Register, and they will finish the comment period by April 9. All of the plans will be in to the Chairperson, Mrs. Peterson, and approved by June 9.

Mrs. PETERSON. We want to have it in order and really functioning by July as required in the Order.

Mr. BOLAND. The Consumer Affairs Council is comprised of whom?

Mrs. PETERSON. The Council is comprised of the head of each agency or by the senior official designated by the agency head.

Mr. BOLAND. How many are on the Council?

Mrs. PETERSON. At the moment, the Council is comprised of the heads of the 12 departments. What we are going to do after the first meeting of the Council is discuss whether or not other agencies, including the independent agencies, should also be part of the Council. That is a fluid matter that will be under discussion.

Mr. BOLAND. I take it you are the Chairperson?

Mrs. PETERSON. I am the Chairperson of the Council.

Mr. BOLAND. How often will you be meeting?

Mrs. PETERSON. Tentatively, I would think we would be meeting quarterly. We will need to have a great deal of technical help.

The big thing is to be sure that there is follow-up. The staff must provide assistance. There will be smaller subgroup meetings from time to time, certainly of those agencies that are interested in particular issues.

What we are trying to do is avoid duplication of effort, to be sure all of the people that are dealing with one issue do have an opportunity to get together and so we don't have people going off in different directions—that the right hand knows what the left hand is doing.

Mr. BOLAND. And putting a little steel in the backbone of various agencies.

Mrs. PETERSON. Exactly.

We would like to make it more than public relations. We want to make it so that it is really responsive. I am terribly pleased, as I travel, to hear people say they want to be in on the decision-making now. More and more it is beginning to be an issue. When we set up organized procedures, we must be sure those voices can be heard.

We don't want to have the kinds of problems that erupt sometimes when people don't have an opportunity to speak.

Mr. BOLAND. I note that your statement also indicates that the Office is going to enhance its efforts to let consumers know how they can participate.

Mrs. PETERSON. Exactly.

Mr. BOLAND. And how they can affect the governmental decision-making process?

Mrs. PETERSON. A number of ways. We have some workshops. Right now we are planning a workshop which will be held tomorrow comprised of agencies who issued proposed plans.

They are meeting with consumers to discuss the plans of each agency. I am very pleased. There are over 400 people who have indicated plans to come at their own expense. They will be able to sit and talk with the various agencies with whom they do business.

Mr. BOLAND. How long have you been printing and distributing the consumer shopping list inflation fighting ideas?

Mrs. PETERSON. About a year and a half.

Mr. BOLAND. That is an important one.

Mrs. PETERSON. It has been a great success.

Mr. BOLAND. Is this distributed by the White House or by the Office of Consumer Affairs?

Mrs. PETERSON. It is distributed by the Consumer Information Center which has helped us immeasurably. It was prepared under the name of the Office of Consumer Affairs.

Mr. BOLAND. Now you are distributing some new consumer handbooks. You are not the only agency that does this. Have you had a look at the package material that comes out of the Department of Energy?

Mrs. PETERSON. I have looked at some of them, but this handbook on consumer resources is different from the publications of other agencies.

This is why we need the Council so much—we do have duplication.

What we are trying to do is fill in gaps where nothing has been done. For example, the Consumer's Resource Handbook is a "yellow pages" for the consumer. What I have found for a long time is that the most frustrating problem is the "run-around"—not knowing where to go. Our contract study by TARP, Inc., shows definitely that one of the biggest complaints was that consumers had to go to so many sources to resolve their complaints.

One of the TARP recommendations was consumers should find out in the beginning where to go with their problems. We have written this publication, after great consultation, to aid consumers to find out the most effective way to be heard. We have advised what is needed in a complaint letter, what one does to reach firms in the business sector, what one does to reach Federal leaders and similarly leaders in the state organizations.

We have consumer-tested this carefully.

Mr. BOLAND. This has just come out, as I understand, this week.

Mrs. PETERSON. That is correct.

Mr. BOLAND. How many will you print?

Mrs. PETERSON. Three million.

Mr. BOLAND. Distributed by whom?

Mrs. PETERSON. It will be distributed by the agencies who have been participating in this effort.

Mr. BOLAND. How about the Consumer Information Center, are they going to distribute any?

Mrs. PETERSON. Yes, we have been working closely with them. CIC will be a major distributing agent.

Ms. SHUBOW. We are also doing some direct bulk mailing to Congressional offices so they can distribute them to their own constituency.

FUTURE OF THE CONSUMER MOVEMENT

Mr. BOLAND. As I read your statement, and looking at these publications, I would have to agree that you don't accept the axiom that the consumer movement is dead?

Mrs. PETERSON. Not at all. It is moving into a new phase.

In my first days the issue was: "What is wrong with the shrimp." Something wasn't the right size, the zipper would break, etc. It is moving much more now into wanting to be in the decisionmaking stream—wanting to affect policy.

Mr. BOLAND. You say on your last page, "The consumer movement is not dead, but it is clear the consumers have suffered some setbacks in Congress."

Mrs. PETERSON. Yes.

Mr. BOLAND. You believe that they are only temporary and that you will find in the years to come that some of the actions that have been taken have been unwise. What were those actions?

Mrs. PETERSON. The one with which I was very disappointed was losing the bill for an independent consumer agency. This would have been set up under Congressional authority, a staff that had the business of representing the consumer.

Mr. BOLAND. You are making every effort to correct that through this Office, are you not?

Mrs. PETERSON. We are working at it. One does not replace the other. I do think there is the right to seek judicial review. I think that must be coupled with having an effective consumer staff within every agency.

Mr. BOLAND. Where do you get the right to intervene?

Mr. COHEN. Mr. Chairman, we cannot intervene as a matter of right. It is permissive with the agencies. An agency could very well say to us, "We don't think you should be involved in this process." The distinction between what we do and what the Agency for Consumer Representation would have done is that the Consumer Agency would have had a right to intervene.

Mr. BOLAND. Did the Federal Energy Regulatory Commission ask you to intervene in that particular case with respect to the ongoing construction costs?

Mr. COHEN. They didn't ask us, but we asked if we could and they agreed.

Mr. BOLAND. What happened with it?

Mr. COHEN. The case has been settled, or is in the process of being settled. I believe the resolution was favorable to everybody—the utility and consumers alike. We have won, at least for the moment, the principle that we were seeking to establish, that Construction Work In Progress should not be included in the rate base. At the same time, the company was given a temporary rate increase to meet their immediate revenue needs.

OFFICE LOCATION

Mr. BOLAND. Where are your offices located?

Mrs. PETERSON. We are split, divided between the Old Executive Office Building and the Reporters Building at 7th and D Street, S.W.

Mr. BOLAND. Mr. Coughlin?

THE CONSUMER AND DEREGULATION

Mr. COUGHLIN. Thank you very much, Mr. Chairman. I want to join in welcoming the distinguished Director of the Office of Consumer Affairs. Certainly your record in this field is unparalleled.

Mrs. PETERSON. Thank you very much.

Mr. COUGHLIN. You have a very, very distinguished background in the area.

I noticed in a recent Wasington Post article—which I would like to have entered in the record, that you were quoted on the current status of the consumer movement.

[The article follows:]

[From the Washington Post, Sunday, Jan. 13, 1980]

THE TIDE OF CONSUMER INFLUENCE IS IN THE GRIP OF STRONG UNDERTOW

(By Larry Kramer)

The consumer movement has two goals for the 1980s: bringing to the public more information with which to make better marketplace decisions, and finding ways to increase the economic and political power of the purchaser.

For the past two decades, consumer advocates have fought to make both government and industry more responsive to consumer complaints and suggestions.

And, by and large, that effort has been successful. Major corporations now have consumer experts at the highest managerial levels who at the very least serve as a liaison between top management and the purchaser.

The government also has institutionalized the consumer advocacy function. Many federal agencies now have consumer offices and special funds to pay for advocacy groups to participate in regulatory proceedings.

Now it will be up to consumers to use these gains to their advantage, to parley their influence into better products and fairer prices.

But there are growing indications that the consumer incursion into the corporate and government process has reached its high point and that further advancement in that areaa will be hard to come by.

One has only to look at the whipping Congress has given the Federal Trade Commission, largely at the behest of lobby groups that have regrouped to stem the tide of consumerism that began in the 1960s.

Chamber of Commerce Regulatory Affairs Director Jeffery Joseph has compiled a list of House of Representatives votes over the past decade that he says prove that support of key consumer legislation has been eroding.

He points out that in 1971–72 a bill to establish a new Consumer Protection Agency passed the House by 344 to 45 but was shelved in the Senate.

In the next Congress, the 93rd a similar bill passed the House by 293 to 94, but again was shelved in the Senate. By the 94th Congress, the House vote for the agency dropped to 208 to 199, but despite Senate passage, it was vetoed by President Ford.

In the 95th Congress (1977–78), the agency bill was defeated in the House by a 227–189 vote, while an anti-consumer vote to strike a key class action provision from the the FTC Improvements Act won by a 279–139 vote.

Finally, the vote in this year's 96th Congress to reauthorize the FTC with severe restrictions, including a congressional veto, passed by a resounding 321 to 63, the highest anticonsumer ballot of the decade.

"I think the record speaks for itself. There has been a steadily growing reaction in the Congress against the issues held to be important by consumer activists," Joseph said.

"The last couple of years have essentially seen a consolidation of gains made by consumers in the '60s," responds FTC Chairman Michael Pertschuk. "You had an outpouring of major legislation in the '60s, and the '70s really represented the shakeout of that new legislation. Some of it came in for intense scrutiny and some of it was cut back. But if you look over the decade, what you see are some very real gains in terms of consumer rights, government and corporate sensitivity to consumer needs."

Although he dosen't see any "quantum breakthroughs" in consumer rights in the coming years, Pertschuk does expect further realization of the gains that already have been made.

"For example, the automobile manufacturers know they are going to have to come to terms with warranty performance," he said. "Whether it comes through voluntary progress or through legislation, it is something the public has now come to expect."

Pertschuk thinks that the government's role in helping consumers will change in the '80s. "Government intervention will be more aimed at giving consumers the kind of information and the kind of practical rights to enforce their own interests and own choice rather than new elaborate schemes of government regulation," he said.

The ability of consumers to obtain redress directly is one area Pertschuk sees improving in coming years. He said "the nature of regulation will move toward information disclosures, stimulating comparative advertising, such as energy labeling (that will show how much energy an appliance will use compared with similar products), rather than control regulation like the banning of products."

"Consumers will be more conscious of their own rights," Pertschuk added. "But you still are going to need some intermediaries between very large and impersonal institutions—whether they be large chain stores or large government agencies—and consumers to help those consumers be heard."

"Consumers will be armed with far more information, and that's good," said White House Consumer Advocate Esther Peterson, who succeeded last year in sharply strengthening the role of, and funding for, consumer offices in all federal agencies.

"We're going to develop new tactics and new issues, even as we try to repel the business attacks on existing consumer and environmental regulation," said Mark Green, head of Ralph Nader's Congress Watch.

First off, Green said, "We are going to multiply the number of Congress Watch local offices around the country." He said the 20 or so existing offices have resulted in the congressmen from those districts voting for more proconsumer legislation.

But perhaps more of an indication of the direction in which the organized consumer movement is going is the Congress Watch plan to develop a "Corporate Democracy Act" and an "Audience Network." The latter will attempt to give citizen groups more access to prime-time television through ballot initiatives on what kind of programming should be shown during a special time allocated in local areas.

The other venture aims at making corporations more accountable and accessible to the public and to stockholders.

"Corporate crime will be an issue, and so will the growing power of corporate trade associations," Nader said.

Congress Watch is also encouraging creation of a public energy corporation to compete with the oil industry and, on the state level, supporting the creation of checkoff boxes on utility bills, which would make it easy for the public to funnel contributions to consumer advocates working on utility rate cases.

Green and other consumer advocates are very high on new telecommunications technology, which they see as creating a wide-open market for the dissemination of consumer information that has not been available on network programming.

Cable television systems, for example, now offer many consumer services like comparative pricing and how-to programming.

"Communications technology has led to a demand for new groups and new topics," Green said. "The explosion of channels has led to the airing of more issues. You no longer have to prove that a show can attract 34 percent of a market before you can put it on the air."

Nader agrees that cable television and other forms of improved communications will "vastly expand" the consumer's information base, but he said such new facilities should go far beyond consumer pricing and other basic services.

"We need the kind of programs where, for example, once a day on some cable channel throughout the country, there is an energy consumer action show where we can say, 'OK' today here's what the American Petroleum Institute did, and here is what Russell Long did, and this is what we've got to do,' " Nader said.

He sees better communications as a means of giving the consumer movement political punch on Capitol Hill. "Imagine the difference such programming could have made in Congress in the past. It could have been decisive on some votes. If people know what they are facing, they can do something to stop it," Nader said.

But the most important weapon the consumer may cultivate in the '80s is economic power. For the first time in history, there will be a Cooperative Bank, which will use $300 million in federal government seed money to offer traditional financing and credit services to cooperatives around the country.

Cooperatives are nonprofit businesses that are owned by their members. They were created to give consumers a chance to purchase the best possible goods for the

smallest possible price. Owned by their members, cooperatives around the country sell food, health services, auto repair services, farm equipment and many other products.

Many cooperatives have found it difficult to gain the financing they need to operate from commercial banks, which would rather lend money to profit-making ventures.

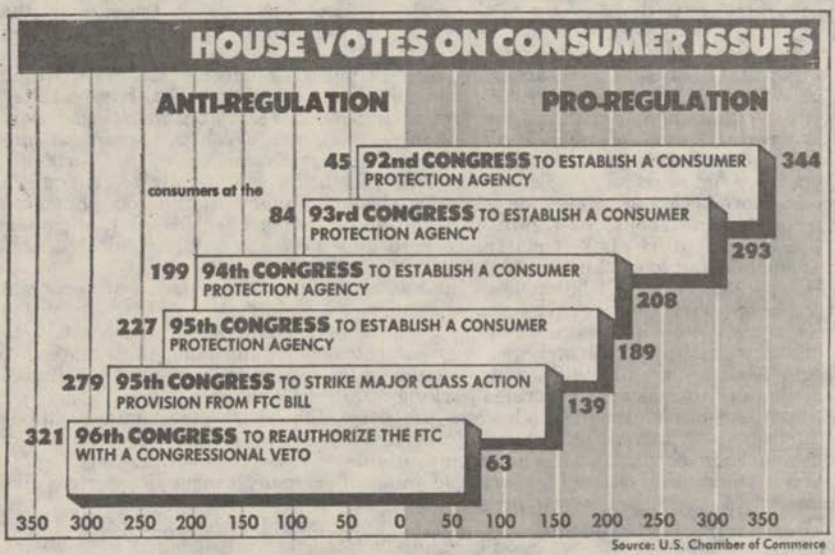
The Co-op Bank—which reportedly will be headed up by outspoken consumer advocate and former Massachusetts banking commissioner Carol Greenwald—should have adequate funding to support creation of several new cooperative ventures that must have an initial investment to get off the ground.

"The main thing we need to develop are instruments of consumer action, like these consumer co-ops," Nader said. "Consumers need economic power. More and more they are forming buyer clubs, where homeowners form service co-ops for plumbers, electricians and carpenters."

"Privately organized consumer muscle is the only answer," he added.

"Eventually the lawyers for consumer groups will sit down and renegotiate the installment loan contracts with Montgomery Ward or Sears, because you can't do that at point of sale," Nader contended.

"But there is no way Washington will be avoided as the battleground for consumer rights," Nader said. "We're not running away from Washington; we just have to have more muscle out there."



Mr. COUGHLIN. Although Congress is not anti-consumer, it is very much anti-regulation at this point in the game.

Of course, Congress is supposed to represent the wishes of the American taxpayers, and I wonder if you had any comment on this.

Mrs. PETERSON. I agree completely with that. I think it is fine that Congress is looking hard at regulations. I think the difficulty is to be sure that one does not destroy a great deal that has been done and to look very carefully at what should be done.

I am for eliminating all unnecessary regulations. I sat on the Paperwork Commission and learned much. On the other hand, I think we have to be careful that we retain those achievements that are very important. We have to think of the benefits of regulations while we are streamlining and must get rid of those that are useless.

Mr. COUGHLIN. How do you feel about the Congressional veto, for example?

Mrs. PETERSON. I think that is dangerous. I have been up in the halls of Congress a great deal. It would make the existing legislative process more complicated. With the pressures legislators have, I think the present procedures established by law are a much safer option. I am worried about it. One of the things that I see, having had so many years of experience here, is the possible increase of special one-issue groups focusing on particular provisions of a rule or regulation. It is hard for the consumer to be here and to walk the halls of Congress.

AGENCY OVERSIGHT

Mr. COUGHLIN. I guess it leads me to the point you are asking for some additional people to check up on other Federal agencies as to whether they are doing an adequate job of consumer representation.

Mrs. PETERSON. I feel strongly that we need to do this. It does not mean we are going to win every time. It means when a decision is made, it is a balanced decision and it is in the national interest.

I am convinced that it can be done. Since I have been in the White House, I have been in the decision flow. We have been able to soften in some cases, help in some of them, win some of them, lose some of them.

The point is we are there to represent the consumer and that is what I hope to be accomplished.

Mr. COUGHLIN. Is this a new initiative on the part of your agency?

Mrs. PETERSON. Yes, if you mean to be in the decision-making process.

Mr. COUGHLIN. To try and oversee the representation in the other agencies.

Mrs. PETERSON. I don't mean snooping. I mean an orderly, organized review—where it is fair. I don't like looking over shoulders. The Executive Order is of course new, so it is a new initiative.

Mr. COUGHLIN. Is it a new program?

Mrs. PETERSON. Yes, absolutely. That is why we are coming to you for some help.

Mr. COUGHLIN. Do you look on this as sort of a back-door way of getting into the Consumer Protection Agency?

Mrs. PETERSON. We have been accused of that. I don't think so. As I said to the President before, we cannot eliminate the various consumer components in individual agencies. I think that is one of the problems we had during that whole legislative debate. We made it clear that passage of the consumer agency bill didn't mean that individual agency consumer representation efforts would be eliminated. It is very important to be sure. What form we will recommend for a new initiative on that, I am not yet sure. I want to assess this first and see what we are doing and take action cautiously.

INTERVENTION

Mr. COUGHLIN. Let me come to intervention for a moment. I am talking about the question of having one governmental agency or office, yours, checking up on other governmental agencies, to see they are doing a proper job representing the consumer. You think that is a good idea?

Mrs. PETERSON. I do. Our intervention work is not "checking up" on other agencies. It is participation in the agency's public process.

Mr. COUGHLIN. How far do you see your staff growing?

Mrs. PETERSON. It is difficult to predict at this stage. I would think that this request would pretty much take care of our needs for this year. It doesn't mean the people that are working on intervention at the Office of Consumer Affairs, wouldn't also be helping on other various projects. When you are dealing with areas which require special expertise, of course, you have got to have a flexible mixture. You cannot draw hard lines with a small staff. You have to use the competence where you have it.

Mr. COUGHLIN. So you don't see any further growth——

Mrs. PETERSON. I don't want to commit myself, may I say that? I am not looking for growth. I am for shrinking bureaucracy. I think we might eliminate some of these positions when we see that the agencies are more fully taking responsibility for involving consumers in their processes.

Mr. COUGHLIN. In the process of checking up on other agencies, you feel that segment of, at least, your operation would not have a tendency to grow further?

Mrs. PETERSON. I don't anticipate that it will. I want it to be far more efficient. I cannot make promises. One has to be cautious about this, but I do not see it.

Mr. COUGHLIN. Turning for a moment——

Mrs. PETERSON. I do not want unnecessary growth, I want to make it very clear.

Mr. COUGHLIN. Turning to the question of intervention, which the Chairman raised, this was the first time you had intervened in a Federal adjudicatory proceeding, am I correct?

Mrs. PETERSON. Yes.

Mr. COUGHLIN. What potential do you see for growth in that?

Mrs. PETERSON. I think that the only growth that will occur will be in our regulatory interventions. Let me give you the guidelines. We will only intervene if consumers would not competently be heard otherwise. This is a very strict rule I have. We don't go in just for the sake of going into these proceedings. We will go in if there is a contribution to be made. It depends, again, on the activity of the regulatory agencies, other groups and interested parties. For example, if we can get funding, to assist representative groups to obtain the expertise to participate, we may ultimately not need to intervene ourselves. But in a vacuum, I think we must continue to get involved.

Mr. COUGHLIN. Can you answer the question of what kind of growth is anticipated in that area?

Mrs. PETERSON. I would anticipate a smaller effort if Congress acts to help us on public participation funding; with it we can help universities, consumer groups, small business groups, and other

people who cannot afford the expense of briefs, of coming to hearings in Washington and of hiring experts who are paid tremendously high prices in many of these hearings. As long as we have the vacuum, we will intervene, but if we can help other public groups to be funded so that they can hire an expert and develop their own expertise, then I think our active role will be diminished. Presently we have got to move where that need is, to provide intervention advice, and to represent the consumers' interest.

Mr. COUGHLIN. How far would that kind of money go?

Mr. COHEN. The *CWIP* case was actually very inexpensive for us because we were able to get experts to testify on our behalf at rates far below what they normally charged. We actually hired one expert in that case and paid him $5,000. His normal fee is far more than that.

The $30,000 in the budget request probably will not buy us much in terms of intervention witnesses but we are pursuing alternatives. In this AT&T case, for example, our office has banded together with the state utility advocates from eight states and pooled our resources. We are the coordinating attorney. Together we will all spend a total of $50,000 on that proceeding. Our office is contributing a lawyer's staff time. These proceedings can get to be very expensive and $30,000 is really just a drop in the bucket.

AT&T, for example, will spend literally hundreds of thousands of dollars on that one case alone.

Mr. COUGHLIN. How many interventions do you anticipate this year?

Mr. COHEN. We are currently involved with two at the F.C.C. which involves AT&T. I estimate probably a maximum of five to seven. I don't think our resources will permit us to carry much more and still do an effective job.

Mr. COUGHLIN. Please provide a list of the names, the amount and nature of any contractors you have and what you anticipate for fiscal year 1980.

Mr. COHEN. Yes, to the extent we have such a list now, and we will be happy to supplement that as the year goes by. For fiscal year 1980, OCA anticipates only one contract. This contract is for the HELP Radio Series in the amount of $10,000. The contractor has not been selected as of this date.

Mr. COUGHLIN. One thing on which I certainly want to applaud the agency, is the improvement of complaint handling by the various agencies. It is very important; also the Consumer Information Education Program. I tend to think probably the emphasis on educating the consumer to make a wiser consumer is more important.

Mrs. PETERSON. I think you need both. Government has to be an umpire in many of these cases, but certainly education is one of our primary concerns, no question about that.

Mr. COUGHLIN. Thank you, Mr. Chairman.

Mr. BOLAND. Mr. Coughlin asked a question with respect to intervention. I don't recall there was any testimony here last year indicating that your office would be involved in intervention.

Mr. COHEN. Mr. Chairman, my recollection—and we would have to check it—is that we did discuss the *F.E.R.C.* case because we were just entering into it at that point.

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Mr. BOLAND. What about the agencies' consumer plans, would they in any place replace intervention?

Mr. COHEN. Probably not. An intervention is an adjudicatory proceeding. It is very much akin to a court proceeding—very formal procedures, all on the record. There is an administrative law judge before whom the case is presented. I would think any kind of informal consumer input by the USOCA staff to a judge would be an ex-parte contact and probably would violate the due process rights of parties involved.

Mr. BOLAND. I would think that would be a matter that the agencies' plan ought to consider, since the agencies sometimes are in a better position to intervene than you are.

Mr. COHEN. In many of these rate-making cases, the Commission or the agency itself makes the final determination, as you know. The staff of the agency is involved to the extent of weighing and trying to determine what is the public interest in the proceeding as opposed to the consumer's interest, the business interest, the investor's interest or whatever. So there is a distinction between the role that we play in these proceedings and what the staff at the agency would play.

Mr. BOLAND. Mr. Young?

INTERNATIONAL ACTIVITIES

Mr. YOUNG. Mr. Chairman, thank you very much. Let me read two sentences from your justification: "With regard to international consumer activities, USOCA has acted to prevent cutbacks in the OECD's Consumer Policy Committee which provides a valid concern over the emerging international issues. In fiscal years 1980 and 1981, USOCA, in conjunction with the State Department, will pursue with increased effort emerging consumer activities within the OECD."

My first question is how much of the proposed funding for fiscal year 1981, shown on page 8, would be for international consumer activity?

Mrs. PETERSON. I think I should explain first that the travel is paid for by the State Department. That is not in our budget. The staff work is one person. He has been handling that for some time, and will continue to do it.

Mr. YOUNG. Just one person?

Mr. MARVIN. It is a fraction of his time.

Mrs. PETERSON. It is half his time.

Mr. YOUNG. What is the extent of the international consumer activities of USOCA or OECD?

Mrs. PETERSON. For a number of years, OECD's Committee on Consumer Policy has been a forum in which 23 member nations could shape emerging consumer policy. We have contributed a great deal of information in the area of marketing practices, safety and hazardous substances. Actually, I attended a committee meeting for the first time last December. The State Department asked me to attend and help make an assessment as to the value of our country's participation. I recommended to the State Department we do some budget trimming. We were able to get the budget cut

back a little bit, to make it more efficient, much as we are trying to do here at home; but certainly we must stay in it.

I found we performed a great leadership role. The representatives of smaller countries would come and ask our advice. I think it is extremely important for us to participate. It does not involve much money. It is staff time we already have, and we have a tremendous affect on policy in other countries.

Mr. YOUNG. When you say you affect a lot of policy in other countries, you are talking about consumer policies?

Mrs. PETERSON. Yes.

Mr. YOUNG. Could you give me just an example of the type of things that these representatives from other countries would ask of you?

Mrs. PETERSON. They ask, for example, what is our policy on the exportation of hazardous substances. They are very concerned about Tris, for example. They are concerned about hazardous products coming in to their countries.

Another concern was in relation to trade—what kind of consumer component ought to be factored into discussions relative to international trade. We were asked whether we consider the consumer when we are moving into our trade negotiations. It is fascinating because I received similar questions on a trip to Japan. We are beginning to communicate. The concern is to avoid establishing artificial trade barriers from developing.

They were also fascinated by representation. They wanted to know how one brings the consumer in and how one develops professionalism. I found that our country is not the only one active in consumer programs. Together, we are assisting and helping the developing countries. I feel we are able to pull together in more areas of our international responsibilities.

Mr. YOUNG. Is this an organized forum?

Mrs. PETERSON. It is part of the OECD. Each country contributes funds. Our consumer component is a very small one compared with other areas with which the OECD deals.

Again, it is a bigger effort to develop communication and help set patterns.

Mr. YOUNG. Thank you very much.

Thank you, Mr. Chairman.

CONSUMER AFFAIRS COUNCIL

Mr. BOLAND. The Consumer Affairs Council, its legal authority is based in the President's Executive Order of September 26, 1979. Is that correct?

Mrs. PETERSON. That is correct.

Mr. BOLAND. What sort of financial assistance has OCA given to the Consumer Affairs Council up to this point?

Mrs. PETERSON. None, but we have provided a significant amount of staff effort. We have had to use our staff people to help in many of these areas, a bit to the detriment of our ongoing programs.

In addition to that, we have had help from other agencies.

Mr. BOLAND. Are you familiar with section 608 of the 1980 Treasury, Postal Service and General Government Appropriations Act? That section prohibits funding of interdepartmental councils which

do not have prior and specific Congressional approval of such methods of financial support. Let me read section 608.

"No part of any appropriation contained in this or any other Act shall be available to finance interdepartmental boards, commissions, councils, committees, or similar groups under Section 214 of the Independent Offices Appropriation Act, 1946 (31 USC 691), which do not have prior and specific Congressional approval of some method of financial support."

Are you in violation of that particular section?

Mrs. PETERSON. I hope not. I don't know.

Mr. BOLAND. Have you been spending money to support the Consumer Affairs Council?

Mr. MARVIN. No, we have not. Members of the USOCA staff have been undertaking their ongoing coordination role within existing statutory authority. The existing authority is Executive Order 11583, and the authority of the Secretary to establish common offices to provide services within the Department.

The effort we have expended so far in the Office of Consumer Affairs amounts to about three people. Now other agencies have had members of their staff participate with us to the extent those matters affect their particular agencies' statutory authority.

FUNDING EXECUTIVE ORDER

Mr. BOLAND. On page 3 of the justification, you indicate the need for 7 new positions and $182,000 to implement Executive Order 12160. Why do you need 7 new positions when the table on page 4 shows staff increasing from 3.25 in 1980 to 7.01 in 1981, an increase of only 3.76 percent?

Mrs. PETERSON. Part of that is because we are taking it out of our "hides", because we have had to use the existing staff to do this. For example, our work in the food and international areas has suffered.

Mr. BOLAND. Why can't you continue to do that? Why cannot the three staff years that were diverted to development and implementation of Executive Order 12160 in 1979 and 1980 continue to be diverted?

Mrs. PETERSON. Because it is too high a price to pay for the things that are not being done that should be done by the staff.

CONSUMER ATTENDANCE AT WORKSHOPS

Mr. BOLAND. On page 7, you are requesting an increase of $20,000 for travel costs of key consumer leaders to attend regulatory hearings and workshops. How many trips does the $20,000 represent?

Mrs. PETERSON. It depends a lot on how far they have to come.

Mr. MARVIN. We estimate the average about $200 per trip or about 100 trips.

Mrs. PETERSON. Some come from here, some from California.

Mr. BOLAND. Who are the key consumer leaders that you talk about and what hearings and workshops do you plan for fiscal year 1981?

Mrs. PETERSON. There will be a number of training workshops. For example, we would try to bring professors to Washington from

universities who specialize in consumer matters. There will be workshops on how we distribute consumer education materials to the low-income consumers. We are trying very hard to get low-income consumers to participate in the decision-making process. We may even try to have training sessions for this group.

Mr. BOLAND. What is the number of hearings and workshops you plan for fiscal year 1981?

Mrs. PETERSON. I don't have an estimate right now.

Ms. O'Brien. We are also looking to see what the agencies will be developing and what assistance they will need.

Mrs. PETERSON. This is an evolving issue.

PUBLIC INFORMATION

Mr. BOLAND. At the bottom of that page, you are requesting $127,000 for Public Information Programs. How many copies of the two publications you plan to develop will be printed? You are requesting $30,000 for this effort?

Mrs. PETERSON. To which publication are you referring—the Consumer Action Update or the Consumer's Research Handbook?

Mr. BOLAND. I am looking at paragraph 7 on page 7, Supplementing Public Information Programs for which you are requesting $127,000. This would enable the consumer to become aware of new procedures stemming from Executive Order 12160 and become more involved in Federal program formulation. Two publications will be developed and distributed to consumer leaders. What are the two publications?

Mr. MARVIN. Subparagraphs (a) and (b) cover a publication for local consumer educators and a publication to get consumers involved in the decision making process. The total cost will be $20,000 for the printing itself. The other $10,000 will be for contractual assistance.

The number of copies would be predicated on the exact number of pages. We estimate in the order of several thousand copies, two or three thousand copies in total would be printed. We are targeting those copies for professionals in the field, educators, voluntary consumer leaders and local governmental workers.

Mr. BOLAND. Why are you requesting $22,000 to develop and distribute a film on participation in government decisionmaking when you are requesting $20,000 to develop and print a publication on becoming involved in government decisionmaking? Which will have the greatest impact on consumers, the publication or the film?

Mrs. PETERSON. Both, because the film is extremely important. People learn by seeing. One can take a film out to consumer groups, church groups, women's groups, who are particularly receptive to this form of information.

The printed publication is necessary for consumer leaders as they have to explain the opportunity to others.

Ms. SHUBOW. I would like to add, groups such as the League of Women Voters have come to us to express their desire to work with us to create the training materials and the films. They plan to hold, for example, Washington workshops with perhaps two key people from each state. Those people will then go back to the states

and there will be a ripple effect throughout their own individual states, using materials in the local training sessions which these persons received in Washington.

INFORMATION ON PUBLIC PARTICIPATION

Mr. BOLAND. On page 8, at the top of the page, you are requesting an increase of $75,000 in 1981 for reprinting of the fiscal year 1980 Consumer's Resource Handbook. You are going to distribute, as I understand it, 3 million copies of this handbook?

Mrs. PETERSON. This current year.

Mr. BOLAND. How much do you plan to spend this year in fiscal year 1980 for this activity?

Ms. Shubow. Mr. Chairman, we will need to reprint the book in order to keep it up to date. For example, as you can see, from the book HEW is still listed. In the future we need to recognize the Department of Education and to make other such changes to update the material.

Similarly, the directory in the back of the book listing 600 state and local consumer offices changes daily. So we do plan to do an update that will keep consumers current as to how to get in touch with the sources of help that they need.

Mrs. PETERSON. The question was, how much would we spend in this promotion.

Mr. MARVIN. $5,000 for this year.

Mr. BOLAND. Fiscal year 1980?

Mr. MARVIN. Yes, sir. We had a reprogramming to reduce the amount of money for this printing. Our present estimate is $5,000.

Mr. BOLAND. So in 1981 it is $80,000——

Mr. MARVIN. No, sir, the total would be $75,000.

Mr. BOLAND. You have 3 million copies going out. To whom will it be distributed?

Mrs. PETERSON. Really everybody that wants it. What we are finding is, for example, in the local Consumer Information Offices, it should be there as a ready guide. Everybody should have it right at hand because it is, again, like a telephone directory in that almost everyone has complaints of some kind. Staff of Congressional Offices tell us it is very good because it helps them to know immediately where to go. We expect it to be a very good handbook for consumer leaders, as well as leaders in all areas.

SUPPLIES AND MATERIALS

Mr. BOLAND. On page 24, under Item 6, you are asking for $27,000 for supplies and materials in 1981 when you only spent $16,000 in 1979. Why the 69-percent increase in two years?

Mr. MARVIN. Part of that, sir, is related to new employees, who need basic supplies and materials. Part of it is to cover some modest carryover into 1981 that we didn't have the resources to cover in 1979 and 1980. We feel our estimate here is reasonable, considering the escalating cost of supplies and materials.

YEAREND LAPSE

Mr. BOLAND. Last year, OCA indicated that it needed the entire $32,000 supplemental request for increased pay costs. As I recall, a letter was drafted stating that $70,000 and not $32,000 was really needed. Despite the tight fiscal situation with the supplemental bill, the entire $32,000 was appropriated.

Given the fact that the Congress ultimately bought your plea, it is interesting to note that you lapsed $26,000. What caused the $26,000 lapse at the end of fiscal year 1979?

Mr. MARVIN. The lapse of $26,000 represents the estimate at the end of the year. It is our experience that the books actually remain open for late payments and settlement of bills. We expect by the time the books are closed, we should be down around $15,000. Also, sir, of the $26,000, a part represents reimbursement from another Federal agency that came late in the year. It is not our policy to spend money because we happen to have it. We had to reprogram, sir, during the year solely to get by. It was a very tight year for us. We are within 1 percent of our total appropriation.

PAY RAISE

Mr. BOLAND. No one on this side of the table thinks that lapses are bad. Let me ask you, what is the total cost of the October 1979 pay raise?

Mr. MARVIN. $85,000, sir.

Mr. BOLAND. Is OCA absorbing any part of that cost?

Mr. MARVIN. No, sir, we simply cannot.

Mr. BOLAND. How much has been obligated for personnel services through January?

Mr. MARVIN. We would have to provide that for the record.

[The information follows:]

Through January 31—$494.584 has been obligated for personnel services.

Mr. BOLAND. What percentage of the total estimate for personnel services does that represent?

Mr. MARVIN. We would have to supply that for the record.

[The information follows:]

The actual costs through January represent 33 percent of the total annual estimate.

POSTAGE COSTS

Mr. BOLAND. You are requesting an increase of $96,000 in 1981 for postage costs, which were previously covered by the Department of Health, Education and Welfare. Is OCA now budgeting for all its costs?

Mr. MARVIN. In 1981, $108,000 would represent the total postage costs for our operations.

Mr. BOLAND. Is that sufficient?

Mr. MARVIN. Yes, it is.

Mr. BOLAND. Of course, if it isn't, the new Department of Health and Human Services would probably pick it up anyway.

Mr. MARVIN. The actual 1981 budget will show a reduction in the Departmental Management Appropriations. In reality, for the total

United States Government, it is a bookkeeping arrangement transferring funds from one appropriation to another.

SENIOR EXECUTIVE SERVICE BONUSES

Mr. BOLAND. You are also requesting an increase of $8,000 in 1981 for the Senior Executive Service bonus allowance, which was established under the new law. Cash bonuses are now paid, of course, to GS employees. What is the highest cash bonus OCA paid an employee in fiscal year 1979? Or did you pay any at all?

Mr. MARVIN. The only bonuses we gave, sir, were in the form of quality step increases which vary by grade, but range between $500 to $1,000.

Mr. BOLAND. What about the actual cash bonus?

Mr. MARVIN. I don't think we paid any.

Mrs. PETERSON. This is discretionary, also.

Mr. BOLAND. Do you have any plans regarding the bonus for Senior Executive Service?

Mrs. PETERSON. Not at the moment.

Mr. TRAXLER [presiding]. Mr. Stokes?

INTERAGENCY COORDINATION

Mr. STOKES. Thank you, Mr. Chairman.

Mrs. Peterson, it is nice to see you again.

Mrs. PETERSON. Good to see you.

Mr. STOKES. Thank you. What efforts is the Office of Consumer Affairs making to coordinate with other agencies, such as the Consumer Product Safety Commission, National Consumer Cooperative Bank, and other agencies of that type?

Mrs. PETERSON. We jointly sit on various committees. We work very closely with them. In fact, we have had a considerable amount to do with the Co-op Bank bill and the draft regulation governing lending institutions. Actually, we do have a very close relationship with both the Co-op Bank and the Consumer Product Safety Commission.

Mr. STOKES. I noticed that in July of 1980, you are going to have a Low-income Consumer Self-help Conference at Howard. Will the Co-op Bank be a part of that particular conference?

Mrs. PETERSON. It will be part of the discussion at the conference, but it is not listed. It will be highlighted during the conference and we plan to invite the President of the Bank to be a featured speaker. By then, the Bank will be operative and we hope, at this conference, we will be able to really show people what is necessary to request help.

Mr. STOKES. It is only natural that the Co-op Bank should be included.

Mrs. PETERSON. There is no question about it, it will be part of the conference.

Mr. COHEN. The theme of the conference is self-help. Self-help is the basic theoretical basis for consumer cooperatives in general and the Consumer Co-op Bank bill in particular. It will be quite natural for the Bank to be there, to be quite active, and to let people know the availability of its services and resources.

Mrs. PETERSON. At that conference, we are bringing in successful self-help examples we will use these to show others what they can do, and what services are available.

Mr. STOKES. I was only concerned that the Co-op Bank be a part of that.

Ms. YATES. There is another conference being co-sponsored by Howard University. That will be held June 17–21. We are referring to two different conferences. The conference co-sponsored with the Consumer Cooperative Alliance will be held at Howard University, and some of us in the Office of Consumer Affairs have been working with these two agencies in identifying people for that particular conference. The one that we are also referring to is a conference we are co-sponsoring with Howard University and the D. C. Office of Consumer Protection. That particular one will be held at a hotel here in Washington, July 9–11, so that Co-op Bank is going to be really involved in both.

Mr. STOKES. Thank you for that clarification.

The National Co-op Bank held a hearing in Cleveland this past weekend for the purpose of taking community input on their proposed policies. The Co-op Bank falls naturally into the self-help area and ought to be an integral part of a self-help conference.

Mrs. PETERSON. I am sure that is part of what we are having at the July conference.

MINORITY EMPLOYMENT

Mr. STOKES. I see you are requesting additional staff positions and you currently have 50 staff positions. Is that correct?

Mrs. PETERSON. Yes sir.

Mr. STOKES. What is the minority representation among that 50?

Mrs. PETERSON. We are making progress. I am happy to announce Ben Johnson will be my Special Assistant in the Reporters Building for coordinating administrative work and is also to be in charge of consumer programs. We have made a real effort to bring in minorities. We are definitely conscious of this need.

In USOCA there are 73 percent women, and 32 percent minorities. Approximately 65 percent of the women are professionals, and 42 percent of the minorities are professionals.

I think our difficulty is in trying to get more minorities in grades GS-12 and above. As vacancies occur, we work at resolving this problem.

Mr. STOKES. You pointed out one gentleman here, Mr. Johnson. What is his position again?

Mrs. PETERSON. He will be Special Assistant to me, and he will be in charge of activities in the Reporters Building. I spend a large portion of my time in the old Executive Office Building, and I need a person who represents me in the Reporters Building. He will be that person. He also is to be the Director of Consumer Programs, so he will be carrying a dual responsibility.

Mr. STOKES. Are there any black males among the staff at the Executive Office Building?

Mr. COHEN. Mr. Johnson will head one of our five divisions which is part of the office. The 50 covers the Executive Office

Building staff and the Reporters Building staff. Of our five division heads, Ben will be one, and the most senior.

Mr. MARVIN. I think we are making progress here, but I would like to touch on two areas. First, with regard to GS–12 and above, we have 22 people on board. Of these, 45 percent are non-minority women, 9 percent are black women, 41 percent are non-minority men, and 5 percent are black men. Second, one of our problems has been to reach out when we have a vacancy and to find minority candidates.

We are committed in our Affirmative Action plan to recruit actively through organizations which have a large Minority Outreach Program. We are really trying to get candidates who are qualified. For example, we are recruiting now for a GS-14 Economist and we are going to work through the kind of outreach program I described to bring a minority to help our staff, particularly in the GS–12 and above grades. We are deficient, we admit it right in our plan. In terms of total minorities on our staff, we are doing fine, 32 percent. We are weak on Grades GS–12 and above, and are making strides in that area.

Mrs. PETERSON. I think this is one area where Mr. Johnson is helping us in the Outreach contacts.

Mr. STOKES. I am having a problem understanding your problem. Are you saying to me you cannot find qualified minorities in these categories?

Mr. COHEN. The problem is we weren't looking in the right places. With regard to the last 3 job vacancies we had in senior positions, with Ben's help we have been able to generate a large number of applications from very competent candidates for the positions. Before undertaking this kind of targeted Outreach effort—to make known the availability of positions—we really did not have the kind of applicants that I think we wanted. I think it was because we weren't looking in the right places.

Mr. MARVIN. The classical civil service system ends up with a vacancy notice on the wall. It is in Federal buildings and too often in remote locations. We are trying to take those notices out, by word of mouth, where in fact candidates who have the qualifications can become aware of the vacancies.

Mr. STOKES. This will be your policy with reference to the seven additional positions you are now requesting?

Mr. MARVIN. Yes; it is a good plan and we intend to follow it.

Mr. STOKES. Would you make that policy a part of the record for us?

Mr. MARVIN. Yes.

[The information follows:]

POLICY STATEMENT

It is the policy of the United States Office of Consumer Affairs (USOCA) that this office should be an example to other Federal departments and agencies in the composition of its professional and clerical staff. USOCA must also continue its efforts to recruit more minority employees in the professional and managerial categories. USOCA should maintain its outstanding record in the percentage of professional women and the total number of women on its staff. Ranking staff officers will initiate additional person-to-person discussions with minorities in dead-end and low-paying positions to encourage participation in Upward Mobility and other training programs.

Esther Peterson
Director
United States Office of Consumer Affairs

January 18, 1980
Date

INTRODUCTION

The United States Office of Consumer Affairs was established by Executive Order No. 11583 of February 24, 1971. The basic functions of USOCA are: to assure that the consumer's interest is reflected in Federal policies and programs; to cooperate with state agencies and voluntary organizations in advancing the interests of consumers; to promote improved consumer education; to recommend legislation of benefit to consumers; to encourage productive dialog and interaction between industry, government and the consumer; and to provide continuing policy guidance to the General Services Administration's Consumer Information Center.

STATEMENT

The United States Office of Consumer Affairs carries out the provisions of Executive Order #11583 relating to fostering consumer education, advocacy and redress by government, business and citizens. The budgeted staff of 50 full time and 6 other than full time permanent employees serves as the staff of the Special Assistant to the President for Consumer Affairs (Director, United States Office of Consumer Affairs). Approximately 85% of USOCA activities relate to Federal agencies other than the Department of Health, Education and Welfare.

It is our belief that the United States Office of Consumer Affairs should be an example for other Federal departments and agencies in the composition of its professional and clerical staff. We intend to live not only with the letter, but with the spirit of Equal Employment Opportunity regulation and legislation.

With regard to representation of women and minorities, as of September 30, 1979, the USOCA staff was comprised of 55% women and 33% minorities. Of the 22 employees GS-12 and above, 9 or 41% are women, excluding the Director, a female, who is on the White House payroll. During the fiscal year ending September 30, 1979, of the six members added to the staff, four were women, two of whom are ranking professionals. In addition, on October 1, 1979, a GS-15 female joined the staff in the capacity of Special Assistant to the Director, thus raising the percentage of professional women, GS-12 and above, to 45%.

There are deficiencies to be overcome. The most significant is the need to increase the number of minorities in grades GS-12 and above. Only two of the professional employees are members of a minority. We are taking actions to close the gap. For example, we have selected and requested Secretary Harris to approve the appointment of a minority employee to be Director of the Consumer Programs Division -- a Senior Executive Service position.

We will continue our efforts to place on the staff more minority employees. As a related measure, a priority of USOCA is to continue to encourage participation by all employees, particularly minorities, in the Upward Mobility and other education programs. This is essential for minority employees who are in low-paying or dead-end positions.

The following detailed information is in response to the specific questions cited in the EEO Assessment Section of the Office of the Secretary Affirmative Action Guide of August 1979.

A. EEO Resources

1. How many full and part-time employees are involved in EEO (include those who are collateral)?

   Answer: Two - on a collateral basis.

2. How much money has been allocated for EEO activities, i.e., training, travel, conferences, exhibits, etc.?

   Answer: $5,000 exclusive of salaries - primarily training.

3. How much time are collaterals allowed to spend on EEO?

   Answer: As much time as necessary. In FY 1980 the emphasis will be on increasing contact between collaterals and USOCA management officials responsible for implementing the affirmative action plan.

B. Community Outreach, Recruitment, Hiring

1. Participation in community meetings, job fairs and minority and women's conferences.

   Answer: USOCA officials have utilized meetings of professional groups and conferences for recruitment of senior staff officers. Specific action to recruit minorities has essentially been on an ad hoc basis, with personal contact among ranking USOCA staff members and leaders of minority organizations. In FY 1980, USOCA will use community meetings, job fairs and conferences of minority and women's groups as an opportunity to identify, contact and encourage applications to be submitted from minorities for current and potential vacancies. Notices for vacant positions will be sent to organizations where minorities are more likely to become aware of such vacancies.

2. Are minorities and women represented in selection panels? If so, how are they selected?

   Answer: Yes. Selection is based upon the need for participation by specific grade level.

3. For what major category do you recruit for?

   Answer: Series 110, 301, 312, 318, 322, 341, 905, 1001, 1081 and 1082.

C. Workforce Profile

1. Does a concentration of minorities and/or women exist in any job category and, of so, which ones?

   Answer: Series 301 and 318.

2. Where are minorities and women under-represented? What can be the cause of this?

   Answer:

Series	
Minorities	Women
905	110
110	1081
341	
1001	
1081	
1082	

   Under representation appears to be in large measure because these individuals do not appear on the list of most highly qualified candidates developed as an outgrowth of the HEW/OS Merit Promotion Plan.

3. Of the total hires for the previous year, how many minorities and women were hired and into what jobs?

Minorities	Women
(1)	(4)
Clerk-Typist	Attorney
	Director of Consumer Education
	Secretary (Stenography)
	Clerk-Typist

4. What were the total number of employees promoted and how many were minorities and women?

Minorities	Women	Total
1	3	4

D. Training

1. Are managers and first-line supervisors receiving EEO training? How often and where? How many have received training in the previous year?

   Answer: No training was provided in the past year on EEO. This is a recognized deficiency and in the coming year a significant number of management and first-line supervisors will attend EEO courses.

2. How many employees have participated in upward mobility programs? Which ones? Elaborate on any successes or failures in implementing training programs.

   Answer: Three employees presently are enrolled in the Upward Mobility College Program. The USOCA training program has been successful for those who have participated. Managers will emphasize additional participation by one-on-one discussions with employees.

3. Is any new employee training being developed and, if so, for which groups of employees, i.e., supervisors, clericals, technicians, etc.

   Answer: Virtually all USOCA employees are participating in a wide range of training -- employees from secretarial through top management are included.

4. Do all employees have an Individual Development Plan? If so, are training schedules met?

   Answer: All individuals participating in the HEW training programs are required to have an individual development plan. Other do not have plans, but will be encouraged to develop such plans in 1980. Training schedules are being met.

5. What type of internal and external training is available to employees?

   Answer: HEW, OPM, Inter-departmental and outside the Federal government.

E. Program Evaluation

1. Elaborate on the present system being used by your organization component to track EEO progress, compile and analyze minority and women data, and identify minority, women and handicapped employees. If your component presently does not have a system to track the above, what system do you feel is feasible and efficient for your component?

   Answer: a. Because of its size, every employee is personally known by the Director, USOCA, and the principal management officers. The Management and Consumer Complaints Division is responsible for compiling data and tracking EEO progress, and identifying minority, women and handicapped employees.

   b. In the USOCA implementation of the HEW-wide performance program for supervisors and managers, heavy weight has been placed on actions that will engender improvements in the EEO programs.

   c. Supervisors and managers will have training in EEO programs.

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EXHIBIT II

NEW HIRES

Pay System and Grade	Total Employees	*White	*Black	Hispanic	Asian	Amer. Ind/ Alaskan Native	Total Males	*White	*Black	Hispahic	Asian	Amer. Ind/ Alaskan Native	Total Females
		#16%	#16%	# %	# %	# %	#33%	#67%	# %	# %	# %	# %	#67%
		MALES						FEMALES					
GS-14	2	--	--	--	--	--	--	2	--	--	--	--	2
GS-12	1	1	--	--	--	--	1	--	--	--	--	--	--
GS-9	1	--	--	--	--	--	--	1	--	--	--	--	1
GS-5	1	--	--	--	--	--	--	1	--	--	--	--	1
GS-4	1	--	1	--	--	--	1	--	--	--	--	--	--
	6	1	1	--	--	--	2	4	--	--	--	--	4

*Non-Hispanic Origin

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COMPETITIVE ACCESSIONS (PROMOTION)

EXHIBIT I

Pay System and Grade	Total Employees	*White	*Black	Hispanic	Asian	Amer. Ind/ Alaskan Native	Total Males	*White	*Black	Hispanic	Asian	Amer. Ind/ Alaskan Native	Total Females
		# 25%	# %	# %	# %	# %	#25%	#50%	#25%	# %	# %	# %	#75%
		MALES	MALES	MALES	MALES	MALES	MALES	FEMALES	FEMALES	FEMALES	FEMALES	FEMALES	FEMALES
GS-14	1	1	--	--	--	--	1	--	--	--	--	--	--
GS-7	1	--	--	--	--	--	--	1	--	--	--	--	1
GS-5	2	--	--	--	--	--	--	1	1	--	--	--	2
	4	1					1	2	1				3

*Non-Hispanic Origin

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SUPERVISORS/MANAGERS: GS-7 and ABOVE

EXHIBIT F

Pay System and Grade	Total Employees	MALES						FEMALES					
		*White	*Black	Hispanic	Asian	Amer. Ind/ Alaskan Native	Total Males	*White	*Black	Hispanic	Asian	Amer. Ind/ Alaskan Native	Total Females
		# %	# %	# %	# %	# %	# %	# %	# %	# %	# %	# %	# %
GS-15	8	7	0	0	0	0	7	1	0	0	0	0	1
GS-14	5	3	0	0	0	0	3	2	0	0	0	0	2
GS-13	1	1	0	0	0	0	1	0	0	0	0	0	0
GS-12	1	0	0	0	0	0	0	1	0	0	0	0	1
	15	11	--	--	--	--	11	4	--	--	--	--	4

*Non-Hispanic Origin

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DISTRIBUTION OF RACE, SEX, AND NATIONAL ORIGIN
TWENTY MOST POPULOUS SERIES

EXHIBIT G

Occupat. Series	Total Employees	MALES *White	*Black	Hispanic	Asian	Amer Ind/ Alaskan Native	Total Males	FEMALES *White	*Black	Hispanic	Asian	Amer Ind/ Alaskan Native	Total Females	JOURNEY LEVEL GRADE for SERIES
		#30%	# 2 %	# %	# %	# %	#32%	#37%	30 %	# %	# %	# %	#67%	
110	3	3	--	--	--	--	3	--	--	--	--	--	--	13
301	17	4	--	--	--	--	4	7	6	--	--	--	13	3
312	1	--	--	--	--	--	--	1	--	--	--	--	1	4
318	6	--	--	--	--	--	--	1	5	--	--	--	6	5
322	3	--	1	--	--	--	1	1	1	--	--	--	2	4
341	2	1	--	--	--	--	1	1	--	--	--	--	1	9
905	8	4	--	--	--	--	4	3	1	--	--	--	4	11
1001	1	--	--	--	--	--	--	1	--	--	--	--	1	11
1081	1	1	--	--	--	--	1	--	--	--	--	--	--	9
1082	1	--	--	--	--	--	--	1	--	--	--	--	1	9
	43	13	1				14	16	13				29	

*Non-Hispanic Origin

UNITED STATES OFFICE OF CONSUMER AFFAIRS

WORKFORCE ANALYSIS

EXHIBIT E

Pay System and Grade	Total Employees	MALE *White #	% 33	*Black #	% 02	Hispanic #	%	Asian #	%	Amer. Ind/ Alaskan Native #	%	Total Male #	% 35	FEMALE *White #	% 35	*Black #	% 30	Hispanic #	%	Asian #	%	Amer. Ind/ Alaskan Native #	%	Total Female #	% 65
GS-15	8	7										7		1										1	
GS-14	6	4										4		2										2	
GS-13	3	1										1		1		1								2	
GS-12	5	1										1		3		1								4	
GS-11	3	1										1		2										2	
GS-10	2	-										-		1		1								2	
GS-9	4	-										-		2		2								4	
GS-8	1	-										-				1								1	
GS-7	4	-										-		1		3								4	
GS-5	5	-										-		2		3								5	
GS-4	1			1								1		-		-								-	
GS-3	1	-										-				1								1	
	43	14		1								15		15		13								28	

*Non-Hispanic Origin

PROBLEMS OF POOR CONSUMERS

Mr. STOKES. Do minority consumers have special problems that need attention and do you have any programs that are geared specifically to the minority consumer?

Mrs. PETERSON. The problems of inflation hit the poor whomever they are, minorities are particularly affected since there is a higher concentration of them among the poor. What we are trying to do is reach these consumers as much as we can. We are working now to get publications translated into Spanish, for example, so that we can have more usable information go to these individuals.

I think our low-income programs are given high priority, but I don't think we emphasize just minorities. It is everyone in need we are trying to reach. We don't draw a line. There are many minorities, but the circle has got to include everybody who has a concern. These include older citizens, especially those who are living on fixed incomes.

Ms. YATES. We are very conscious of the fact that consumer education and consumer information are particularly needed with this group and, in order to get this information to low-income, inner city consumers, we are making a special effort to focus materials into institutions and organizations where they have the most contact.

These are organizations such as NAACP branches, Urban League branches, elderly organizations, and churches. All of these efforts are particularly designed to get the materials to where the people are, and we recognize that.

We have gone further in terms of working with people, in terms of developing materials that can be read and understood at levels that are not now being served. We go out into the communities, we go into workshops and seminars, and we help in preparing materials. We are very sensitive, and we are working with many of the leaders of those organizations in getting the word out to these needy people.

Mr. STOKES. Mr. Johnson.

Mr. JOHNSON. Mr. Stokes, just to expand on the point that was being made by Ms. Yates, we have targeted the Consumer's Resource Handbook to 2,000 black churches in this country. We are in contact with Hispanic organizations in 17 States. We are not necessarily looking for Hispanics in the traditional sense of Mexican-American types. We are also targeting USOCA materials to Cubans, Puerto Ricans, and peoples of the South American countries. We are expanding our outreach program.

It is one of the new thrusts that was mentioned by Ms. Yates, and we are certainly going to concentrate more of our efforts on making this material available to low-income people. It is a new thrust in that it is being developed now.

I am playing a major role in this effort. I have received good cooperation from the staff as we go about this work, and I am pleased with the results we have achieved thus far.

Mr. STOKES. I am pleased to hear that. But, notwithstanding the generalized problem of being poor, wouldn't you also acknowledge that minorities, particularly the black aged, have special problems?

Mr. JOHNSON. Yes, sir.

Mrs. PETERSON. That is true. There is no question about that.

Mr. STOKES. That is why I think it is necessary for you to have a special thrust or special sensitivity to programs that are aimed or targeted toward the minority community.

Mrs. PETERSON. And we do. There are cases, for example, where we are working with the housing and displacement problem, where the aged have particular needs that must be addressed. We are trying to do more.

Ms. YATES. We worked for many years with the National Center and National Caucus on the Black Aged, the National Association of Spanish Speaking Elderly, and others.

Mr. COHEN. Mr. Chairman, just one more point. On pages 8 and 9 on our budget justification, we indicate the factors we take into account in determining how to allocate our resources, particularly in the issues area.

In the fifth criteria we specifically indicate that we take into account the types of consumers affected by the issues such as groups with special needs—low-income minority, elderly consumers, and the particular impact of the issue on these special groups.

The result of taking into account that kind of factor is that it leads us into such activities as active involvement in the White House Task Force on low-income energy assistance, where I think we played an important and, I think, helpful role. We worked very closely on DOE's gasoline rationing plan, while it is probably heresy to say we aren't exactly enthusiastic in the way rationing coupons would be distributed.

I think we do have a high level of consciousness in this regard. It is a major portion of our priority setting mechanism in the office.

MAJOR ACCOMPLISHMENTS

Mr. STOKES. I just have one other question. Mrs. Peterson, what would you say are some of your major accomplishments this past year?

Mrs. PETERSON. I think the major accomplishment really is opening up the government more to consumer participation in the decisions that affect them. I am proud and pleased with that. I think that is the major contribution we have made.

Mr. STOKES. Thank you very much, Mrs. Peterson.

Thank you, Mr. Chairman.

Mr. TRAXLER. Mrs. Peterson, it is always nice to have you before us. We wish you and your staff the very best, and we look forward to seeing you in the future. If we have further inquiries, we will be in touch, until next year. We will insert the USOCA fiscal year 1981 budget justification in the record at this point. The Committee stands adjourned.

[The justification follows:]

UNITED STATES OFFICE OF CONSUMER AFFAIRS

I. SUMMARY OF FY 1981 BUDGET REQUEST

The staff of the United States Office of Consumer Affairs advocates consumer needs and viewpoints in the Federal government, fosters consideration of consumer interests by other government agencies, voluntary groups and business, and seeks to inform and educate individual citizens to deal more effectively in the marketplace. The Director of USOCA also serves as Special Assistant to the President for Consumer Affairs.

The budget proposed for USOCA activities in Fiscal Year 1981 totals $2,489,000 and 57 full time positions, an increase of $543,000 and 7 positions over the anticipated FY 1980 appropriation level.

A. New Initiatives

In recognition of the need for more meaningful consumer participation in Federal decisionmaking and to improve agency consumer programs, President Carter issued Executive Order #12160 on September 26, 1979. This order requires improvements in the consumer programs of Federal agencies, establishes a Consumer Affairs Council consisting of high level representatives of the major agencies, and requires that USOCA provide assistance to the Chairperson of the Council in fulfilling her responsibilities under the Order.

Of the total increase requested, $329,000 and 7 additional full time positions would enable USOCA to (1) assist the Chairperson of the Council in periodically evaluating agency activities and making recommendations to improve the effectiveness of consumer programs, (2) review annually with OMB the adequacy of agency budget submissions for consumer programs, (3) provide staff support to the operations of the Consumer Affairs Council, (4) assist the Chairperson in reporting annually to the President on the status of Federal agency consumer programs, and (5) inform citizens of opportunities to participate in agency decisionmaking activities and to facilitate such participation.

B. Changes in Existing Programs

In FY 1980 and 1981, USOCA multi-disciplinary issue teams assigned to major sectors of the economy most directly affecting consumers will increase the number of interventions (as opposed to

rulemaking proceedings) on behalf of consumers in precedent-setting public utility rate cases before Federal agencies and other similar economic regulatory activities. In planning its activities, USOCA will also emphasize participation in Administration activities in which domestic policies are being developed, such as interagency task forces. The Office plans to continue the trend begun this past year of de-emphasizing its participation in Federal agency rulemaking activities, particularly where grass roots citizen groups are able to provide effective consumer participation. To improve the quality of USOCA participation, an additional $30,000 is being requested for technical experts, particularly to enable the staff to better intervene in Federal regulatory activities.

Outreach and consumer information efforts will be directed at low and middle income consumers and will include more practical marketplace information such as that being produced cooperatively with the Council on Wage and Price Stability in the issuance of the monthly National Consumer Buying Alert which gives consumers useful information about the expected marketplace trends and goods for those items that are most essential to living -- food, energy, housing and health care, and Cutting Costs Where It Counts, a new publication which will give examples of local self-help projects. Consumers will be provided with information on how to seek redress and local government and private assistance through the recently released Consumer's Resource Handbook. In addition, the twice monthly Consumer Action Update will feature details on the status of Federal consumer legislation and regulations.

Improvements in complaint handling will continue the de-emphasis on handling of individual complaint letters by the staff while emphasizing technical assistance to Federal agencies, business and non-Federal groups. This change in emphasis reflects the recommendations of the recently completed USOCA funded five-year study of complaint handling by TARP, Inc.

C. Changes in Funding and Other Increases

The balance of the increased requested for FY 1981, $184,000, covers full funding of currently authorized positions ($50,000), an increased contribution to the GSA Consumer Information Center ($37,000), funds to meet the USOCA share of total HEW costs for postage ($96,000), and other adjustments resulting in an increase of $1,000.

II. SUMMARY OF FUNDING CHANGES

FY 1980 Appropriation	$1,861,000	
Anticipated Supplemental (October 1979 pay raise)	85,000	
Total FY 1980 Anticipated Budget Authority		$1,946,000
Seven new positions (Executive Order 12160 implementation)	182,000	
Drafting and printing of two publications for consumer leaders	30,000	
Production of a film encouraging consumer involvement in decisionmaking	22,000	
Reprint of FY 1980 Consumer's Resource Handbook	75,000	
Consumer attendance at Federal workshops/hearings	20,000	
SUBTOTAL Implementation of Executive Order 12160		329,000
Assistance of Experts in Intervention		30,000
USOCA share of postage previously covered by HEW	96,000	
Full funding of base positions	50,000	
One less Work Day	-5,000	
Additional charges for GSA publications distribution	37,000	
Offset for Employee Parking Receipts	-2,000	
Possible Senior Executive Service Bonus Allowance	8,000	
SUBTOTAL Other Charges		184,000
TOTAL FY 1981 REQUEST		$2,489,000

PROPOSED APPROPRIATION LANGUAGE

United States Office of Consumer Affairs

For necessary expenses of the United States Office of Consumer Affairs, including services authorized by 5 U.S.C. 3109 [$1,861,000], $2,489,000 (Department of Housing and Urban Development -- Independent Agencies Appropriation Act, 1980).

III. NEW PROGRAM INITIATIVES IN FY 1981

A. Development and Implementation of Executive Order #12160

	FY 1979	FY 1980	FY 1981
Funding	$111,365	$126,712	$455,712
Full Time Permanent Staff	3.00	3.25	7.01

Background -- On September 26, 1979 President Carter fulfilled a pledge to have each Federal agency respond to consumer needs by issuing Executive Order #12160 to improve the management, coordination and effectiveness of agency consumer programs. The Order was a result of a detailed analysis of agency programs by an 80-member Task Force chaired by the Special Assistant to the President for Consumer Affairs, (Director, USOCA), which concluded that many consumer programs were (1) declining in effectiveness due to low priority, lack of skilled management attention, and to failure to allocate sufficient resources, (2) too "public relations" oriented, or (3) did not meet basic consumer needs for information and participation in agency processes. A summary of the more significant provisions of Executive Order #12160 is as follows:

Consumer Program Reforms: By June 9, 1980, each agency must design and make public a consumer program which will satisfy the needs and interests of consumers. These programs are to have at least five elements:

- Consumer Affairs Perspective. Agencies must have consumer staff, and the agency consumer staff must participate on a regular basis in the formulation of agency rules, policies, programs and legislation.

- Consumer Participation. Agencies must take steps to ensure that individual consumers and consumer organizations are able to participate in the development of agency rules, policies and programs.

- Informational Materials. Agencies must produce and distribute informational materials useful to consumers.

- Education and Training. Agencies must educate and train their staffs in the principles underlying the Executive Order, and in the skills needed to implement the Order effectively.

- Complaint Handling. Agencies must establish systematic procedures for the efficient handling of consumer complaints. Consumer complaints must be taken into account in the formulation of agency policy.

Budget Review and Program Evaluation. Each year agencies must provide OMB with a separate budget exhibit showing the resources the Agency intends to devote to its consumer program. The Chairperson of the Consumer Affairs Council will evaluate the data and report to OMB on the adequacy of the resources proposed for consumer programs. The Chairperson is also responsible for evaluating agency program effectiveness and for reporting annually to the President on the status of agency programs.

Consumer Affairs Council. Representatives of Cabinet-level Departments, along with some 30 other participating Agencies, will provide leadership and coordination for government consumer programs. The Council is chaired by the President's Special Assistant for Consumer Affairs.

Civil Service Initiatives. Another provision of the Order is leading to action on a separate job series for Consumer Affairs personnel and special programs for their recruitment and training.

Past Funding Arrangements. Each agency has covered the cost of development of its own plans under the Executive Order, but coordination of this effort has been conducted by the staff of USOCA and other Federal agency personnel serving as Task Force members and advisors. Continued reliance on these ad hoc resources in the FY 1981 implementation phase

is inconsistent with the need to establish a sound management basis for permanent support of operations under the Executive Order.

Planned Allocation of Increase. The additional $329,000 would provide $182,000 for 7 new positions, $127,000 for public information programs and $20,000 for attendance of consumers at Federal workshops and hearings. Distribution of resources will be as follows:

1. Evaluation of the performance of agencies in implementing their consumer programs to assure compliance with the requirements of Executive Order #12160. Emphasis will be on determining the extent of consumer involvement in rulemaking, changes in agency procedures, and evidence of consumer staff participation in agency policy review. To the extent possible, such evaluation will include onsite review and public participation. (2.0 workyears)

2. Participation with OMB in the review of annual agency budget submissions, including development of recommendations to other Administration officials on changes in consumer program resource allocations. (1.0 workyear)

3. Staff support for the Consumer Affairs Council. Principal activities will include coordination of Council workgroups engaged in research and analysis for Council consumer advisory role; administration of formal council meetings, workshops and conferences; reporting to agencies and consumers of Council activities; supporting such Council projects as implementation of OPM personnel initiatives required by Executive Order #12160; developing methods for consumer related policy analysis activities by agencies; and sponsoring inter-agency issue conferences. (2.0 workyears)

4. Improvements in the handling of consumer complaints through cooperative business, state and local government, voluntary consumer groups, and Federal efforts. This includes onsite evaluation of individual agency efforts and attendance at business/government/consumer group forums. The recent study by TARP, Inc. of complaint handling reveals that the majority of complaints can best be resolved within the marketplace, and that

business firms want less government involvement. Through cooperative industry/government effort, more complaints could be resolved before they get to the government. Very little resources of USOCA are now devoted to this task. (1.0 workyear)

5. Development of an annual report to the President on the status of Federal agency consumer programs. The report will draw on written annual reports by agencies to the Chairperson and on the results of the ongoing evaluation program. The report will include recommendations for the President's consideration as appropriate. (0.5 workyear)

6. Contact with consumer leaders to encourage participation in emerging issues, including covering the cost of travel of key consumer leaders to attend regulatory hearings and workshops ($20,000). Consumer organizations rely heavily on citizen contributions to cover operations, but they have virtually no funds to cover the cost of travel and out-of-pocket expenses to hearings on proposed regulations or policy development. This is one reason why so many of the "consumer chairs" at hearings and workshops are empty. Funding of such travel would directly support agency efforts to increase the opportunities for public participation under Executive Order #12160. (0.2 workyear)

7. Supplementing USOCA public information programs ($127,000). This would enable consumer leaders and citizens to become aware of the new procedures stemming from Executive Order #12160, and to become more involved in Federal program formulation. Two publications would be developed and distributed to consumer leaders:

   a. How to establish local consumer education programs ($5,000 for contract development and $5,000 for printing.)

   b. How consumers can become involved in governmental decisionmaking ($5,000 for contract development and $15,000 for printing.)

   A ten-minute training film for consumer leaders and educators on public participation in government decisionmaking would also be developed and distributed ($22,000). At present, there are no informational materials to convey to consumer

leaders the new opportunities for participation. Reaching individual citizens with basic information on changes in governmental programs will be done as part of the present USOCA public information program such as the publication of the Dear Consumer column in newspapers, Consumer Action Update, and a series of radio public service announcements, as well as reprinting of the FY 1980 Consumer's Resource Handbook ($75,000). (0.3 workyear)

IV. ONGOING PROGRAMS

A. Legislative/Regulatory Issues

	FY 1979	FY 1980	FY 1981
Funding[1/]	$488,476	$509,134	$532,171
Full Time Permanent Staff	15.26	14.50	14.44

One of the principal objectives of USOCA is to advocate the consumer viewpoint in Federal agency policy formulation, and explain the ramifications on consumers of various policy options. In large measure, this is accomplished through efforts of multi-disciplinary issue teams comprised principally of USOCA staff of the General Counsel's office and the Consumer Programs Division: (a) working with ad hoc inter-agency task forces developing policy initiatives, (b) presenting a consumer perspective in proposed Federal government regulations, and (c) testifying on or drafting new legislation or presenting comments in the Executive Branch clearance process of proposed legislation.

With few exceptions, the USOCA staff responds to initiatives of other Federal agencies which have principal statutory responsibility for consumer oriented subject matter. Allocation of USOCA policy staff resources are dependent upon:

1. The aggregate economic impact of the issue on consumers.

2. The number of consumers affected by the issue.

3. The availability of USOCA resources, as well as the type of expertise needed, in order to effectively address the issue.

1/ Changes in funding in FY 1980/1981 relate to slight changes in staff work years and a share of other increases described on page 17.

4. The existence of other governmental agencies or private groups who can address the issue if USOCA does not.

5. The types of consumer affected by the issue (groups with special needs such as low income, minority or elderly consumers) and the potential economic impact of the issue on these special groups.

1. Ad Hoc Interagency Task Forces

During the past year, USOCA has found that participation in Administration policy development processes can reap large benefits for consumers. It is particularly appropriate that staff resources be utilized for this purpose since, unlike rulemaking proceedings where there are opportunities for participation by grass roots consumer groups, USOCA is often the only consumer representative on these task forces. Several examples of USOCA participation in the past year include:

- An interagency task force to formulate a low income energy assistance program. As a result of the participation by USOCA and others, the initial program proposal was expanded from $0.8 billion to an Administration supported $2.4 billion program.

- The interagency task force to develop the Administration's privacy proposals.

- A White House Task Force on Motor Carrier Reform for which USOCA drafted proposed household goods moving provisions for inclusion in the legislation.

In this fiscal year, as well as in FY 1981, USOCA plans to continue its participation on these interagency policy formulation groups. While it is virtually impossible to identify which specific issues will be those in which we will participate, already some priorities have become clear. For example, we are currently chairing an interagency working group to develop a policy governing the export of hazardous substances and are participating on task forces to govern the provision of Electronic Fund Transfer services, food labeling policy, telecommunications reform, implementation of the Dispute Resolution Act by the Department of Justice (if it is finally enacted by Congress), food and agricultural economic policy, international trade and commodity agreements, and metric conversion. With regard to international consumer activities, USOCA has acted to prevent cutbacks in the OECD's Consumer Policy Committee which provides a valuable forum for the discussion of emerging international consumer issues. In FY 1980 and 1981, USOCA, in conjunction with the State Department,

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will pursue with increased effort emerging consumer activities within the OECD. In determining on which issues to participate in the future, we will be guided by the factors outlined above.

2. Improving Federal Agency Regulations

During FY 1979, USOCA filed 31 comments on proposed Federal agency regulations. While this is a reduction from the number of comments filed in past years, it reflects our intent to reduce the level of USOCA involvement in proceedings in which there are other consumer representatives and to redirect those resources to interagency working groups (described above) and intervention activities (described below). Several rulemakings in which USOCA participated last year include:

- Submitted recommendations to the Department of Energy concerning proposed guidelines for utility service terminations.

- Successfully petitioned ICC to order the Autotrain Corporation to refund to consumers monies unjustifiably withheld following cancellation of previously purchased transportation services.

- Successfully petitioned the ICC to reinstate household goods movers reasonable dispatch rules.

- Recommended changes in the Department of Energy's proposed emergency gasoline rationing plan to eliminate features that discriminate against low-income consumers.

- Successfully convinced the Federal Energy Regulatory Commission to withdraw a proposed rule to curtail the disclosure of information on fuel costs paid by electric utilities.

In Fiscal Years 1980 and 1981, the USOCA staff will respond to issues based on the criteria cited above. Among the rulemaking proceedings that have been identified for USOCA involvement include:

- Changes in FDA's investigation and new drug approval processes for new drugs.

- FCC's regulatory rulemaking proceedings, including a proposed one-year pilot program for public participation funding and proposed curtailment of certain aspects of regulatory control over commercial radio broadcasters.

- ICC's reissuance of rules pertaining to household goods movers.

3. Legislation

USOCA is regularly called upon for its views in the OMB legislative clearance process and representatives of the Office testified 9 times before Congressional Committees considering enactment of legislation on other issues. Legislation testimony during the past year include:

- Trucking regulatory reform.
- Amtrak's fare policies and declining quality of services.
- The Auto Warranty and Repair Act.
- The Dispute Resolution Act.
- Causes of inflation.
- Amendments to the FTC Act.
- Reform of broadcasting provisions of the Communications Act of 1934.
- Use of cost/benefit analysis in evaluating Federal regulations.

USOCA also provided written comments to Congressional Committees on a variety of other issues.

As in the other policy areas, most of our activities in the legislative area will be dictated by issues which will emerge in the future. In one particular area, however, USOCA is currently seeking what steps could be taken by the Federal government to address the problem of inflation in local services such as auto repair, home maintenance and health insurance.

B. Intervention

	FY 1979	FY 1980	FY 1981
Funding[1/]	$57,888	$62,749	$118,069
Full Time Permanent Staff	1.77	1.82	2.81

1/ Changes in funding in FY 1980/1981 relate to changes in staff work years, a share of other increases described on page 17, and $30,000 for experts described on page 12.

In FY 1979, USOCA intervened as a full party in a Federal agency adjudicatory proceeding for the first time in its history. The particular case was before the Federal Energy Regulatory Commission and the issue of interest to USOCA was whether a public utility should include the costs of construction work in progress (CWIP) in its rate base.

There are a significant number of adjudications which have precedent-setting implications and important ramifications for consumers. However, except in state proceedings where there is a state consumer utility advocate, consumers are rarely represented since the proceedings are highly specialized, technically complicated, and expensive. Because of the importance of these proceedings and the lack of consumer representation by others, it is the objective of USOCA to intervene in utility or other economic regulatory activities having significant precedent-setting implications.

Since the USOCA involvement in the FERC case, the Office has intervened in two additional proceedings, both before the Federal Communications Commission:

- FCC Docket 79-187: At issue is whether, in 1978, American Telephone and Telegraph Company (AT&T) exceeded its allowable rate of return and, if so, whether the company should refund the excess reveneus.

- FCC Docket 79-63: AT&T filed for an increase in the allowable rate of return shortly after the issue of the possible collection of excess revenues in 1978 was raised. The utility is seeking to have the rate of return set at a level higher than its earnings in 1978, including the alleged over-collections. USOCA is acting as co-lead counsel for a consortium of eight state consumer advocates and eight state utility commissions have joined together in opposition to the application. The major issues involved are the appropriate rate of return for AT&T, and the proper capital structure for the company.

Participation as a full party in these proceedings is extremely expensive. As a result, there are many more cases in which USOCA could become involved, but has not due to limited resources and expertise. In FY 1981, USOCA proposes to allocate more staff to its interventions program. With the $30,000 requested, small contracts would be let or experts would be hired on a daily basis to provide the specialized advice and technical information required for these cases. While our estimates

cannot be precise, in general, it is believed the additional funds requested and the reallocation of staff would enable three to five interventions during FY 1981.

C. Information/Education

	FY 1979	FY 1980	FY 1981
Funding[1/]	$240,539	$390,814	$412,178
Full Time Permanent Staff	6.08	7.24	7.63

In 1979, USOCA began to reorient its consumer information and education program. The primary thrusts of the program now are to improve the ability of consumer leaders and individual consumers to participate in the Federal decisionmaking process and to deal more effectively in the marketplace by providing timely and relevant consumer information, and by facilitating relevant consumer education and training.

In this regard, in December 1979 USOCA began publication of a twice-monthly publication, Consumer Action Update, distributed free to 7,000 citizen, consumer, education and business groups to keep them up to date on current legislative, regulatory and private consumer initiatives. This publication replaces the more costly publication, Consumer News, which was oriented to shopping hints and other marketplace information available through local newspapers and magazines.

The most important problem facing consumers today is inflation, and the USOCA information program has sought to provide useful tips on how to combat rising prices. In April 1979, USOCA and the Council on Wage and Price Stability began publication of the National Consumer Buying Alert distributed free each month to over 40,000 consumers who request copies from Congressional offices and directly from the Consumer Information Center in Pueblo, Colorado. In January 1979, the staff distributed a public service record to approximately 6,500 radio stations giving 30 and 60-second inflation fighting tips and offering free copies of a 16-page tabloid, "A Consumer's Shopping List of Inflation Fighting Ideas," which went into a second printing in 1979. Over 700,000 copies of Ideas have been distributed, putting it among the three most popular publications from the Consumer Information Center.

Other highlights of USOCA's information and education program include:

- The first White House Food Editors Conference bringing some 250 of these vital communicants up to date on food price inflation.

1/ Changes in funding in FY 1980/1981 relate to slight changes in staff work years and a share of other increases described in page 17.

- Assistance to HEW's Office of Consumer Education on topics, content and style for production of seven radio public service announcements.

- Preparation of approximately 75 speeches, 50 press releases and numerous briefing papers for appearance by the Director and staff on 50 local and national talk shows.

- Recommendations to the Office of Consumer's Education on their proposed regulations governing an annual $3.5 million grant program.

During the next two years, in addition to the work described above on Executive Order #12160, the USOCA information and education program will continue to provide useful information on contemporary consumer problems. USOCA will release the Consumer's Resource Handbook, an 80-page book teaching consumers how and when to complain if they have experienced problems with a product or service, describing consumer-related programs offered by the Federal government, and including a comprehensive directory of some 600 state and local consumer protection offices.

In cooperation with other Federal agencies, USOCA will issue Cutting Costs Where It Counts, a self-help guide for citizen groups giving detailed information on how to begin projects that can stretch consumer dollars in food, energy, housing and health care. The book describes over 300 successful projects on a case-study basis. It will be released in July 1980 in conjunction with a self-help, low-income consumer education conference.

The Community Services Administration and USOCA will jointly produce a series of Spanish language radio service announcements covering consumer topics.

D. Outreach

	FY 1979	FY 1980	FY 1981
Funding[1/]	$177,254	$180,620	$213,114
Full Time Permanent Staff	4.39	4.16	5.12

Providing opportunities for consumer leaders and individual citizens to become involved in Federal regulatory and policy making requires more than established formal structures. It requires continual encouragement in the form of information programs aimed directly at

1/ Changes in funding in FY 1980/1981 relate to slight changes in staff work years and a share of other increases described on page 17.

these individuals, bringing these persons together in workshops to become more familiar with the techniques of participation, attending local meetings and giving presentations on consumer representation, fostering a consideration of the unique needs of low-income and minority groups, and enabling key consumer leaders from distant communities to attend workshops and hearings of Federal agencies in Washington, These are the areas of need and the focus of our Division of Consumer Organization. Highlights of our outreach activities in FY 1979 include:

- Sponsoring, in conjunction with Howard University, a conference on new solutions to the old problems that poor consumers face.

- Participating in the formation of the Minority Energy Roundtable, an organization of individuals and groups concerned about the impact of the energy crisis on minority and low income consumers.

- Development of workshops for the May 1979 National Conference on the Black Aged in Jackson, Mississippi aimed at "Protecting the Consumer Rights of the Elderly Poor."

- Representation of consumer interests in interagency meetings including the Interagency Energy and the Elderly Committee which provides members with information on Federal programs and activities designed to lessen the impact of the high cost of energy on low income and elderly consumers, and an Interagency Committee of the White House Conference on Handicapped Individuals.

In addition to the outreach activities described above in relation to Executive Order #12160, USOCA outreach activities covering the next two years will include:

- Coordination of a July 1980 low-income consumer self-help conference. The conference will be co-sponsored by USOCA, Howard University and the D. C. Office of Consumer Protection and will address issues of health care, housing, food, transportation and energy.

- Publication of a quarterly guide listing the grants and contracts available from Federal agencies that support consumer education and citizen participation projects and activities.

- Publication of a Consumer Organization Directory which lists consumer and citizen organizations operating throughout the country.

- Publication of a bibliography of consumer information and protection publications produced by state and local government offices.

- In conjunction with the National Association of State Utility Commission advocates and the Department of Energy's Office of Utilities Systems, the setup and conduct of educational workshops on the Public Utilities Regulatory Policy Act for state utility advocates.

E. Consumer Complaints

	FY 1979	FY 1980	FY 1981
Funding[1/]	$285,068	$311,936	$344,067
Full Time Permanent Staff	9.23	9.23	9.64

For many individuals, the only personal contact with a Federal office is a request for help in resolving a consumer complaint As the recently completed five-year study of complaint handling by TARP, Inc. indicated, in 1975 and 1976 all too often the agency replies were untimely and inadequate. TARP also concluded that there was little systematic analysis of complaint data or input of this date for policy purposes. The goal of the staff of the Division of Management and Consumer Complaints is to continue to foster recent improvements (two-thirds of the agencies are now performing most complaint handling practices satisfactorily), and to encourage state and local governments, voluntary groups and business to jointly work to insure consumers have access to systems which are responsible to their individual marketplace problems.

The USOCA staff will continue to de-emphasize the handling of individual consumer problems by encouraging citizens to communicate their marketplace problems to responsible business firms, first at the point of sale then to local supervisory and management levels, before resorting to national business offices and third-party complaint handlers such as the Better Business Bureaus, action lines and government offices. The Consumer's Resource Handbook will be particularly helpful in this regard.

With the completion of the TARP study, the USOCA staff will:

- Widely distribute copies of the TARP analysis and solicit the views of consumer leaders and business and government

1/ Changes in funding in FY 1980/1981 relate to slight changes in staff work years and a share of other increases described on page 17.

officials on the merits of the TARP findings and recommendations.

- Encourage Federal agencies to continue improvements in the efficient preparation of timely and more substantive replies to citizens with marketplace problems by on-site vists and through interagency technical committees.

- Continue visits to Congressional offices to provide information on (a) changes in executive agency complaint handling procedures, and (b) opportunities for more timely responses to consumer problems through cooperative government and industry efforts.

- Serve as a forum for exchange of complaint handling ideas and technology by state and local governments, including the design of consumer complaint classification systems.

- Develop more accurate statistics on specific types and volumes of complaints.

- With the additional staff officer position provided as part of implementing Executive Order #12160, encourage and provide advice and technical assistance to officials of the business sector, state and local governments and consumer groups in order to foster improvement of the resolution of complaints at the local level. Emphasis will be on encouraging consumers to provide business with opportunities to resolve complaints before third parties become involved.

V. OTHER PROGRAM INCREASE ($184,000)

Current and projected minimum level staffing patterns result in a salary level higher than can be funded withing existing appropriations. Thus, previous projections for reducing the vacancy rate in FY 1980 were overly optimistic. A vacancy rate of four positions in 1980 is more probable than two. The $50,000 requested would enable a vacancy rate of two in 1981 for the 50 base positions. (The 7 new positions would be funded for nine months in FY 1981, thus resulting in 2 additional vacant positions.)

In FY 1979, mail surveys by the U. S. Postal Service and HEW revealed that USOCA contract mailings were not included in annual postage cost estimates. In the FY 1980 budget estimate, only $12,000 was requested for all USOCA postage. The increase of $96,000 will cover all postage charges, including the normal USOCA mail usage and contract mailings after adjustment for decreased costs of mailing Consumer Action Update, successor publication to Consumer News.

$37,000 is requested to meet increased cost of USOCA publications distributed at the GSA Consumer Information Center. Charges by GSA are based on actual usage of distribution facilities at Pueblo, Colorado. The base period for computing USOCA's cost in FY 1981 is actual charges for handling and mailing USOCA publications during the twelve month period ending March 31, 1979. GSA has advised that charges for USOCA will be $122,000 for 1981, an increase of $37,000 over the 1980 rate of $85,000, based upon the number of publications actually distributed.

Minor funding adjustments include:

- A $5,000 reduction due to one less work day in 1981.
- A $2,000 reduction to offset payments by USOCA employees for parking private vehicles in Federal facilities.
- An increase of $8,000, as authorized by the Civil Service Reform Act, to cover possible performance awards for USOCA Senior Executive Service Employees.

FISCAL YEAR 1980 PROGRAM FUNDING CHANGES

		1980 Budget	1980 Budget with Pay Raise	Proposed Revised Operating 1980 Budget
11.1	Permanent positions	1,138	1,209	1,228
11.3	Positions other than permanent	140	147	161
11.5	Other personnel compensation	7	7	5
11.8	Special personal services	0	0	10
	Total personnel compensation	1,285	1,363	1,404
12.1	Personnel benefits	107	114	115
21.0	Travel	40	40	40
23.1	Standard Level User Charge	124	124	120
23.2	Rent, Communications & Utilities	64	64	64
24.0	Printing	62	62	52
25.0	Other Services	150	150	122
26.0	Supplies and materials	25	25	20
31.0	Equipment	4	4	9
	TOTAL	1,861	1,946	1,946

Significant changes in object class distribution of funds appropriated by the Congress, and anticipated to be appropriated to meet the October 1979 pay raise, are related to a higher than anticipated average salary rate. To offset this increase, changes have been made as follows: a reduction in the number of copies of Cutting Costs Where It Counts and Consumer's Resource Handbook to be printed (-$10,000), a reducation in "Other Services" of $30,000, primarily fewer radio public service announcements (-$20,000) and cancellation of the HEW Data Processing Center services (-$8,000). The increase of $5,000 for equipment covers the purchase of additional typewriters.

ESTIMATED DISTRIBUTION OF FUNDS AND FULL TIME PERMANENT STAFF

New Initiatives		Executive Office		General Counsel		Management and Consumer Complaints		Consumer Programs		Consumer Organization		Consumer Information		TOTAL	
		Staff	Dollars	Staff	Dollars	Staff	Dollars	Staff	Dollars	Staff	Dollars	Staff	Dollars	Staff	Dollars
Executive Order 12160 Development and Implementation	FY 79	0.90	32,388	0.48	14,447	0.55	16,817	--	--	0.72	32,932	0.35	14,781	3.00	111,365
	FY 80	0.90	33,783	0.60	19,585	0.55	18,323	0.55	19,163	0.30	13,779	0.35	22,078	3.25	126,712
	FY 81	0.90	37,062	1.04	59,723	1.08	37,512	1.95	83,757	1.00	43,795	1.04	193,863	7.01	455,712
Ongoing Programs															
Legislative/Regulatory Issues	FY 79	--	--	8.16	245,594	--	--	6.60	221,239	0.15	6,861	0.35	14,782	15.26	488,476
	FY 80	--	--	7.20	235,019	--	--	6.60	229,959	--	--	0.70	44,156	14.50	509,134
	FY 81	--	--	6.89	232,538	--	--	7.15	261,780	--	--	0.40	37,853	14.44	532,171
Intervention	FY 79	--	--	0.60	18,058	--	--	1.10	36,873	--	--	0.07	2,957	1.77	57,888
	FY 80	--	--	1.20	39,170	--	--	0.55	19,163	--	--	0.07	4,416	1.82	62,749
	FY 81	--	--	2.08	87,445	--	--	0.65	24,253	--	--	0.08	6,371	2.81	118,069
Education/Information	FY 79	--	--	0.60	18,057	--	--	1.10	36,873	0.18	8,233	4.20	177,376	6.08	240,539
	FY 80	--	--	0.84	27,419	--	--	1.10	38,327	0.54	24,803	4.76	300,265	7.24	390,814
	FY 81	--	--	0.78	29,042	--	--	0.65	24,253	1.00	43,795	5.20	315,088	7.63	412,178
Outreach	FY 79	--	--	0.84	25,282	--	--	0.55	18,437	1.95	89,191	1.05	44,344	4.39	177,254
	FY 80	--	--	0.96	31,336	--	--	0.55	19,163	2.16	99,212	0.49	30,909	4.16	180,620
	FY 81	--	--	0.91	30,882	--	--	0.65	24,253	3.00	121,385	0.56	43,594	5.12	213,114
Consumer Complaints	FY 79	--	--	0.84	25,282	7.70	235,437	0.55	18,437	--	--	0.14	5,912	9.23	285,068
	FY 80	--	--	0.84	27,419	7.70	256,522	0.55	19,163	--	--	0.14	8,832	9.23	311,936
	FY 81	--	--	0.91	33,882	7.92	275,089	0.65	24,253	--	--	0.16	10,843	9.64	344,067
Administrative Matters	FY 79	--	--	0.48	14,447	2.75	84,084	1.10	36,873	--	--	0.84	35,475	5.17	170,879
	FY 80	--	--	0.36	11,751	2.75	91,615	1.10	38,327	--	--	0.49	30,909	4.70	172,602
	FY 81	--	--	0.39	14,521	3.00	104,200	1.30	48,505	--	--	0.56	36,447	5.25	203,673
Executive Direction	FY 79	5.10	183,531	--	--	--	--	--	--	--	--	--	--	5.10	183,531
	FY 80	5.10	191,434	--	--	--	--	--	--	--	--	--	--	5.10	191,434
	FY 81	5.10	210,016	--	--	--	--	--	--	--	--	--	--	5.10	210,016
TOTALS	FY 79	6.00	215,919	12.00	361,167	11.00	336,388	11.00	368,732	3.00	137,217	7.00	295,627	50.00	1,715,000
	FY 80	6.00	225,217	12.00	391,699	11.00	366,460	11.00	383,265	3.00	137,794	7.00	441,565	50.00	1,946,000
	FY 81	6.00	247,078	13.00	488,033	12.00	416,801	13.00	491,054	5.00	208,975	8.00	637,059	57.00	2,489,000

NOTE: Based upon estimates of individual operating officials.

UNITED STATES OFFICE OF CONSUMER AFFAIRS

DETAIL OF FULL TIME PERMANENT POSITIONS

Executive Direction *

	FY 1979	FY 1980	FY 1981
SES			
Deputy Director	1	1	1
GS-15			
Economic Counselor	1	0	0
GS-15			
Special Assistant	1	1	1
GS-14			
Confidential Assistant	1	0	0
GS-13 and Below	2	4	4
Total Positions	6	6	6
Total Compensable Workyears	6.59	6.32	6.62
Personnel Compensation	162,700	167,996	176,100

* Excludes Director who is on the White House payroll.

Office of the General Counsel

	FY 1979	FY 1980	FY 1981
GS-15			
General Counsel	1	1	1
GS-14			
Deputy General Counsel	1	1	1
GS-14			
Assistant General Counsel	1	1	1
GS-13 and Below	9	9	10
Total Positions	12	12	13
Average Employment	12.34	12.55	13.72
Personnel Compensation	285,500	311,356	343,100

Office of Management and Consumer Complaints

	FY 1979	FY 1980	FY 1981
GS-15			
Director	1	1	1
GS-14			
Chief, Consumer Complaints	0	1	1
GS-13 and Below	10	9	10
Total Positions	11	11	12
Total Compensable Workyears	12.94	12.29	12.89
Personnel Compensation	265,200	285,796	317,100

Division of Consumer Programs

	FY 1979	FY 1980	FY 1981
SES			
Director	1	1	1
GS-15			
Deputy Director	0	1	1
GS-15			
Associate Director	3	3	3
GS-14			
Industry Program Specialist	1	1	1
GS-14			
Economist	2	1	1
GS-13 and Below	4	4	6
Total Positions	11	11	13
Total Compensable Workyears	8.71	9.23	12.98
Personnel Compensation	293,100	301,932	363,700

Division of Consumer Information

	FY 1979	FY 1980	FY 1981
GS-15			
Director	1	1	1
GS-14			
Deputy Director	1	1	1
GS-13 and Below	5	5	6
Total Positions	7	7	8
Total Compensable Workyears	9.32	9.04	9.56
Personnel Compensation	212,800	232,964	250,800

Division of Consumer Organization

	FY 1979	FY 1980	FY 1981
GS-15			
Director	1	1	1
GS-13 and Below	2	2	4
Total Positions	3	3	5
Total Compensable Workyears	3.45	3.17	5.03
Personnel Compensation	104,700	103,956	158,200

STANDARD FORM 304
May 1969, Bureau of the Budget
Circular No. A-11, Revised.
504-103

UNITED STATES OFFICE OF CONSUMER AFFAIRS

OBJECT CLASSIFICATION (in thousands of dollars)

Identification code 75-0137-0-1-506		1979 actual	1980 estimate	1981 estimate
	Personnel compensation:			
11.1	Permanent positions	1,115	1,228	1,433
11.3	Positions other than permanent	189	161	161
11.5	Other personnel compensation	4	5	5
11.8	Special personal services payments	16	10	10
	Total personnel compensation	1,324	1,404	1,609
	Personnel benefits:			
12.1	Civilian	110	115	133
13.0	Benefits for former personnel			
21.0	Travel and transportation of persons	37	40	65
22.0	Transportation of things	1	--	--
23.0	Rent, communications, and utilities	120	120	120
23.1	Standard Level User Charges	41	64	170
23.2	Communications, Util. & Other Rents	28	52	137
24.0	Printing and reproduction			
25.0	Other services	24	122	219
26.0	Supplies and materials	16	20	27
31.0	Equipment	14	9	9
32.0	Lands and structures			
33.0	Investments and loans			
41.0	Grants, subsidies, and contributions			
42.0	Insurance claims and indemnities			
43.0	Interest and dividends			
44.0	Refunds			
99.0	Total obligations	1,715	1,946*	2,489*

* Excludes $2,000 reimbursement for employee parking.

UNITED STATES OFFICE OF CONSUMER AFFAIRS

EXPLANATION OF ESTIMATE OF OBJECTS

11. Personnel Compensation $1,609,000. Provides $1,433,000 for 57 full time permanent positions, including $8,000 for possible Senior Executive Service bonuses; $161,000 for the equivalent of 6 other than full time permanent positions; $5,000 for overtime; and $10,000 for reimbursement to other Federal agencies for personnel on detail to USOCA.

12. Personnel Benefits $133,000. Provides for contribution to the Civil Service Retirement Fund, Group Life Insurance, Health Benefits and Social Security payments.

21. Travel and Transportation $65,000. Provides for essential contact with business, consumer organizations, state and local governmental bodies and educators, including $20,000 for travel of consumer leaders to attend hearings and workshops.

23.1 Standard Level User Charge $120,000. These funds are provided to the General Services Administration, pursuant to P.L. 92-313, to cover the cost of building space occupied by the USOCA staff.

23.2 Other Rent, Communications and Utilities $170,000. Covers comprehensive telephone and telegraph services ($44,000); postage ($108,000); and rental of office equipment ($18,000).

24. Printing and Reproduction $137,000. This amount will provide educational materials to reach consumer groups and individuals in keeping with minimum program requirements. Principal costs are: Dear Consumer, a weekly feature column sent to daily, weekly and specialty newspapers ($15,000); Consumer Action Update, a twice-monthly newsletter to consumer organizations ($15,000); reprint of Consumers Resource Handbook ($75,000); a new publication for consumer leaders on how to establish a local consumer education program ($5,000); a new publication for consumer leaders on how consumers can participate in government decisionmaking ($15,000); press releases and speeches ($3,000); and miscellaneous printing and addressing costs ($9,000).

25. Other Services $219,000. Includes $122,000 for reimbursement to the General Services Administration Consumer Information Center to cover the USOCA share of publications distribution costs; $30,000 for experts and consultants to aid in USOCA staff intervention; office machine repairs ($2,000); employee training ($11,000); work orders ($3,000); contractual services relating to a series of one-minute radio public service announcements ($10,000); Public Health Service Unit charges ($2,000); other miscellaneous administrative charges ($7,000); and, as part of the program of education of consumer leaders, $10,000 for consultants to aid in development of two new publications cited in object class 24, above, and $22,000 for a contract to develop and distribute a 16 mm film.

26. Supplies and Materials $27,000. For necessary office and operating supplies (desk top supplies, envelopes, letterheads, etc., and work materials such as periodicals and reference publications.

31. Equipment $9,000. For replacement of office furniture and equipment as required.

STANDARD FORM 300
July 1964, Bureau of the Budget
Circular No. A-11, Revised.
300-101

DEPARTMENTAL MANAGEMENT
UNITED STATES OFFICE OF CONSUMER AFFAIRS

Identification code 75-0137-0-1-506	1979 actual	1980 estimate	1981 estimate
Program by Activities:			
Direct program:			
Office of Consumer Affairs...	1,715	1,946	2,489
Reimbursable program:			
Office of Consumer Affairs...	-----	2	2
10.00 Total obligations.....	1,715	1,948	2,491
Financing:			
Offsetting collections from:			
11.00 Federal funds.....	-8	-----	-----
14.00 Non-Federal funds.....	-----	-2	-2
25.00 Unobligated balance lapsing...	25	-----	-----
Budget authority.....	1,732	1,946	2,489
Budget Authority:			
40.00 Appropriation.....	1,732	1,861	2,489
44.20 Supplemental for civilian pay raise.....	-----	85	-----
Relation of Obligations to Outlays:			
71.00 Obligations incurred, net.....	1,707	1,946	2,489
72.40 Obligated balance, start of year.....	112	131	123
74.40 Obligated balance, end of year.	-131	-123	-149
77.00 Adjustments in expired accounts.	-101	-----	-----
90.00 Outlays, excluding pay raise supplemental.....	1,587	1,873	2,459
91.20 Outlays from civilian pay raise supplemental.....	-----	81	4
58-369 101 (Mono c	(Mono cost: 1)	(Mono cost: 5)	(Mono cost: 4.9)

STANDARD FORM 300
July 1964, Bureau of the Budget
Circular No. A-11, Revised.
300-101

Department of Health, Education and Welfare
Departmental Management
United States Office of Consumer Affairs
Personnel Summary

Identification code 75-0137-0-1-506	19 79 actual	19 80 estimate	19 81 estimate
Total number of permanent positions..	50	50	57*
Total compensable workyears.....	52	52	59
Full-time equivalent of other positions.....	6	6	6
Full-time equivalent of overtime and holiday hours.....	0	0	0
Average ES salary.....	---	$47,889	$51,889
Average GS grade.....	10.70	10.79	10.94
Average GS salary.....	$25,248	$27,109	$27,091

* Includes 2 Term employees. Consideration will be given to recruitment of some individuals for less than one-year appointments.

58-363 102

(Mono cost: 8) (Mono cost: 8) (Mono cost: 4.9)

STANDARD FORM 306
July 1968, Bureau of the Budget
Circular No. A-11, Revised.
306-103

UNITED STATES OFFICE OF CONSUMER AFFAIRS

DETAIL OF PERMANENT POSITIONS

75-0137-0-1-506	19 79 actual	19 80 estimate	19 81 estimate
Grades and Ranges			
Senior Executive Service			
ES-I $47,889	2	2	2
GS-15 $40,832 to $47,500	9	9	9
GS-14 $34,713 to $45,126	7	6	6
GS-13 $29,375 to $38,186	4	4	10
GS-12 $24,703 to $32,110	5	5	5
GS-11 $20,611 to $26,794	3	5	5
GS-10 $18,760 to $24,385	2	1	1
GS-9 $17,035 to $22,147	4	4	4
GS-8 $15,423 to $20,049	1	3	3
GS-7 $13,925 to $18,101	4	3	3
GS-6 $12,531 to $16,293	2	3	4
GS-5 $11,243 to $14,618	5	4	4
GS-4 $10,049 to $13,064	1	0	0
GS-3 $ 8,952 to $11,634	1	1	1
Total permanent positions	50	50	57
Unfilled positions, September 30	7	0	0
Total permanent employment, end of year	43	50	57
	(Mono cost: 4.9)	(Mono cost: 4.9)	(Mono cost: 4)

58-369 103

TUESDAY, FEBRUARY 5, 1980.

GENERAL SERVICES ADMINISTRATION

CONSUMER INFORMATION CENTER

WITNESSES

DAVID F. PETERSON, DIRECTOR
TERESA N. NASIF, DEPUTY DIRECTOR
JAMES F. NEARY, OFFICE OF BUDGET, GSA

	Appropriations	Positions
1979 actual	$1,162,000	18
1980 estimate	[1] 1,352,000	19
1981 request	1,432,000	19
Increase	+80,000	

[1] Includes supplemental request of $37,000 for increased pay costs.

Mr. TRAXLER. The Committee will come to order.

We want to welcome Mr. David Peterson, Director of the Consumer Information Center. We would welcome any statement that you might want to make and submit it for the record.

Before we do that, the Consumer Information Center's 1979 actual appropriation is $1,162,000 with 18 positions and the 1980 estimate is $1,352,000 with 19 positions. And the 1981 request is $1,432,000 with 19 positions, an increase of some $80,000 and the positions remaining the same. That includes the supplemental request of $37,000 for increased pay costs.

We would be very pleased to hear you at this time.

Mr. PETERSON. Thank you, Mr. Chairman. Let me introduce my new Deputy, Teresa N. Nasif, who's been in the position less than six months, and also Jim Neary with the Office of Budget, GSA. They are both appearing for the first time before this Committee.

I have a two-page summary. Do you want me to read that?

Mr. TRAXLER. Please proceed.

GENERAL STATEMENT

Mr. PETERSON. Mr. Chairman and members of the Subcommittee, thank you for the opportunity to appear here today.

The Center has basically two major missions: To encourage Federal agencies to develop and release helpful information for consumers and to increase public awareness of and access to this information. The written justification explains the various programs for carrying out these missions. Therefore, I will only highlight some of our most recent accomplishments and our plans for fiscal year 1981.

ACHIEVEMENTS

During 1979, the Center was involved in the development of 70 new or revised Federal consumer publications.

The Center has continued to work closely with the media to promote Federal consumer publications. One recent example is a special feature article in the February 1980 Family Circle magazine publicizing the availability of 50 free publications listed in the Consumer Information Catalog. As a result of this one promotion, the Center expects that consumers will request more than 3 million publications.

Last September, we began our fifth annual public service campaign. Designed to introduce more consumers to the Catalog, the campaign includes the production of public service messages for the print and broadcast media. The current campaign is the most effective one in the history of the Center. Its success is demonstrated by the following:

A. Media monitoring reports indicate that during 1979 the television networks donated free air time to the Center valued at more than $3 million. This makes the Center one of the top recipients for network public service time. It should be noted that this figure, $3 million, would be significantly larger if it included the hundreds of local television stations throughout the country which broadcast Center announcements on a regular basis.

PARTICIPATION BY PBS

Mr. TRAXLER. Does PBS use your public service announcements?

Mr. PETERSON. PBS as a network does not. However, we have found that about 50% of the local educational stations in the country do run Public Service announcements. Therefore, we supply PSA's directly to them.

MORE EXAMPLES OF EFFECTIVE PUBLIC SERVICE CAMPAIGNS

B. Another example would be TV Guide, which has a circulation of 20 million, the largest circulation of any magazine in the United States. During 1979, TV Guide provided more space for Center advertisements than for any other public service entity, including government agencies and charitable organizations.

However, the final measure of success is the number of persons who request the Catalog. During the first 20 weeks of the current campaign, 324,000 consumers have requested Catalogs, which is nearly twice the number requesting Catalogs during the same period of last year.

TOTAL PUBLICATIONS REQUESTED

Lastly, consumers requested more than 22 million publications from the Center during fiscal year 1979. This represents a dramatic growth from the 2 million ordered during fiscal year 1972, the first full year of our operation. And we expect that this year's total will surpass last year's figure of 22 million.

PLANS FOR FISCAL YEAR 1981

In fiscal year 1981, we plan to improve and refine existing programs. While we are requesting an increase of $80,000, this does not include any funds for new programs. It does include $62,000, primarily to cover increased printing expenses for the Catalog.

Mr. CHAIRMAN, that is the end of my statement. If I can add anything to it, I will be glad to.

FUNDING THE DISTRIBUTION OF FREE PUBLICATIONS

Mr. TRAXLER. Fiscal year 1979 was the first year the agencies paid their share of the cost of distributing free consumer publications. You have had more than a year's experience. How is that method of funding working out?

Mr. PETERSON. It has worked out pretty well. We have had two minor problems and one major problem. Two agencies have cut back in the number of free publications they have given us. However, it appears the problem is more with their printing budget than it is coming up with distribution costs.

The one major problem we have had is the fact that the Agriculture Department had a restriction placed in their Appropriation Bill which limited by one-half the amount of money that they could give us for distribution purposes.

The effect of this is that sometime this spring, we will have to curtail the distribution of the free Agriculture publications for the remainder of the fiscal year.

I hope that this is just a one-time problem. There appears to have been some misunderstanding on the part of that particular Subcommittee as to the services provided to the Department of Agriculture by the CIC. The Agriculture Department also seemed to have a problem communicating the need for this money. We hope this will be rectified this year.

Mr. TRAXLER. I hope so, too. I sit on that Subcommittee. I wasn't aware we had a problem. We will look into that. In 1981, the distribution costs of free publications is estimated at $6,170,000, an increase of $510,000 over 1980, an estimate of $5,660,000.

Would you provide for the record a table showing the distribution costs by agency for 1979, 1980 and 1981? Also for the record a table indicating the unit costs of distributing free publications in 1979, 1980 and 1981.

[The information follows:]

DISTRIBUTION COSTS BY AGENCY FOR FISCAL YEAR 1979, FISCAL YEAR 1980, AND 1981

	1979	Estimated cost 1980	1981
Agriculture	$996,000	$1,375,000	$1,493,000
Civil Aeronautics Board	48,000	74,000	31,,000
Commerce	171,000	289,000	198,000
Community Services Administration	24,000	.....	18,000
Consumer Product Safety Commission	8,000	23,000	37,000
Energy	283,000	407,000	420,000
Environmental Protection Agency	72,000	107,000	12,000
Federal Deposit Insurance Corporation	9,000	.....	.....
Federal Trade Commission	96,000	153,000	136,000

DISTRIBUTION COSTS BY AGENCY FOR FISCAL YEAR 1979, FISCAL YEAR 1980, AND 1981—Continued

	1979	Estimated cost 1980	1981
General Services Administration	80,000	198,000	130,000
Health, Education, and Welfare	1,243,000	1,947,000	2,536,,000
Housing and Urban Development	167,000	192,000	234,000
Interior	60,000	23,000	130,000
Justice			6,000
Labor	203,000	232,000	167,000
Securities and Exchange Commission	32,000	40,000	49,000
Small Business Administration	60,000	79,000	37,000
Transportation	339,000	441,000	493,000
Treasury			6,000
U.S. Postal Service		[1]	
Veterans Administration	39,000	40,000	31,000
Federal Reserve			6,000
Totals	3,930,000	5,620,000	6,170,000

[1] Original budget projected $40,000 for Postal Service which has withdrawn from the program.

Unit cost for free publication distribution

[In cents]

Fiscal year:	*Unit cost*
1979	20.1
1980 (estimate)	18.0
1981 (estimate)	18.0

As a result of Center—initiated negotiations currently underway with GPO and USPS to revise the method of computing postage charges, we anticipate a decrease in unit cost in FY 80 and FY 81.

LAPSED FUNDS

Mr. TRAXLER. Last year during a discussion on lapsed funds, you stated, "If I may add one thing, I think I can state very strongly, there will be little-to-no lapse money so far as this year's budget is concerned," and the 1981 budget document advises us $626,000 lapsed at the end of 1979. We are not opposed to that, but will you assist us in understanding why this lapsed figure occurred?

Mr. PETERSON. I will be glad to. First of all, that is an incorrect figure. It reflects some changes and some errors that were made. The actual lapsed figure is $25,000, of which only $17,000 involves appropriated funds from this Committee. The $8,000 balance represents the leftover money from the Pueblo revolving fund from the agencies.

There were two major errors in that $626,000 figure. One, there was a double posting of moneys from agencies that was made by the GSA Finance Department. In other words, it showed $370,000 more than was actually the case.

Secondly, there were a series of bills from the Government Printing Office, to the reimbursement fund which came in after the end of the fiscal year. That reduced that figure of over $600,000 to $25,000 of which only $17,400 were funds appropriated by this committee.

Mr. TRAXLER. Which would be what percentage of your budget for 1979, approximately?

Mr. PETERSON. That is slightly over one percent.

Mr. TRAXLER. Again, I wouldn't want you to think we don't approve of lapsing funds. It is just we also at the same time like to make the budget as tight as possible. We want to congratulate you that you have money left over but we also want to say let's budget more carefully. One percent seems to be in a reasonable ball park in view of the size of your budget.

ADDITIONAL POSITIONS

Last year CIC requested two new positions, a GS–11 Consumer Information Specialist and a GS–4 Correspondent Assistant.

The House recommended a reduction in your fiscal year 1980 request including funds for those new positions. The Senate believed you ought to have the discretion in applying the reduction. Did you increase your staff by one in 1980?

Mr. PETERSON. Yes, sir, we did.

REDUCTION IN FISCAL YEAR 1980 BUDGET REQUEST

Mr. TRAXLER. Where did the $49,000 reduction come in your 1980 budget?

Mr. PETERSON. We were cut by this Committee by $49,000 and by the Senate by that like amount.

The suggestions as to where the cuts would come from were somewhat contradictory. We tried to follow the spirit of what the Congress wanted us to do by taking some suggestions from the House Committee and some from the Senate.

Basically the major cut of that $49,000 came from eliminating one of the two positions requested. As far as what the Senate was interested in, we cut two of the four surveys we had in our budget request.

Mr. TRAXLER. It is clear the Congress doesn't always speak with a single tongue. Congratulations.

Mr. PETERSON. Thank you, sir.

Mr. TRAXLER. Last year you were asked what your priorities would be if you only got half of the increase requested. The response included the GS–4 Correspondent Assistant but not the GS–11 Consumer Information Specialist.

The 1981 budget indicates you hired a Consumer Information Specialist and not the Correspondent Assistant. Why the reversal?

Mr. PETERSON. The position we are actually filling is at the GS–9 level. When we realized we were not going to get those two positions and we still had a problem, we reorganized and changed some of the duties of some of the people on the staff.

For example, we gave one staff member additional responsibility in the consumer complaint area. We try to match the strengths of the people on the staff with the program responsibilities that we have.

MEDIA RELEASES

Mr. TRAXLER. On page 9 of the justification, there is an indication that the New for Consumers information releases are sent to

more than 6,000 people. That is up from more than 1,500 from last year.

Likewise, on page 10 of your justification, the number of Federal Consumer Focus radio and television scripts distributed is up from 4,400 to 5,500.

What accounts for this increase and do you anticipate that percentage will continue in the future?

Mr. PETERSON. I don't anticipate it increasing again to that great a degree. We have been spending a lot of time trying to build those lists. The Federal Consumer Focus list is composed primarily of radio and television broadcasters and the New for Consumer list is primarily newspapers and magazines. We believe we have the best consumer media lists in the Federal government and very possibly in the country.

We do an annual purge of our media lists which means that everyone on the lists has the opportunity to be dropped. This past year, an extra effort was made to build on to the existing lists we had.

NEED FOR TEMPORARY EMPLOYEES

Mr. TRAXLER. You are requesting an increase of some $10,000 to fund two temporary positions for the year rather than part of the year as is the case presently. What do the temporary employees do and why are they needed on a full year basis?

Mr. PETERSON. This is because we didn't get one of the full-time positions last year. It is also in line with the thrust that the General Services Administration has undertaken, along with four other agencies, to make greater use of temporary part-time positions.

So this request is in line with the GSA program. As far as what they will be doing, one of them will be specifically involved in handling consumer complaints or consumer mail, of which we get a great deal.

Secondly, the other one will be involved in the public service campaign.

Mr. NEARY. I might add that the program Mr. Peterson is referring to is the full-time equivalency project which GSA is pilot testing along with four other agencies. Our ceiling is based on workyears as opposed to positions. So if we have two vacancies, we may hire three or four people so long as our workyear equivalent at the end of the fiscal year is not exceeded.

Mr. TRAXLER. It sort of looks as if the temporaries are the equivalent of the two positions we denied you.

Mr. PETERSON. If that $10,000 is granted us, I guess that is true. It is certainly not something we are trying to do behind the scenes because obviously these people have to be funded.

PERSONNEL COSTS

Mr. TRAXLER. The CIC is requesting a $37,000 supplemental appropriation for increased pay costs. What portion of the pay increase is CIC absorbing?

Mr. NEARY. $37,000 is the cost of the pay raise. The CIC is absorbing none in that it has little personnel turnover. Actual

lapse in FY 1979 was about .004. The pay raise absorption is required at the agency level. We are applying the pay raise absorption to larger appropriations, which have greater turnover and more lapse. By accomplishing the absorption in that fashion, the Consumer Information Center was not impacted.

Mr. TRAXLER. How many people are currently on board, both permanent and temporary?

Mr. PETERSON. Of the 19 full-time permanent slots, we presently have 17 positions filled. We are in the process of recruiting for the two vacancies. In addition, we have four part-time or temporary employees.

Mr. TRAXLER. Provide for the record how much has been obligated for personnel services through January, and what percentage of the total estimate for personnel services does that represent.

[The information follows:]

The amount of $172,998 has been obligated for personnel services through January. This represents 30.4 percent of the total estimate for personnel services.

Mr. TRAXLER. Thank you, Mr. Peterson. We have enjoyed your presentation today and look forward to seeing you again. We will place your budget justification in the record at this point. The Committee stands adjourned.

[The justification follows:]

CONSUMER INFORMATION CENTER

Summary Reconciliation of 1981 Estimate to Comparable Amounts for 1980

1979	Total	$ 1,162,000
	Increase	
	Miscellaneous Expenses	153,000
1980	Total	$ 1,315,000
	Supplemental for October 1979 Pay Increase	37,000
1980	Adjusted Total	$ 1,352,000
	Increases	
	Printing Costs	62,000
	Costs of Other Services	6,000
	Personnel Compensation and Benefits	10,000
	Travel Costs	2,000
1981	Total	$ 1,432,000

1980 Appropriation	$1,315,000
Pay Increase Supplemental	+37,000
1980 Adjusted Total	$1,352,000
Change	+80,000
1981 Estimate	$1,432,000

GENERAL STATEMENT

The Consumer Information Center is responsible for encouraging the development of relevant and meaningful consumer information from the major Federal departments and agencies as a by-product of the Government's research, program, and procurement activities. In addition, the Center promotes greater public awareness of existing Federal publications through distribution of the quarterly Consumer Information Catalog and through various media services.

APPROPRIATION LANGUAGE

For necessary expenses of the Consumer Information Center, including services authorized by 5 U.S.C. 3109, [$1,315,000] $1,432,000 [: Provided, That this appropriation shall be available hereafter, subject to reimbursement by user agencies, for payment to the Government Printing Office for distribution of free consumer information].

JUSTIFICATION

Center Functions

The Center was established within the General Services Administration (GSA) by Executive Order on October 26, 1970, and assigned two primary missions: (1) To encourage Federal departments and agencies to develop and release practical, relevant consumer information and (2) to increase public awareness of and access to this information.

In pursuit of these missions, the Center carries out the following activities:

1. Establishes and maintains close liaison with Federal departments and agencies. Keeps abreast of existing and planned programs that could generate valuable consumer information.

2. Reviews Federal publications for their potential consumer interest.

3. Undertakes surveys, both contractually and in-house, to gauge consumers' current information interests, to assess the usefulness of existing consumer publications, and to measure the effectiveness of the Center's programs.

4. Recommends priorities to agencies in developing and disseminating consumer information. Criteria for the priorities include the impact on family budgets, health and safety considerations, and the degree of consumer interest.

5. Coordinates the writing of new consumer publications and prevents duplication by encouraging collaborative efforts among Federal agencies.

6. Provides manuscript review and editorial assistance to Federal agencies in the development of consumer publications.

7. Publishes the quarterly Consumer Information Catalog and distributes copies through Congressional offices, Federal facilities, educators, and non-profit organizations, and in response to individual requests.

8. Prepares an annual list of Spanish publications and distributes quantities upon request to libraries, Hispanic leaders, educators, and organizations as a resource tool for assisting the Spanish-speaking community.

9. Monitors the activities of the Government Printing Office (GPO) distribution facility in Pueblo, Colorado (the centralized distribution point for Federal consumer publications) to insure a timely response to consumer requests for publications listed in the Catalog and to maintain adequate stocks of free publications.

10. Publicizes the availability of Federal consumer pamphlets through information releases to the print and broadcast media.

11. Conducts an annual public service campaign through the television, radio, and print media to promote Federal consumer information.

12. Works with non-Federal consumer offices and organizations to exchange information on current consumer interests and needs, and to obtain their assistance in promoting the use of Federal consumer information.

Current Activities

Development of Consumer Information

The Center's primary function is to work with Federal agencies to develop timely, practical consumer information. This activity accounts for more than 50% of total staff time. Center liaison representatives maintain close working relationships with program and information staff members in more than two dozen Federal agencies. Through these ongoing contacts, Center agency liaison staff members identify current and planned programs that have the potential for generating relevant and helpful consumer information. They suggest topics for new publications and recommend revising existing publications. In addition, the Center provides agencies with manuscript review and editorial assistance in the preparation of new or revised consumer publications.

The following examples illustrate the liaison activity:

1. Consumers have expressed considerable concern about health issues and the need for information on ways to cope with the increasing complexity of the drug market. During Fiscal Year 1979, the Center was instrumental in the release to the general public of five publications that benefit consumers in the health area: Tranquilizers: Use, Abuse, and Dependency, Alcohol and Birth Defects, Drugs and Pregnancy, Drugs and Driving, and Darvon.

2. For the past several years, the Center has worked closely with the U.S. Department of Agriculture (USDA) to broaden distribution of the valuable information in USDA Yearbooks. In 1979, the International Year of the Child, the yearbook was titled What's For Dinner, and Other Questions Kids Ask About Food. The yearbook will be listed in the Catalog and several chapters will be offered separately free of charge. The Center provided manuscript review for chapters on consumer issues at the supermarket and nutrition. To provide adults with the latest nutrition information the Center assisted USDA in the development, promotion and distribution of Food, an attractive guide to a better diet, including easy recipes.

3. Parents have been enthusiastic about materials that help them help their children in school. The Center suggested topics and has assisted the National Institute of Education in the development of two publications for parents. What Parents Want to Know About Testing and Helping Your Child Study will be valuable free resources for parents. The Center also provided manuscript review on Learning Disabilities and Dyslexia from the National Institute of Mental Health.

4. Many consumers are concerned about preventing crime and protecting themselves and their property from harm. And as a result of Center research indicating strong consumer interest in the topic, the Center suggested to the Law Enforcement Assistance Administration (LEAA) that they develop publications on crime prevention. This fall LEAA launched a nationwide multi-media campaign to encourage consumers to help stop crime. An integral part of the campaign will be follow-up publications for consumers. The Center provided manuscript review on the overview booklet, Got a Minute...You Could Stop a Crime, and many of the supplementary booklets designed to give detailed information on specific topics such as burglar-proofing your home.

5. In order to assist consumers in acquiring information from Federal government files, the Center is in the process of coordinating the development of a publication explaining the Freedom of Information and Privacy Acts. Developed in response to consumer inquiries, the publication gives basic, clear information on how to use the two acts.

6. With housing and energy costs rising rapidly during 1979, the Center was involved in three publications particularly helpful to the potential home buyer. The Center suggested and assisted the Department of Labor in revising Rent or Buy?, an analysis of the economic benefits of buying versus renting shelter. In addition, the Center worked with the Department of Housing and Urban Development (HUD) to update the popular publication, Wise Home Buying, and to revise a publication explaining the graduated mortgage program. And lastly, the Center provided editorial assistance to HUD and the Department of Energy on their joint publication, The Energy-Wise Home Buyer.

7. Financial concerns and credit abuses account for a significant number of consumer complaints. Therefore the Center suggested topics and provided manuscript review for both new and existing publications in this vital area including: Your Retirement: A Financial Planning Guide, the Consumer Credit Handbook, and Women and Credit Histories.

8. To foster communication with consumer education and information officers throughout Government, the Center continued to coordinate the activities of the interagency group, "Consumer Education and Information Liaison." The organization lists more than 100 program offices on its membership roll. Its primary purpose is to bring together Federal consumer communications and program specialists to share solutions to common problems.

9. To help address the special needs of older Americans, a new publication, Planning for Retirement, was developed by Center specialists working with the Administration on Aging. The Center also assisted with the Department of the Interior's publication on its Golden Age Passports program allowing older Americans to enter national parks at no charge.

10. The Center has continued a close working relationship with the President's Special Assistant for Consumer Affairs and the U.S. Office of Consumer Affairs by providing manuscript review and serving as the primary distribution source for single copies of three vitally important consumer publications. A Consumer's Shopping List of Inflation Fighting Ideas, and the National Consumer Buying Alert list good buys in food, energy conservation suggestions, and aids for comparison shopping. The Consumer Resource Handbook is a comprehensive consumer complaint guide that also lists state, county, and local consumer offices, as well as private consumer organizations.

The publications described above are representative of the kinds of information resulting from the Center's successful agency liaison program. It is anticipated that approximately 70 publications will become available in Fiscal Year 1980 as a result of the encouragement and assistance provided by the Center.

In summary, the agency liaison program is the cornerstone of all Center activities. Every activity to be discussed under subsequent headings revolves around this important function and is dependent upon its success.

Determining the Interests of Consumers

To help agencies concentrate their resources on truly relevant publications, the Center makes every effort to determine the current and specific interests and needs of consumers. These efforts are oriented around three main consumer survey techniques:

1. Audience Survey. Once each quarter, questionnaires are enclosed with 1,500 randomly selected outgoing orders. They are designed to elicit advice and suggestions for new publications and to determine those that would appeal to a broad segment of the population. The questionnaires also ask about the Center's service, e.g., if the consumer was satisfied with the publications, how long it took to receive the order, and what the Center can do to improve the service. This method enables the Center to assess consumers' current information needs and their reaction to and satisfaction with the service. In addition, the Center conducts public evaluation surveys designed to assist agencies in improving their consumer booklets. Specially tailored questionnaires are inserted in selected publications, asking for consumer comments on various aspects of the publications. Results are then provided to the agencies to guide them in revising the materials.

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2. Sales Sample. Every three months, a random sample of 1,000 publication requests is analyzed to ascertain the relative popularity of the items listed in the Catalog. Results of these surveys are used to determine which publications will remain in the next quarterly Catalog and which will be dropped. These surveys also show trends in consumer interest in various subject areas.

3. Topic Testing. National consumer surveys of a representative sample of the population are contracted for twice a year to measure the degree of consumer interest in proposed new consumer publications. The national representative sample insures the absence of audience biases that might be reflected in the first two survey techniques. Survey results are reported by age, sex, geographical location, income, and education of the respondents. A summary of results showing the demographics of Catalog users allows a comparison with information obtained in the Audience Survey. Topic testing is a valuable tool for agencies to use in determining publication priorities so they can use their limited resources most effectively. Using these results, the Center has convinced agencies to develop publications to meet specific consumer interests. Conversely, the Center has used negative survey results to dissuade development of publications on topics of little public interest.

Consumers also directly tell the Center their current interests and needs. Approximately 10,000 consumers contact the Center each year,asking assistance in solving consumer problems, making purchases, using products, or budgeting their money. When an existing publication answers the question, it is mailed to the consumer. Other inquiries are directed to the appropriate Federal agency for response. The subjects regularly forwarded for more information give an extra insight into consumers' current concerns and issues and may indicate the need for new consumer publications.

In addition, Center staff members talk frequently with consumer leaders across the country to identify and track consumer complaint trends. Many independent consumer organizations, as well state, county, and city consumer offices, handle consumer problems and rank them according to the number of complaints received. This information assists the Center in obtaining a clear picture of consumers' current problem areas where additional information might be helpful. For example, many of the consumer problems reported to the Center and other Federal agencies could be settled in small claims courts. Therefore, the Center is working with the Department of Justice (DOJ) on a new publication explaining the limits of authority for each of the state courts and giving guidelines for consumers to follow when using the courts to obtain redress. The Center suggested this topic, is providing manuscript review, and is encouraging DOJ to make the publication free and widely obtainable by consumers.

Dissemination of Consumer Information

The quarterly Consumer Information Catalog is the primary tool for increasing public awareness of Federal consumer information. It is a 16-page descriptive listing of more than 200 selected Federal publications of consumer interest. Approximately 80% of the publications are free or cost less than one dollar and all are available through the Center-monitored distribution facility in Pueblo, Colorado.

During Fiscal Year 1980, approximately 21 million Catalogs will be distributed through a variety of channels. They include Members of Congress; elementary through graduate school educators; libraries; local and national consumer organizations; non-profit organizations with active consumer programs such as credit unions, professional associations and labor unions; and Federal facilities with heavy visitor traffic. Catalogs are also distributed in response to individual requests generated by the media.

The Center also publishes an annual listing of approximately 100 of the best Federal consumer publications in Spanish. The Spanish list is distributed to individuals and organizations that work directly with the Hispanic community. These community leaders and groups help the Center provide consumer information to a segment of the population that normally does not turn to the Government for written information.

During Fiscal Year 1979, consumers requested more than 22 million publications. This represents a dramatic increase over the two million ordered in Fiscal Year 1972, the Center's first full year of operation. In another significant area of measurement, the 22 million publications distributed during Fiscal Year 1979 included approximately three million GPO sales documents. Orders for these publications generated $1,462,000 in sales revenue returned to the U.S. Treasury.

Funding the Distribution of Free Publications

The participating agencies pay proportionate shares of the costs of distributing free publications through the Center. (Costs for distributing sales publications are funded by the Government Printing Office.) Each agency's share is based on its percentage of total free publications distributed during the most recent four quarters for which statistics are available. All affected agencies were informed in July 1979 of their costs for Fiscal Year 1981. The projected costs cover warehousing of publications, inventory management, postage, and order processing for the free publications as well as the costs incurred in mailing bulk quantities of the Catalog.

Media Program

Magazines, newspapers, and radio and television stations help the Center reach millions who rely on mass media for information. Through these media outlets, interested consumers learn how to obtain the Catalog and how to order publications. The cost-effectiveness of the media program is demonstrated by the fact that all advertising space and broadcast time received by the Center is provided on a free basis as a public service. Thus, with only nominal production costs, the Center is able to obtain millions of dollars worth of promotion for Federal consumer information.

The media program is implemented through four major activities:

1. New for Consumers information releases -- are sent to more than 6,000 interested magazine and newspaper writers and editors, consumer leaders, and educators. Each of the twice-weekly releases generates an average of 10,000 to 20,000 publication requests, producing a total of more than 1.5 million requests during 1979.

In addition to normal usage whereby magazines and newspapers reproduce part or all of the information, New for Consumers releases stimulate special features in national magazines. For example, an article appeared in the August 1979 Good Housekeeping magazine entitled "25 Most Wanted Government Booklets--All for Free". This article prompted requests for more than 700,000 publications. Short articles in Parade magazine's "Intelligence Report" also guarantee thousands of requests, since the magazine's readership is more than 20 million. In 1979, Parade featured Unemployment Insurance, Learning Disabilities, Occupations in Demand, Graduated Payment Mortgages, Adopt-a-Horse, Gasoline: More Miles Per Gallon, Tranquilizers: Use, Abuse, and Dependency, and The Confusing World of Health Foods. Approximately 75,000 consumers ordered a free copy of the publication on health foods. In January 1980, Family Circle magazine highlighted 50 free publications from the Catalog. A similar 1978 article proved to be the most successful promotion in the Center's history when nearly three million publications were requested. The Center plans to continue working closely with major magazines to encourage more such promotions.

In cooperation with the U.S. Office of Consumer Affairs, in November 1979, the Center began to distribute a weekly column from the President's Advisor on Consumer Affairs. The columns give many tips on food, health, and other consumer topics and mention various publications that are listed in the Catalog. The weekly columns are enclosed with the New for Consumers releases.

2. Federal Consumer Focus radio and television scripts--are sent monthly to more than 5,500 English and Spanish broadcasters who have requested the service. The 24 scripts each month are written in 30 second, 60 second, and 2 minute lengths, and give key information from publications listed in the Catalog. This service allows consumers who depend on radio and television for information to learn the facts contained in the booklets. Although it is difficult to measure listener response to Federal Consumer Focus scripts, a recent survey of broadcasters conducted in December 1979 showed that the radio scripts are aired nationwide more than 400 hours a week, and the television scripts are used more than 20 hours a week.

3. Media Hotline -- Although not toll-free, this service gives broadcasters and writers throughout the country a contact in the Federal bureaucracy for stories on consumer topics. The Center's staff aids callers in locating appropriate agency experts or public affairs specialists from various Government offices.

4. Public Service Campaign -- Each year the Center conducts a campaign to introduce more consumers to the Catalog. Public service messages are produced for radio and television stations and newspapers and magazines. They are distributed to almost all daily and weekly newspapers; major magazines; commercial, educational, and cable television stations; radio stations;and the television and radio networks.

During 1979, many consumer magazines have used the print ads on a national or regional basis. TV Guide, with a circulation of over 20 million households, used a full-page ad during December 1979. The estimated value of this ad alone was more than $60,000. Other magazines who have used the ad include: American Education, Atlantic, Better Homes and Gardens, Business Week, Cosmopolitan, Esquire, Fortune, Harper's, House and Garden, House Beautiful, Ladies' Home Journal, McCall's, Money, Newsweek, New York, The New Yorker, Playboy, Psychology Today, Reader's Digest, Redbook, Saturday Review, Scientific American, Seventeen, Sports Illustrated, Sunset, Time, U.S. News and World Report, Working Woman, and Woman's Day.

All three television networks use the Center's public service announcements on a daily basis during daytime, nighttime, and even prime time slots. As an example of this support, in 1979, CBS-TV donated over $1,300,000 of air time to the Center's public service announcements. And during 1979, the three television networks donated air time to the Center which was valued at nearly $3,000,000. Although affiliated stations are not required to broadcast the network announcements, the total is indicative of the media program's cost-effectiveness.

In addition to network broadcast, hundreds of local television stations and thousands of local radio stations give free air time to the Center. The success of the campaign is dependent upon this local airing of and response to the announcements. The final measure of success is the number of consumers who write for the Catalog. In Fiscal Year 1979, approximately half a million consumers will request a Catalog, primarily as a result of the public service campaign. This represents a major increase in response compared with the 28,000 requests during a similar period before the first campaign in 1975.

In 1979, the Center received first place in the National Association of Government Communicators awards for its 60 second television spot and second place for its 60 second radio spot. Also during 1979, questionnaires were sent to the public service directors of all educational and commercial television stations in the country. 94 percent of those who responded stated that they considered the Center's announcements to be in the "good" or "excellent" category.

Plans for Fiscal Year 1981

The requested amount for Fiscal Year 1981 represents the funding level necessary to continue Fiscal Year 1980 programs at current levels. It is appropriate to stress that no new program funds are requested. In Fiscal Year 1981, the Center will continue to emphasize the improvement of liaison ties with other Federal agencies in order to encourage them to develop more consumer information. And in a second important area, the media program will continue to be refined and improved as part of the crucial objective to increase public awareness of consumer information available from the Federal government. The print and broadcast media enable the Center to reach a constantly wider, as well as more diverse, audience without a corresponding increase in funds.

The requested increase of $80,000 is comprised of the following:

1. $62,000 to cover increased printing expenses, primarily the increased cost of the contract for printing the Catalog. Although the same number of Catalogs will be printed, it is anticipated that the cost of the contract will increase 15 percent for Fiscal Year 1981. This is the same approximate percentage increase as occurred for Fiscal Year 1980.

2. $10,000 to fund two present temporary positions for the entire year, rather than part of the year as is programmed for Fiscal Year 1980.

3. $8,000 for miscellaneous increases including $6,000 for Other Services and $2,000 for increased travel costs.

CONSUMER INFORMATION CENTER

POSITIONS BY GRADE AND AVERAGE EMPLOYMENT

	Actual, 1979			Program, 1980			Request, 1981		
Grade	C.O.	Field	Total	C.O.	Field	Total	C.O.	Field	Total
GM/ GS-15	1	-	1	1	-	1	1	-	1
14	2	-	2	2	-	2	2	-	2
13	3	-	3	3	-	3	3	-	3
12	4	-	4	4	-	4	4	-	4
11	3	-	3	4	-	4	4	-	4
9	2	-	2	2	-	2	2	-	2
7	-	-	-	1	-	1	1	-	1
6	2	-	2	1	-	1	1	-	1
4	1	-	1	1	-	1	1	-	1
Permanent Positions	18	-	18	19	-	19	19	-	19
Avg. Empl: Permanent	18	-	18	19	-	19	19	-	19
Other	1	-	1	3	-	3	3	-	3
TOTAL	19	-	19	22	-	22	22	-	22

CLASSIFICATION BY OBJECTS

	Actual, 1979	Program, 1980	Request, 1981
Personnel compensation: Central office	$ 458,317	$ 522,000	$ 532,000
Field	-	-	-
11 Total personnel compensation	$ 458,317	$ 522,000	$ 532,000
Other Objects			
12 Personnel benefits	40,863	47,000	47,000
13 Benefits for former personnel	7,425	-	-
21 Travel	17,171	18,000	20,000
Travel (motor pool)	-	-	-
22 Transportation of things	22,814	34,000	34,000
23 Rents and utility services	6,519	4,000	4,000
Payment to Federal Buildings Fund	25,260	32,000	32,000
Communication services	51,084	51,000	51,000
24 Printing and reproduction	291,815	376,000	438,000
25 Other services	215,225	265,000	271,000
26 Supplies and materials	7,202	3,000	3,000
31 Equipment			
32 Lands and structures			
Total Other Objects	$ 685,378	$ 830,000	$ 900,000
Total Obligations	$1,143,695	$1,352,000	$ 1,432,000
Position Data			
Average salary, GS positions	$ 24,795	$ 26,017	$ 26,559
Average grade, GS positions	10.95	11.00	11.00

EXPLANATION OF DISTRIBUTION BY OBJECTS

11 Personnel Compensation and Staffing - $532,000. For 19 full-time permanent and 3 temporary or part-time positions, all in the Central Office.

12 Personnel Benefits - $47,000. Includes $35,000 for retirement contributions; $8,000 for health benefits; and $4,000 for group insurance.

21 Travel and Transportation of Persons - $20,000. For travel by Center staff members.

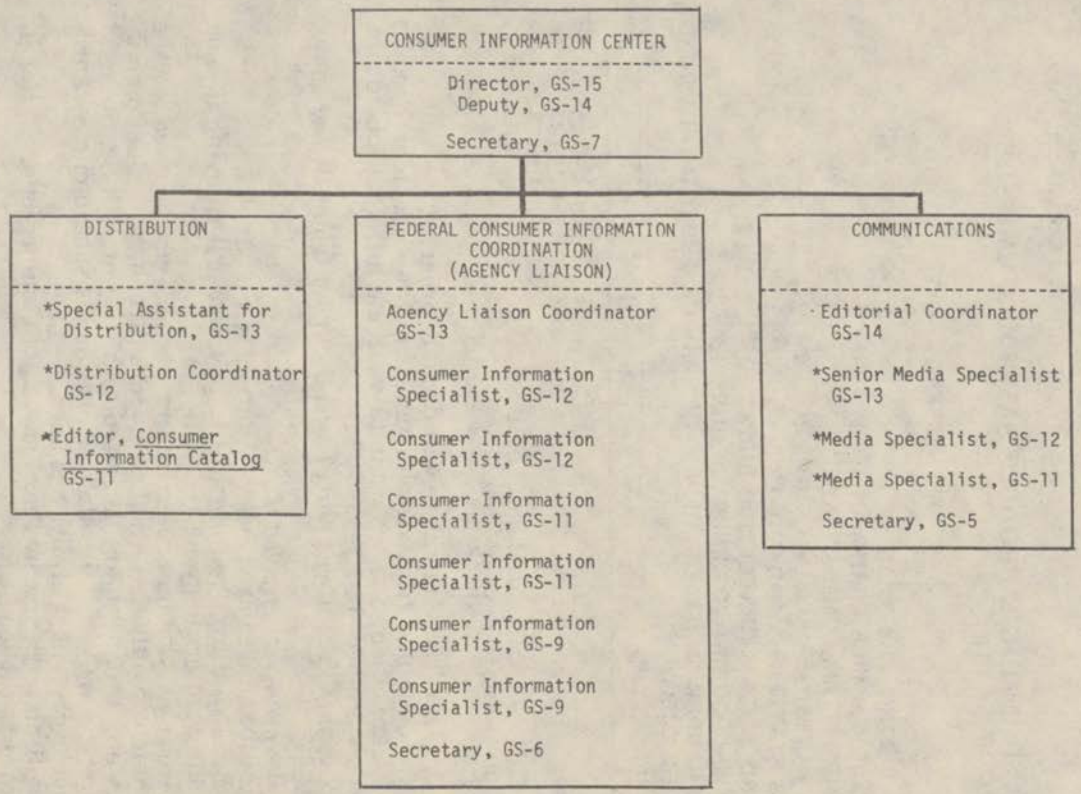
22 Transportation of Things - $34,000. For transporting Catalogs from the printing company to the Washington, DC, and Colorado distribution centers and to Congressional offices.

23 Rent, Communications, and Utilities - $87,000. $40,000 for postage; $32,000 for the Federal Building Fund; and $15,000 for telephone and equipment user charges.

24 Printing and Reproduction - $438,000. $390,000 for printing English Catalogs and Spanish listings; $32,000 for printing script material for radio and television stations; and $16,000 for miscellaneous printing.

25 Other Services - $271,000. $215,000 for preparation and distribution of public service materials for radio, television, and print media; $16,000 for national consumer surveys; $18,000 for Spanish translating services and recorded public service announcements; $11,000 for media monitoring reports; and $11,000 for miscellaneous expenses, including exhibit design and artwork services, distribution services, and personnel training.

26 Supplies and Materials - $3,000. For normal administrative supplies and materials.



*Also has agency liaison responsibility
FY 1980 Staffing

WEDNESDAY, FEBRUARY 6, 1980.

CONSUMER PRODUCT SAFETY COMMISSION

WITNESSES

SUSAN B. KING, CHAIRMAN
SAM ZAGORIA, VICE CHAIRMAN
R. DAVID PITTLE, COMMISSIONER
EDITH BARKSDALE SLOAN, COMMISSIONER
STUART STATLER, COMMISSIONER
RICHARD A. GROSS, EXECUTIVE DIRECTOR
ANDREW S. KRULWICH, GENERAL COUNSEL
KIRKE HARPER, DIRECTOR, OFFICE OF BUDGET, PROGRAM PLANNING AND EVALUATION

	Appropriations	Positions
1979 actual	[1] 40,949,000	881
1980 estimate	[2] 43,252,000	880
1981 request	43,959,000	880

[1] Included $558,000 from 1979 supplemental appropriation of $2,190,000.
[2] Includes $1,632,000 carried forward from $2,190,000, 1979 supplemental and $1,010,000 requested for 1980 pay costs.

Mr. BOLAND. The Committee will come to order.

We are delighted to have with us today the Consumer Product Safety Commission, and we want to welcome all of the members. Sam, you were here last year.

Mr. ZAGORIA. Yes, I was here. I was the quiet fellow at the end of the table.

Mr. BOLAND. You enjoyed it?

Mr. ZAGORIA. I enjoyed every minute of it.

Mr. BOLAND. Dave, you are still happy and still enjoying it. You are looking better this year, too.

We welcome Commissioner Stuart Statler, who arrived at the Commission in July and who has given a little light to the Commission. In any event, we are delighted to have you with us, Stuart. I am sure you will find the atmosphere in this subcommittee warm and cooperative, as it always has been.

We will place the biographical sketch of Commissioner Statler in the record at this point.

[The biographical sketch follows:]

STUART MICHAEL STATLER

Stuart M. Statler was sworn in as a Commissioner of the U.S. Consumer Product Safety Commission on August 13, 1979 to serve a seven-year term, expiring in late 1986.

Mr. Statler joins the Commission after having served since 1973 as the Chief Minority Counsel to the U.S. Senate Permanent Subcommittee on Investigations and since 1971 as Counsel to Senator Charles H. Percy (R-Ill.).

From August, 1968, to August, 1970, Mr. Statler served as Special Assistant to the Chairman of the National Commission on Product Safety, a two-year study group which recommended passage of the legislation that established the Consumer Product Safety Commission. In February, 1969, he authored the Interim Report of the National Commission on Product Safety, "Recommending Enactment of a Child Protection Act." He was Editor of the Final Report of the National Commission on Product Safety in June, 1970.

Mr. Statler served as Minority Counsel to the Senate Subcommittee on Executive Reorganization from March, 1971, to February, 1973. From September, 1970, to March, 1971, he was a senior staff associate on the President's Advisory Council on Executive Organization, and in January, 1971, he was Editor of "A New Regulatory Framework—Report on Selected Independent Regulatory Agencies." In 1974 and 1975 he served as the Chairman of the Toy Safety Advisory Committee for Giant Food Stores.

A Phi Beta Kappa and Magna Cum Laude graduate of Amherst College in 1965, Mr. Statler earned a law degree in 1968 from Harvard University where he was a John Woodruff Simpson Fellow.

Born June 15, 1943, in New York City, he recently married Jean Mary Coultas and the couple resides in Chevy Chase, Maryland.

Mr. BOLAND. It has not really been an easy Commission to budget for as you all know. We have had some problems. Oftentimes people who are interested in what the Commission does have problems with it. In any event, we are delighted to welcome you all here.

Edith, you have been here before.

Ms. SLOAN. Yes, I have.

Mr. BOLAND. We are glad to see you again. So we have the Chairman of the Commission, Susan King, Commissioners Zagoria, Pittle, Sloan and Statler. Richard Gross, Executive Director, is here for the first time.

Mr. GROSS. Yes, sir.

Mr. BOLAND. Nice to have you.

Ms. KING. From Boston, we might add.

Mr. BOLAND. Andrew Krulwich, General Counsel, was here last year. You haven't had any problems with your cases, have you? Kirke Harper, who is Director of the Office of Budget, Program Planning and Evaluation is also here for the first time. Thank you all very much for coming.

The Consumer Product Safety Commission is requesting $43,959,000 and 880 positions for fiscal year 1981. The 1980 estimate was $43,252,000 and the same positions. Of the $43,252,000 for 1980, that includes $1,632,000 carried forward from the $2,190,000 1979 supplemental and $1,010,000 requested for 1980 pay costs.

Last year, Mr. Traxler opened with a question asking why the Commission had not been successful in convincing people in three Administrations that the CPSC needed a larger share of the budget. A number of Commissioners responded, and the testimony on page 415 of last year's hearing offers an interesting analysis of that issue. We will get into that a little bit.

I know you have a statement, Chairman King. Why don't you give us your statement and then we will proceed.

Ms. KING. If it is acceptable with you, I will abbreviate.

Mr. BOLAND. That is fine.

OPENING STATEMENT

Ms. KING. We are obviously very delighted to be here. As you know, it is our estimate that hazardous products kill a total of

30,000 people and injure another 33 million each year. Our budget request for fiscal year 1981, as you indicated, is for $43,959,000 and 880 positions. Because we are concentrating on the most serious hazards, continued protection to the public will be possible with only a minor increase over last year's appropriation.

I would emphasize, however, that this is very much a minimum level budget for CPSC. We are pleased to report that our no-frills approach to regulation is succeeding in reducing unreasonable risks of injury. The statement goes on to outline the results of the evaluations we have been able to undertake as to standards that are in place and we have estimated, very conservatively, at least 100,000 accidents have been prevented in 1978 alone by several of our standards. We also have taken, in response to the Committee's urging that we do more in the way of evaluations, some prospective looks at what will be the reduction in injuries over time as the standards of the Commission are put in place and all products are in compliance.

For example, once all architectural glazing is replaced with materials that meet our safety standard, we estimate there will be 60,000 fewer injuries treated in hospital rooms a year. Bicycle injuries will drop about 50,000 annually once all bikes comply with our regulations. The newly issued safety standards for power lawn mowers will ultimately eliminate nearly 80 percent of the 80,000 injuries that occur every year from blade contact and our work in the voluntary standards area we believe will assist in reducing injuries each year.

We believe the safety picture is improving, but there is a considerable amount to be done. As you indicated, we are a full Commission now with the arrival of Stuart Statler at CPSC this last fall.

You introduced Richard Gross, our Executive Director. With the appointment of Rick as Executive Director, that is the 9th top management position we have filled since I came in as Chairman and all but one of the major top level positions have been filled.

Mr. BOLAND. What is that?

Ms. KING. The Associate Executive Director for Engineering and Science.

On the management front, we have implemented the changes we discussed with the Committee last year, including those recommended by the OMB Management Advisory Team.

In addition, I am undertaking a long-delayed restructuring of our field staff. We have also completed an agency-wide job classification survey which resulted in 68 downgrades. We worked as a group very hard to reduce the impact on individual employees, and at the same time to address and resolve many of the old problems that the old Civil Service Commission and this Committee were frequently pointing out had to be addressed by the Commission.

We find that one of the benefits of a relatively stable management situation is breathing space that gives us time between crises to think about where we have been and where we want to go. For example, we have come to depend, in the last couple of years, increasingly on product recalls as a quick and inexpensive way to remove hazardous products from the marketplace and from consumers' hands. We are undertaking an in-depth study to see if, and how, we might do better to improve notice to consumers and the

actual recall of products. We have also undertaken an extensive evaluation of the information system that we have used for the last seven years.

The Commission has also actively been reviewing its rules as part of our larger commitment to regulatory reform. We have expanded the Congressional mandate to review the effectiveness of, and the need for, our recent rules to include a review of all CPSC rules.

As a part of this effort, the Commission reviewed and withdrew 14 proposals or notices of proceedings issued by it or predecessor agencies because the rules contemplated were no longer necessary to protect the public.

PRIORITY PROJECTS HIGHLIGHTED

As the Committee knows, the Commission each year designates a limited number of projects as "priorities." A detailed discussion of our fiscal year 1979 and 1980 priorities can be found on page 67 of the budget submission. There is a rather extensive discussion there. We find publishing a priorities list helps us to focus our efforts on the activities that the Commission considers to be of the greatest importance. This is not to say we expect that each priority project will be completed during a single year, but we do expect substantial progress to be made on each one.

Of the 24 projects on our fiscal year 1979 priority list, 13 were either completed or have progressed to a point where priority attention is no longer necessary. Other projects, however, do remain on the new list of the 14 hazard-specific priority projects for fiscal year 1980.

CHRONIC HAZARDS

We continue to be increasingly involved in the broad and complex area of chronic hazards, especially carcinogens.

Consumers are ill-equipped to make judgments about how to protect themselves. Not only is there a tremendous amount of highly complex scientific research involved, but there are very difficult questions for us of degree of consumer exposure.

Sometimes, even with knowledge, the best-educated, best-informed consumer cannot avoid exposure.

Reducing or eliminating consumer exposure to carcinogens or other chronic hazards is no small or easy task. Substantial numbers of suspect chemicals are used in consumer products, and exposure may occur in many ways. We are working, of course, with other government agencies who are concerned with the cancer problem. In fiscal year 1979, we were able to draw on about $20 million worth of scientific research done by the other agencies.

We have no pure research program at all. We draw exclusively on the work of others. CPSC, we believe, has a special responsibility and role in the area of chronic hazards. We are the only agency specifically concerned with consumer products where exposures may seem insignificant, but when repeated and added to other exposures may nonetheless threaten millions with serious or fatal illness over time.

Last year, I said that by this time we would have new leadership at the staff level on board, and that our chronic hazards program

would be well under way. We have a sophisticated, technical expert staff now, and we have a carefully constructed chronic program in place. We are systematically addressing the chronic hazards of consumer products.

I will give you a few brief examples of the chronics program and other top priority projects the Commission is working on right now.

BENZIDINE-BASED DYES

In the chronics area, the first is benzidine-based dyes. It is our special responsibility to determine what laboratory data that we have regarding the possibility of human and animal carcinogens might mean to an artist or craftsman who works with these dyes or to a child or parent who works closely with these type dyes, dyeing various fabrics and tee-shirts.

ASBESTOS

We are continuing to work on asbestos. In 1979, we took prompt action to remove asbestos-containing hair dryers from the marketplace. Following negotiations with the CPSC, virtually every manufacturer of these products agreed to provide consumers with replacements, repairs, or refunds and to stop using asbestos in the future. In 1980 and 1981 we intend to work closely with the Environmental Protection Agency on a coordinated approach to the regulation of products containing asbestos.

FORMALDEHYDE

In the area of formaldehyde, we have a situation where we are dealing with a product that can present both an acute and chronic risk.

We have been concerned for some time, as the Committee knows, with urea-formaldehyde foam insulation. When installed in homes, it produces symptoms ranging from eye irritation to serious respiratory problems in sensitive individuals. The symptoms can be quite severe. We have had reports of people having to leave their homes.

The Commission is now conducting a series of regional hearings and we will be deciding whether and how to regulate in the future.

But the problems of formaldehyde may go beyond these acute symptoms. We have recently learned of preliminary test results that suggest that formaldehyde may be a carcinogen.

Six billion pounds of formaldehyde are used each year in products that include not only insulation, but plywood, fiberboard, permanent press fabrics, as well.

While formaldehyde may not be released from all these products, we will be carefully monitoring all available test results and will be prepared to take regulatory action if necessary.

ALUMINUM WIRING

In the area of aluminum wiring, you are familiar with litigation that the Commission filed, the suit the Commission filed in 1977. We still believe this to be an imminent fire hazard to consumers. We concluded a study in fiscal year 1979 that showed that the old

technology of aluminum wiring is 55 times more likely to overheat than copper wire.

We remain tied up in litigation questioning our jurisdiction over aluminum wire, but we continue to press the suit.

UPHOLSTERED FURNITURE

In the area of upholstered furniture, I would note that the Commission believes that under certain conditions, voluntary standards can be as useful and effective in protecting the consumer as mandatory standards. Recently, as you know, the Commission agreed to defer mandatory standards for upholstered furniture for one year in order to give industry time to implement a voluntary action plan. We believe the technical components of the plan are an adequate first step toward reducing furniture flammability although we will be working with the industry in finding solutions to some serious remaining problems.

We will also be able to monitor the marketplace under the program, ensuring that the safer furniture is actually available to consumers.

CHAIN SAWS

In the area of chain saws, as you know, the Commission and industry cooperated in an effort to develop a voluntary standard for chain saws, which are involved in almost 50,000 injuries annually. The staff is evaluating the materials submitted by the industry in late December. We don't know yet whether the industry submission is adequate, but if it is not, we assure you that the Commission will take prompt action to protect consumers who use this hazardous and increasingly popular product.

SECTION 15

I mentioned our increased reliance on section 15 of the Consumer Product Safety Act.

We are finding that to be one of our most effective and useful legal tools. Actions under section 15 remain one of our fastest, least expensive and most selective ways of removing hazardous products from the marketplace.

In fiscal year 1979, industry reports and staff investigations led to the opening of 198 product defect files involving 53.4 million products. For the first time, we used section 15 to deal with a chronic hazard, asbestos-containing hair dryers. We undertook also this past year the largest consumer product recall in our history—more than 18 million coffee pots with handles that may separate.

FIRE AND THERMAL BURNS

In the area of fire and burns, we remain very concerned. The United States leads all Western democracies in deaths, injuries and losses from fire and the Commission intends to keep a major focus on this area.

Besides our work on specific products, such as upholstered furniture and coal- and wood-burning stoves, we are also very concerned

about the flammability of plastics which are used increasingly for home furnishings and other household items. We are beginning a three-year study of the combustibility of selected plastic consumer products and plan to investigate the toxicity of their combustion products as well.

Fire, I might note, is the fourth most frequent cause of fatal accidents in the United States and property losses reach $4.2 billion annually.

PLANS FOR 1981

The projects listed in our budget for 1981 represent our best judgment, nearly a year in advance, of the activities that will be necessary to protect the public in fiscal year 1981.

As you know, it is difficult to predict precisely the action, regulatory or otherwise, that we will ultimately decide on. Industry may come forward with a voluntary standard adequate to address the risk of injury, and the Commission may be able to suspend activity on a mandatory standard. Or the reverse may occur, industry progress on a voluntary program may be so unsatisfactory that a mandatory standard becomes necessary. Unforeseen hazards may come to our attention, as hair dryers with asbestos did last year. It is even possible that an apparently serious hazard may turn out to be not very significant at all. Within this framework of uncertainty, however, we agree there are certain areas we will want to stress. Some I have already discussed.

Chronic hazards will continue to be as important an issue as the Commission ever faced. With the resources we have requested in fiscal year 1981, we will be able to continue our screening program to identify chemicals needing further investigation. We will be able to continue work that is now in progress on substances like benzidine-type dyes, asbestos and formaldehyde, and look into possible chronic hazards of carbon monoxide which is found in low concentrations in many homes.

In addition, we will be able to evaluate the usefulness of quicker and cheaper short-term tests to identify chronic hazards. Work begun in fiscal year 1980 on toxic heavy metals and room deodorizers will continue. We will undertake two new initiatives, development of classroom materials explaining the safe use of laboratory chemicals that are found in every high school, and identification of population groups that may be more sensitive than the general population to chronic hazards.

We also plan continued emphasis on our section 15 activity as we discussed.

Conservation of scarce and expensive energy supplies is an urgent national need, but we find some energy conservation measures may have some hazardous side effects. Some insulation materials are flammable or emit dangerous gases.

More tightly sealed residential buildings may permit toxic gases to build up in home environments.

Improperly designed or installed energy conservation devices may pose fire hazards. Although the Commission has already done some work in this area, we anticipate a need for more, to ensure that consumers can save energy safely. In fiscal year 1981, we

intend to monitor carefully injury data on energy conservation devices, work closely with the voluntary standard groups and coordinate our activities very closely with the Department of Energy.

We have learned that cooperating with other government agencies vastly increases the impact of our product safety activities.

We have been in the forefront of Federal agency cooperative efforts. CPSC is a charter member of the Interagency Regulatory Liaison Group, and particularly in the area of chronic hazards, we have been working effectively with many other agencies.

On interagency cooperation, I will note a few of them to give you an idea of the effective working relationships we have developed with other agencies. In the area of toxic substances, we participate not only in the IRLG, but in The National Toxicology Program where the research agencies and the regulatory agencies have sat down together for the first time to draw up a list of priorities.

We are very active in the Regulatory Council and the whole effort to improve the process of regulation.

We have worked with the U. S. Fire Administration in drawing on their resources and ours to get the best possible statistics as to fire injuries and deaths.

We make our injury information available to the National Highway Traffic Safety Administration. We are working now with the Federal Trade Commission which has a recall out on deceptively—they believe—deceptively advertised coal- and wood-burning stoves and we are taking the hot-line telephone calls in a major recall that the FTC initiated.

On urea-formaldehyde insulation, we are working with the Department of Energy, HUD and IRLG. We now have an advanced notice of proposed rulemaking on asbestos out in conjunction with the Environmental Protection Agency.

We found that interagency cooperation is not the only type of cooperation that is valuable. It is certainly not limited to the Federal level. It should extend to state and local governments as well.

Our cooperative efforts with states and cities have had major benefits. Together, we have reduced duplication of effort, permitted more effective use of tax dollars, provided greater assurances of product safety for the consumer.

We anticipate making an even greater effort in fiscal year 1981 to involve other governmental units in our activities.

SUBMISSION TO OMB

As you know, the Commission in September 1979, submitted to the Office of Management and Budget and to the Congress a request for $47.4 million and 909 positions, substantially more than the request we are discussing today.

We reviewed the OMB mark very carefully. CPSC recognizes the need to hold government spending to a reasonable level.

After reviewing the OMB mark, we believe we will be able to provide essential services within the general guidance of the OMB mark. But it should be clear that this level of funding, as I said, is a minimum level. It provides only for those activities that we believe are absolutely necessary.

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The appearance of a new, serious hazard would mean that some other important project or projects would have to be dropped.

Mr. Chairman, I thank you. We urge your Committee's favorable consideration of our full request. We believe that this austere level of funding will allow us to provide essential product safety protection to the American public.

[Complete general statement can be found in Appendix.]

Mr. BOLAND. Thank you very much, Chairman King. This year, I believe is the first time, you are supporting the President's budget.

Ms. KING. I checked back on that. As a matter of fact, in two early years the Commission did support the OMB mark and again in 1978, except for the pay raise. This is not to say that we do not take seriously the statutory language of 27(k) in CPSA.

Mr. BOLAND. What about the decision of the Commission with respect to the President's budget, was that a decision reached unanimously by the Commission?

Ms. KING. Yes.

Mr. BOLAND. Doesn't the fact that you are supporting the President's budget reflect an increased maturity in CPSC's participation in the budget process?

This Commission is one of the few agencies that appears before this Subcommittee that actually got into the experiment of zero-based budgeting.

Ms. KING. Yes.

Mr. BOLAND. Because the Commission is supporting the President's budget in fiscal year 1981, the justifications contains no references to the ZBB process. However, in the 1981 budget submitted to Congress last September the CPSC requested $47,434,000. We have a table showing how that request broke down by decision package—whether it was minimum but, current level, etc.

Ms. KING. We prepared the September budget for you and for OMB in the ZBB formula. We have a chart which we can give you which will show you the ZBB breakout as our September budget was laid out and also as it is reflected in this request here. Essentially, the OMB mark is a minimum budget, the minimum budget the Commission requested. I would say that this is the first time in five years that the OMB has given a mark that was an increase over the prior year's budget in real dollar terms.

Mr. BOLAND. On the table we have, there is an indication that the minimum budget is projected in 3 or 4 categories while the current assessment is carried in roughly 10 categories. When you decided to support the President's mark of $43,959,000, from which programs did you take the $3.4 million reduction—and can you explain to the Committee on what basis you made those decisions?

Ms. KING. It basically reflects a cutback in most of the major programs we outlined for you. We cut back some activities in the chronics program; for example, specific parts of asbestos, formaldehyde, benzidine dyes, other ongoing projects were dropped. If we had the extra money available to us, there would be a review of the general wearing apparel standard, and an accelerated effort in the area of plastics research. Looking into the very large area of combustibility and toxic products of plastics as they burn in the home. We would also restore funds for the smoke detectors project.

Mr. BOLAND. If more than $43.9 million was provided, you would attach that increase to the areas that you have just mentioned. Is that correct?

Ms. KING. Yes, among others.

Mr. BOLAND. What is the first program that would be reduced if the Congress doesn't support the full $43.9 million for 1981?

Ms. KING. We would have to go back and review that and supply it for the record. As I said, this is really a minimum budget request.

[The information follows:]

The $43.9 million represents a very austere budget. To the extent that any activities are funded at more than a minimum level it is because we have determined that a great need for additional resources exists in that area to reduce the risk of injury or death. Therefore, we would find it very difficult to make any cuts. However, at this time, if circumstances required, the staff would recommend that reductions be made in the following order:

1. Children's and Recreational Products: Work on a possible mandatory standard for hazardous protrusions would be delayed—$107,000.
2. Field Activities: Seminars to educate members of industry about new and existing standards would be eliminated—$158,000.
3. Hazard Identification and Analysis: Refinement of data bases for fire and electric hazards will be postponed—$251,000.
4. Petitions: Response time will be slowed by reducing the part-time employment used to support this activity—$96,000.
5. Chronic Hazards: Work to determine special hazards based on population characteristics (age, sex, race, etc.) will be reduced—$120,000.

A final decision on these reduction would, of course, have to be made by the Commissioners.

COMMISSIONER STATLER'S DISSENT

Mr. BOLAND. Mr. Statler, the newest member of the Commission, charged that the CPSC's priority list "condemns the Commission to endless repetitions of past serious mistakes." Apparently Commissioner Statler feels that the priority list doesn't deal with questions of procedure, such as reviewing petitions and the complicated problem of where you draw the line on public participation and freedom of information. Do you want to expand, Commissioner Statler, on your perception of the problems?

Mr. STATLER. Yes. In fairness to my colleagues I don't think there is a major disagreement amongst us as to the need to address these issues. The question that was before us and the particular vote we took had to do with whether we concentrate our efforts and tell the staff that a specific project is something we want done promptly. My feeling is that there are certain internal processes, specifically the two areas I mentioned—petitions on the one hand, and openness reflected in terms of Sunshine and FOIA on the other hand—in which we could improve our performance. By improving these processes, we will at once be better able to respond to the public and work cooperatively with industry. Specifically, in the area of petitions, I believe we need to provide better guidance, both at the beginning of the process and once a petition is forwarded on to the Commission for action, prior to it actually getting to the Commission. We need a better, more concentrated and higher level of staff review.

In the area of FOIA and Sunshine, I believe that there are several situations with respect to our own deliberations as Commissioners where it would be helpful to have, as the Administrative Conference has indicated, exploratory sessions. Brainstorming sessions that are out of the public view permit us to more candidly express views we have on certain subjects. If such sessions were in open view, it would be—and has proven to be—somewhat more difficult to do that.

There are other situations involving negotiation with firms under section 15, as to which the General Counsel has recently written a memorandum, that we will be addressing probably by the end of this month. Similarly, we are considering situations involving mostly industry observance of what goes on at the Commission in a way that is not helpful to a candid and open exchange either amongst the Commissioners or amongst the people with whom we need to meet on nonregulatory matters. Specifically, I feel it would help our deliberations if we were not overzealous in interpreting those acts.

I feel that these are very appropriate and excellent acts which the Congress has passed. As one of the agencies created in the same climate as the 1974 amendments to FOIA and the 1976 Sunshine Act, I think we went somewhat overboard in our interpretation of those acts. As a consumer agency, there was a sense that we should be entirely open in everything we do.

In the sense of the public reporting of this as a "deep rift" among Commissioners, I think, in terms of a goal, there is a great deal of agreement, in substance, on the need for certain reforms. I will let other Commissioners speak to that matter themselves, but we are addressing these issues in a timely fashion.

The Executive Director told us, and conversations with the General Counsel have indicated, that probably by the end of this month, or in early March, we will, as a Commission, address the procedural issues.

Mr. BOLAND. Thank you for your comments. Do any of the other Commissioners want to respond?

Ms. KING. Just to clarify the record, the vote taken on this issue was not whether or not to address the two issues, but whether the two issues would be listed on a priority list which is prepared both for the public and for guidance to the staff. There is general unanimous agreement on the part of the Commission that the issues should be addressed, and in fact, they were already being addressed.

A special task force was created to look at both. Two changes had been made in the handling of documents under FOIA to handle all documents consistently.

Mr. BOLAND. David, do you have any comments?

Mr. PITTLE. A detailed discussion of this issue would take longer than the Committee may have time for today. I think the Chairman's point is valid. The process was being evaluated long before

Commissioner Statler raised these issues and the evaluations were nearly finished at the time we discussed putting them on the priority list. Moreover, these weren't issues to which I would give a high priority.

I will submit for the record an opinion I have written concurring with the Commission's decision on this matter.

[The information follows:]

CONSUMER PRODUCT SAFETY COMMISSION

OF THE

UNITED STATES OF AMERICA

CPSC Priorities for FY 1980,)
44 Federal Register 76387)

CONCURRING OPINION OF
COMMISSIONER R. DAVID PITTLE

On December 26, 1979, the Consumer Product Safety Commission published in the Federal Register a list of agency priority projects for Fiscal Year 1980. For the most part, these priority items were drawn from approximately 180 projects that comprise the Commission's FY 1980 Operating Plan. In turn, the 180 projects were selected from a possible universe of over 15,000 products, involving an estimated 36 million injuries annually, over which the CPSC has jurisdiction.

At the time of the Commission vote, one of my colleagues, Commissioner Statler, proposed that the Commission add two items to the priority list: (i) a review of the agency's petitions process and (ii) a review of the agency's Freedom of Information Act (FOIA) regulations and Government in the Sunshine Act (hereafter, "Sunshine") regulations. After thorough deliberation, the Commission voted 4-1 not to adopt my colleague's proposal.

In response to the vote, my colleague issued a nineteen

page dissenting opinion coupled with a three page press release entitled "Commissioner Criticizes Agency Priorities; Warns That CPSC Must Do Better Job of Protecting Consumers." Because my colleague has focused attention on the Commission's vote, I believe it would be useful at this time to set forth my reasons for voting as I did on the priority list.

At the outset, I would emphasize a point noted in my colleague's opinion. The Commission did not vote against reviewing the petitions process or reviewing FOIA and Sunshine Act procedures. In fact, independent of and prior to my colleague's proposal, the Chair had designated a task force to review the petitions process. Similarly, independent of and prior to my colleague's proposal, the Office of the General Counsel had undertaken a review of the agency's FOIA and Sunshine Act procedures. Thus, the only issue on which the Commission voted was whether or not to designate these ongoing reviews as priority projects.

In my judgment, the priority list serves two functions. First, it provides CPSC staff with a set of projects chosen by the Commission to receive preference in the event conflicts arise over schedules or over the allocation of resources. Second, it indicates to the public those matters which the Commission believes to be the most important to work on during the fiscal year.

After fully considering my colleague's arguments, I concluded that his proposal would serve neither of the

functions I view as necessary for a project to be placed on the priority list.

Because the staff work on the review of the petitions process and the review of the FOIA and Sunshine Act regulations was well on the way to completion at the time of the proposal, I saw little, if any, potential for scheduling conflicts or resource problems. In fact, I believe it fair to say that placing these matters on the priority list would result in no change whatsoever in the speed or thoroughness of their preparation.

More significantly, after careful study of the issues involved and the changes likely to result from the Commission's review of the petitions process and the FOIA and Sunshine Act regulations, I found it difficult to conclude that they rise to a level of importance that would warrant their inclusion on the Commission's priority list. To explain this point, I shall briefly consider the two matters that my colleague proposed to add to the priorities list.

The Petitions Process

As I read my colleague's opinion, he makes two basic criticisms of the Commission's practices regarding petitions. First, he claims that the Commission consistently has accorded frivolous petitions the same intensive study and research that it has given to petitions identifying serious hazards.

> In the absence of [better executive] guidance, staff has frequently prepared massive briefing packages--sometimes running hundreds of pages--on issues

> which could charitably be termed of less than pressing importance. Petitions requesting outright bans on such products as spike-tipped umbrellas, water buffalo shoes, claw hammers, or fondue pots should not require inordinate amounts of time to review and dispose of quite readily. (Statler dissent at 5)

The specific examples cited above by my colleague fail to document his charge. None of the staff briefing packages he mentions runs hundreds of pages. In fact, without exception, the number of pages drafted by staff in the packages is well under a hundred.1/ Moreover, as one involved in the decisions on these petitions, I do not agree that the Commission or its staff spent inordinate amounts of time to review and dispose of them. They were considered and disposed of efficiently and expeditiously. The one possible exception was the petition on water buffalo shoes five years ago where the Commission, in order to demonstrate its commitment to the problems of consumers, perhaps investigated a bit too fully the petition filed by a consumer member of its Product Safety

1/ Further, I note that, contrary to my colleague's assertion, only one of the four petitions cited by him sought an "outright ban" of the product in question. The petition on claw hammers, from the publishers of Consumer Reports, asked simply for adequate safety labels. The petition on water buffalo shoes, from a consumer member of the Commission's advisory council, sought a safety standard to prevent dermatitis caused by certain imported sandals. The petition on fondue pots, from a consumer, although couched in terms of a ban request, actually sought a safety standard for fondue pots with dangerous removable handles. Only the petition on spike-tipped umbrellas requested an outright ban.

Advisory Council. On the other hand, I find instructive and reassuring the language used by the Commission, after a brief staff investigation, in its denial of the fondue pot petition.

> Although the petition described potential accident patterns which could result from the use of fondue pots with removable handles, the Commission concludes that its resources should be applied at this time to products causing more frequent and severe injuries than fondue pots. (38 Fed. Reg. 34758)

In fairness to my colleague, to say that I disagree that inordinate amounts of time have been devoted to frivolous petitions is not to say that I see no room for improvement. For some time, I have been convinced that, in certain but by no means all cases, staff can determine that a petition probably should be denied simply because our data show few severe injuries. In such cases, staff should have the discretion to transmit petitions with a recommendation for denial to the Commission without including an economic, compliance, engineering, or information and education analysis. As I understand it, the petitions task force appointed by the Chair reached the same conclusion regarding this point. I would support changes in the process giving staff greater flexibility in recommending denials on the basis of epidemiological data alone.

My colleague's second major criticism of the petitions process is that the agency has permitted industry to dominate the process while, at the same time, it has neglected to encourage consumer petitions.

> [T]he petitions task force made an interesting observation about who actually uses the

> petitions process. In an analysis of petitions stretching over the past three years, the group discovered that over 3/4 of the petitions were generated by industry or trade groups and that less than 1/4 came from consumers. While it is true that the petitions process is meant to permit industries affected by regulation some form of redress, the drafters of the Consumer Product Safety Act never intended that as its principal purpose. (Statler dissent at 6)

According to my colleague, the petitions process was "fundamentally designed" to give consumers an opportunity to petition the CPSC and, accordingly, the agency should return to the active solicitation of consumer petitions of its earlier years.

Again, while I would not characterize the Commission's performance with respect to petitions as flawless, I must question the facts upon which my colleague rests his argument. Based on a November 19 memorandum from the Office of the Secretary, my colleague states that over 75 percent of the petitions filed with the Commission during the past three years were from industry. However, contrary to my colleague's statement, the November 19 memorandum indicates that the actual proportion of industry petitions during this period, at best, is only slightly over 50 percent.2/ Moreover, my colleague's

2/ According to my calculations, the exact figure is 54.1 percent. Industry submitted 52 of 96 petitions during the period from FY '77 to FY '79. Although my colleague's opinion cited the November 19 memorandum as the authority for his statement, he apparently relied upon a draft memorandum of November 26, 1979 from a member of the petitions task force. The November 26 draft memorandum contained a typographical error regarding the number of industry petitions.

statement that less than 1/4 of the petitions filed with the Commission were from consumers is also incorrect. I calculate the lowest possible number of consumer petitions to be approximately 35 percent with a more realistic number to be approximately 45 percent.[3/] In short, during the three-year period in question, industry submitted only a slightly larger number of petitions than consumers. In my judgment, these figures simply do not support my colleague's charge that industry "special interests ... jerk us around ...."[4/] through the use of the petitions process.

Equally important, I do not believe that raw numbers, standing alone, provide an accurate picture of the petitions process at the CPSC. First, simply counting the number of petitions from industry overlooks the fact that a number of them seek to promote product safety. For a variety of reasons, some well-motivated and some perhaps not, industry often has petitioned the CPSC to promulgate safety rules. Two of the most important standards of the agency, architectural glazing and power mowers, stemmed from industry petitions. Among the

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3/ The November 19 memorandum divided petitioners into three categories: industry, consumers, and others. The figure of 35 percent does not include petitions seeking safety rules from the "others" group: attorneys, medical doctors, and a certified safety professional. Personally, I see no good reason for excluding members of this group from the category of "consumers." In the memorandum, Richard Danca, the author, stated, "If I were to limit the breakdown into two categories, I would be more inclined to combine petitions from 'others' with 'consumers' than with those from 'industry.'"

4/ Statler dissent at 7.

industry petitions filed within the three-year period cited in the November 19 memorandum from the Office of the Secretary are requests to establish a standard for service-drop wires, a ban of sulfuric acid drain cleaners, a labeling rule for hydrofluoric acid rust removers, and others similarly seeking safety regulations. Regardless of the motives involved, these petitions have served as important catalysts to Commission thinking about ways to protect the American public.

Second, assuming arguendo that industry, for its own reasons, has chosen to flood the CPSC with petitions, I fail to see how we can respond to them other than by giving them fair consideration in accordance with the Consumer Product Safety Act, the Administrative Procedure Act and, ultimately, the Constitution. At times, this consideration -- whether for industry or consumer petitions -- may require significant amounts of agency resources. However painful that may be, I see no suggestion from my colleague that we do other than give such consideration. The specific comment made by him with regard to flooding of industry petitions is that the agency "do everything possible" to implement the priorities set forth in its Operating Plan. That general admonition, in my judgment, provides little practical guidance to the agency.

Third, in the case of petitions to amend standards or to extend the effective date of standards -- the largest group of petitions the agency receives -- I find it unrealistic to expect significant numbers of consumer petitions. Industry,

unlike consumers, may have to alter its production practices to conform to a standard's requirements. On occasion, members of an industry petition the agency asserting that they will be unable to meet the effective date of a standard or that they have discovered what they believe to be practical difficulties not considered either by them or the CPSC at the time of a standard's promulgation. While I believe that the Commission should be reluctant to grant petitions to amend a standard or extend its effective date after exhaustive rulemaking procedures have just ended, I recognize that we are not infallible. Thus, in a significant, but not unreasonable, number of cases, we have agreed with a petition that a regulation should be adjusted to accommodate legitimate industry concerns. For example, of twenty-one petitions to amend our architectural glazing standard, the Commission thus far has fully granted three, partially granted three, and proposed in the Federal Register to grant two. With few exceptions, I see little abuse in this aspect of the petitions process.

Although I remain open-minded about the need for reform in the Commission's petitions procedures, I am reluctant to approve substantial changes without some documentation that major problems exist. In fact, the documentation of which I am aware seems to demonstrate that the agency's petitions process works well. For example, on a matter not directly raised by my colleague but relevant to his concerns, a Congressman recently asked the General Accounting Office (GAO)

to "review the adequacy, objectivity, and fairness of the petition-screening procedures used by the Consumer Product Safety Commission's Office of the Secretary and Office of the General Counsel." In addition, the Congressman requested that GAO "determine whether the Commission exercises good faith efforts to encourage the upgrading and resubmission of petitions found to be technically deficient." After a thorough review of the agency's procedures, GAO, although noting some minor problems, concluded:

> On balance, the Commission's Office of the General Counsel and Office of the Secretary do a good job in screening petition requests submitted under section 10 of the Act. The staff has also assisted petitioners with revising rejected requests to enable their resubmission for the Commissioners' review.5/

I note with particular approval GAO's comment about the assistance CPSC staff has provided to petitioners in upgrading rejected requests since consumers are most likely to fall into this group.

Further, the Commission's formal requirements for petitioning6/ stand among the most plainly worded and least cumbersome in the Federal Government. Unlike other Federal agencies, the CPSC does not require, although it recommends, that petitions be typewritten, include the word "petition" in the heading, specify the act, or section of the act, under

5/ GAO Report No. B 139310, July 10, 1979 at 7.
6/ 16 CFR 1110.

which they are filed, or be accompanied by a designated number of copies. This informality of requirements stems from the Commission's desire that would-be petitioners, especially consumers, not be unduly hampered by technicalities in seeking CPSC regulatory action.

Perhaps the best example of agency success in the process is the long-term reduction in the "backlog" of petitions.7/ In 1976, the Commission had a backlog of over 60 petitions. Several fundamental reforms of the petitions process, including the establishment of staff teams specifically to handle petitions; led to a substantial reduction in the backlog. Since 1976, the backlog has remained modest. On January 15 of this year, the backlog was six.

Finally, it is important to recognize that petitions have played a fundamental part in helping the Commission set its priorities since its inception. Commission actions on unstable refuse bins, paint containing high lead levels, architectural glazing, power mowers, toys, fireworks, chain saws, aluminum wire, TRIS, unvented gas space heaters, and a number of other products all stemmed from petitions. The Commission has been

7/ I define a "backlogged" petition as one which has not been transmitted to the Commissioners within 120 days after filing for a decision on whether to grant or deny it, or to direct the staff to take further action on it. Section 10 of the Consumer Product Safety Act directs the Commission to grant or deny petitions within 120 days after filing. Although not so required, the agency attempts to apply the same time limit to petitions filed under the several other acts it enforces.

responsive to petitions, especially those from consumers, and, for the most part, has handled them efficiently. I did not and do not believe major changes in the process are warranted. Had we placed our review of petitions on the priority list, members of the public might well have thought serious problems existed where, in fact, they do not.

FOIA and the Sunshine Act

My colleague's proposal to place the agency's review of its FOIA and Sunshine Act regulations on the FY 1980 priorities list arises from his belief that these regulations have hampered the Commission's operations by requiring excessive openness.

> As one of the first government units to be constituted after passage of these acts, it was only natural that those involved in the agency's early days would attempt to mirror these laws in agency regulations, and err on the side of openness. Unfortunately, the Commission went considerably beyond the language of the statutes and, as a result, has created unnecessary problems for itself. (Statler dissent at 10)

Several preliminary remarks are in order. The CPSC was not one of the first government units to be constituted after the passage of these acts. In fact, the Consumer Product Safety Act (1972) was enacted well after the FOIA (1967) and well before the Sunshine Act (1976). Neither act's passage affected the Commission's policies on openness. Our policies, drafted at the height of Watergate, stemmed from the Commission's desire to reassure a properly cynical public that

not all government sectors dealt in secrecy with those who wished to influence them or those whom they regulated. To a great extent, I believe our policies have succeeded.

Furthermore, it is not accurate to state that the Commission's regulations went "considerably" beyond the language of the two statutes. For the most part, the agency's regulations simply track the language of the statutes. Actually, the Commission departs from other agencies on openness in our "Meetings" Policy, not our FOIA or Sunshine Act regulations.[8/] Under the terms of this policy, public notice of meetings between agency staff and persons outside of the agency (such as industry lobbyists) must be given a week in advance in the CPSC Public Calendar and, unless closed for good reason, the meeting must be open to the public.

In considering whether to make the review of the agency's FOIA and Sunshine Act regulations (and its Meetings Policy) a priority for FY 1980, I note that the set of recommendations embodied in a memorandum dated October 24, 1979 from the Office of General Counsel -- the primary document upon which the review will be based -- expressly stated that none of the changes OGC recommended were major. In fact, OGC recommended no changes at all for the Sunshine Act regulations. As I read

8/ I mention this because it seems clear that a number of my colleague's objections relate more to the CPSC Meetings Policy than to its FOIA or Sunshine Act regulations. When the Sunshine Act became law, the Commission incorporated its regulations under this Act into its Meetings Policy. However, the two regulations--especially our ability to amend them--are quite distinct.

the OGC memorandum, two of the three problems cited in my colleague's opinion already have been addressed. I propose to discuss the three problems briefly.

The first example of excessive openness that my colleague cites concerns the Commission's Meetings Policy. Section 1012.5(b)(2)(ii)(c) of the policy requires that any meeting beyond the first between Commission staff and manufacturers to negotiate a corrective action plan must be open to members of the public.9/ While I would characterize any problems that might arise from this section as more annoying than debilitating, I do believe that openness tends to inhibit settlement negotiations and that they should be closed. I have stated this on a number of occasions, including my confirmation hearings in November, 1977. The fact that the General Counsel's October 24 memorandum recommends this change indicates, I believe, that a consensus on the issue exists and that the Commission will approve the change.

My colleague's second criticism of the Commission's openness policies relates to the practice, under our FOIA regulations, of releasing "draft documents" upon request even though the FOIA does not require this release. He objects to the fact that members of the media may publish stories about the drafts before the Commissioners see the documents.

9/ Although not mentioned by my colleague, this requirement can be waived at the request of the staff if extraordinary circumstances justify closing the meeting. 16 CFR 1012.5(b)(2)(ii)(G).

Although I must frankly state that I have never been particularly distressed by these newspaper reports, I can understand that others might react differently. Because the net effect of changing this section simply was to change somewhat the timing, but not the fact, of release and because nothing in the FOIA required release, I voted with my colleagues on December 19, 1979 to approve the OGC recommendation, set forth in its October 24 memorandum, to delete the portion of our FOIA regulations that presumes releasability of draft documents. I agree with the OGC memorandum that the change is a minor one.

My colleague's third objection to CPSC openness policies stems from his view that "our Sunshine Act regulations ... make it extremely difficult for a Commissioner to meet in private with parties outside the agency." Again, for the sake of accuracy, it is the CPSC Meetings Policy, not our Sunshine Act regulations, that sets the requirements for meetings between a Commissioner and parties outside the agency. The specific section of the Meetings Policy referred to requires that meetings involving matters of "substantial interest" be open unless the meeting falls within certain specific exceptions or is closed due to extraordinary circumstances.10/ Under the policy, substantial interest matters include both regulatory and policy matters. My colleague, on the grounds of propriety, fully supports the notion of open meetings on regulatory matters but would exclude

10/ 16 CFR 1012.5.

some, if not all, policy matters. I remain unpersuaded of the need to narrow our regulations. I believe that many non-regulatory policy matters such as reviews of our injury data needs, our chronic hazards program, or our product recall procedures deserve much of the same public scrutiny and input as regulatory matters. Thus, I would include them in our Meetings Policy.

I believe, on balance, that the Meetings Policy has worked well and has served the public interest. It is true, as my colleague notes, that the Commission once was criticized for confusing "openness with nakedness." However, that criticism was made four years ago and was confined to a single issue -- the practice of publicly disclosing legal memoranda from staff to the Commission.11/ The Commission, with my strong concurrence, revised its rules to change that policy several years ago. See 16 CFR 1015.15(b).

On one point my colleague and I perhaps may agree. The FOIA and, to a greater extent, the Sunshine Act, have not always worked to serve the public interest in the way their drafters intended. Where we disagree is in the solution. My colleague evidently feels that the CPSC has gone beyond Congressional intent in agency regulations. I, on the other

11/ Remarks by Professor Joseph Page, Georgetown University Law Center, before the Subcommittee on Consumers, Senate Commerce Committee, Hearing on Consumer Product Safety Commission Improvement Act, February 26, 1976 at 150.

hand, believe that we have interpreted correctly the intent of the drafters, as expressed in the statutes and their legislative histories. In my judgment, Congress should re-examine these laws, in light of agency experience with them, and make changes where that experience indicates changes are needed.

CONCLUSION

While I respect the intensity of my colleague's feelings about his proposal to place the agency's ongoing review of its petitions process and its FOIA and Sunshine Act regulations on our priorities list, I find myself unpersuaded by his arguments and their underlying documentation. To the extent that I agree with the changes he calls for, I consider them, in large part, to be minor. I further note that a number of the problems cited by him had been previously identified and steps taken to solve them.

R. David Pittle

R. David Pittle, Commissioner

January 29, 1980

I concur in this opinion.

Sam Zagoria

Sam Zagoria, Commissioner

Mr. BOLAND. Fine. Are there any other comments from the Commissioners?

Mr. ZAGORIA. The only thing I would add is that I certainly agree with what the Chairman has said and what David has added. These two matters that you authorized are really very important in assuring that little people, individuals, have very good access to the working of the Consumer Product Safety Commission. The petition process is one which I think Congress showed real ingenuity in developing as a way for a person who may not have the benefit of extensive counsel and technical background to bring a hazardous situation to the attention of the Commission in a way that requires a response. It may be abused by people, as any kind of process is, but to keep that door open for an individual citizen or for an organization to bring an issue, effectively, forcefully, to the attention of the Commission, I think, is very important.

As to the other part, the Freedom of Information aspect, I think the Commission properly prides itself on being one of the most open agencies in Government. We do not ordinarily face the kinds of problems that other agencies seem to have from time to time about improper contacts between special groups and individual regulators. Ours is all out in the open. Anybody can come, hopefully more will come, as they become acquainted with the existence of the Commission and what is under way. I find it a lot more comfortable to work in this open atmosphere and I would be very slow, very reluctant to close any more sessions than we have now.

If I had a chance to move, I would move perhaps in the opposite direction. I think it is an assurance of integrity, it is an assurance of accessibility to the general public. And that, I think, is one of the great qualities of the Consumer Product Safety Commission.

Mr. PITTLE. If I may add to that, I am in complete agreement with Commissioner Zagoria. With a few limited exceptions, I would be very reluctant to close our meetings any more than we do now. I think that is a different view than I am hearing from Commissioner Statler, who is saying we may be too open and so are hampering ourselves. In my 6½ years experience, openness has served the Commission and the public well.

Mr. BOLAND. This is a Commission where you actually need it now and I don't see how you can get away from it.

Mr. PITTLE. Our regulations track the statutory requirements of the Freedom of Information and Government in the Sunshine Acts almost to the letter. In that respect, we have not gone beyond what is required by law. As you may remember, we have established our internal policy that, when Commissioners or staff meet with the public on a matter of substantial interest, the meeting must be open to the public. I think the public is entitled to know what information I am receiving at the time I am receiving it. I think they are entitled to attend that meeting. I would be very reluctant to back away from that policy on open meetings.

Mr. BOLAND. Edith, do you have a comment?

Ms. SLOAN. I really have nothing to add to it, sir. I agree with Stuart, I think it has been mischaracterized as a deep rift. I think it is something to be handled internally and I would like to see the matter publicly put to rest and the five of us to work it out among us.

Mr. COUGHLIN. Let me ask Mr. Statler, I take it you feel the problems that you observe are being addressed by the Commission. From your comments you made a few minutes ago, things are improving. Am I correct in that?

Mr. STATLER. I think we are in the process of addressing them. We haven't dealt with the subject yet and we will in a few weeks. Whether at the end of discussion I feel there is still a problem, I cannot tell you at this point. We haven't had that discussion.

Mr. COUGHLIN. At least they are being addressed at this time to your satisfaction?

Mr. STATLER. Procedurally, yes.

Mr. COUGHLIN. Thank you, Mr. Chairman.

1981 PRIORITY LIST

Mr. BOLAND. Let's talk a minute about the priority list. We find it detailed under Appendix B in the justifications. As I count it, in fiscal year 1979, there were 15 projects selected for priority attention. And for 1980, I count 14, including four new projects. Is that about right?

Ms. KING. Yes.

Mr. BOLAND. About what percentage of the Commission's budget is committed to these projects?

Ms. KING. I think you can say almost the Commission's whole effort is in support of these priority projects one way or the other. Obviously there are common costs and operating costs.

Mr. BOLAND. I think the Commission has made an effort to prioritize the projects, that is to reduce the number and, in short, to be more realistic about what the Commission can accomplish.

Ms. KING. Yes, sir.

Mr. BOLAND. Has that effort paid off?

Ms. KING. I think it has. Let me clarify the numbers. I didn't answer precisely on that. There were 24 priority projects in 1979. Of those, 13 were either completed or deemed to have moved off the priority list from major attention. These had either been dealt with or were not of sufficient importance to remain on the priority list. In 1980, there are 14 hazard-related priority projects.

Very frequently, we will not finish work on a project in a single year. These are long-term efforts in many cases. From the 1979 priority list, nine were carried forward for 1980. We have not yet developed the 1981 priority list. We won't do that until next summer when we are working on the operating plan and we know what our appropriation level is likely to be. That, of course, dictates what we will be able to do in the coming year.

STANDARDS DEVELOPMENT

Mr. BOLAND. In looking at the list of priority projects and comparing it with last year's and some of the goals of 2 years ago, a couple of points stand out.

First, it appears that the Commission is relying less and less on attempting to promulgate mandatory standards. In fact, since your inception, only four or five standards have been promulgated. I believe they are power mowers, architectural glass, swimming pool slides, home insulation, and possibly one or two others.

If you look at the 1979 status column and planned 1980 activities, the comments more and more seem to suggest backing away from mandatory standard development. What about that?

Ms. KING. I think one of the problems the Commission has labored under is a tendency to count mandatory standards only under the Consumer Product Safety Act. CPSC has issued a total of 33 product-related standards, if you include the CPSA and the transferred acts.

You indicate that we are not relying solely on mandatory standards for the future—I think I would respond a little differently. We are employing more of the tools that are available to us under the statute and using them more creatively to address problems as rapidly and efficiently as possible. In some cases, a section 15 action, which involves the recall of a specific product or a product group, as in the case of hair dryers, is more effective than regulatory action.

In the case of voluntary standards, we have had successful experiences. We have also had experiences that are less successful, but voluntary standards are possibilities. The aluminum wire case, which we believe is a major product hazard and one of extreme concern, used the imminent hazard section of the Act where the Commission went directly to court.

In the case of many of the chronics programs which are being developed, we cannot predict yet what regulatory activity we would undertake.

In the area of asbestos, we have issued an Advanced Notice of Proposed Rulemaking with EPA to gather information. At the same time, we have by no means ruled out the possibility of moving against specific consumer product hazards either by regulation or by section 15, or whatever mode is appropriate, as we identify the problem.

I think we are using a broader array of tools available under the statute a little more creatively. To answer your question, with less reliance on mandatory standards as the sole——

Mr. BOLAND. Let me ask whether or not mandatory standards are so difficult to develop because of legal and technical pitfalls that they are really unworkable as an enforcement tool.

Ms. KING. I would not say that that is true. I think in some cases mandatory standards are clearly the best way to go. The success the Commission has had with broad generic standards in children's products has been very, very important. The power mower standard on blade contact, which was finalized in December, was clearly a result of the inability of the industry to respond in a way the Commission felt was adequate to address the hazard.

Mr. BOLAND. If we went back and looked at what the CPSC talked about doing two or three years ago, we would find mandatory standard goals set out for playground equipment, Christmas tree lights, upholstered furniture, CB antennas, matchbook covers and chain saws. The perception is that mandatory standards appear to be less and less a factor in those areas—what about chain saws, for example?

Ms. KING. As you know, we entered into a contractual agreement with a trade association to address the hazard of chain saws, which we believe to be very serious. We entered this agreement 18

months ago to see if a voluntary cooperative effort with full public participation in the process might address the hazard without having to go to a mandatory standard. The staff is now reviewing the final submission that the industry made in December on that, and as I indicated in the statement, if it is deemed that the material presented by the industry is insufficient, the Commission is fully prepared to go forward in a mandatory fashion.

I would say for myself, I am disappointed in the process. The timetable, the procedural aspects, fell short of our high hopes.

At this time, it is too early to predict exactly how the Commission will proceed. We will be taking this up in February.

Mr. BOLAND. Thank you very much.

Mr. Traxler [presiding]. Mr. Coughlin?

Mr. COUGHLIN. Thank you, Mr. Chairman.

I want to join in welcoming the Chairman and the members of the Commission here. From at least this member of the subcommittee's standpoint, I want to congratulate you on the efforts to prioritize and give the kind of information that helps enable us to make a better judgment about what the Commission is doing and where it is going.

I also note, in looking at the priority list, more attention to products that are in themselves hazardous rather than saving people from their own stupidity. This is very difficult to do at times.

I guess I also would like to see that there is movement of projects off the priority list—that some things are, in fact, being done. It is important to conclude things.

Ms. KING. With limited resources, we have no question about this. We are now reviewing the process quarterly, very intensively, with the Commissioners participating. With limited resources, we have to eliminate things that are not presenting a hazard or where we don't believe the Commission action is going to produce results.

Mr. COUGHLIN. Let me just take a couple of the ones that you mentioned in your statement and get an idea, just for my edification as to what you did.

You mentioned cribs, for example, and I take it your standards for that has something to do with the distance between the bar——

Ms. KING. The slats and the mattress placement inside.

Mr. COUGHLIN. That is pretty much concluded now?

Ms. KING. That standard has been in effect for some years now. We have been able to do a quantitative evaluation as to the impact of it.

Mr. COUGHLIN. I saw that.

Ms. KING. It has reduced crib deaths as a result of strangulation by half. We have on the priority list for this year possible attention to other crib-related hazards not involving the distance between the slats.

Mr. COUGHLIN. Bicycles are now moving off your priority list. What was done essentially there?

Ms. KING. The bicycle standard has been in effect for 2½ years. We show injury reductions now.

Mr. COUGHLIN. That goes to identification processes, identifying the bicycle rider, the bicycle.

Ms. KING. It went to the structural integrity of the bicycle itself; braking adequacy, the torque and structural strength of the bicycle, reflectors for night time use.

Mr. COUGHLIN. And your power mower standard, that is finally moving?

Ms. KING. We cannot evaluate it yet.

Mr. PITTLE. It has moved to the next stage, review by the courts.

Ms. KING. After originally being petitioned to address the question of power mower injuries, the Commission isolated the different problems as nearly as was possible and took action against the problem causing the greatest injuries first. Blade contact was associated with the greatest number of injuries, the most severe problem. We promulgated a final rule——

Mr. COUGHLIN. Shielding the blade?

Ms. KING. It is a performance standard which requires that the blade stop within three seconds of release. The second most numerous and serious type of accident occurs with regard to thrown objects from power mowers. Stones and nails are propelled out of the discharge chute at a velocity of 200 miles an hour and can kill. Certainly eyes can be put out. That will be the next stage.

Mr. COUGHLIN. Your existing power mower standard requires some release on the handle to stop the mower.

Ms. KING. How the manufacturers address it is really up to them. Our performance standard requires that the blade has to stop within a certain amount of time. We recognize in the course of that proceeding that alternatives might be available. The Commission is still evaluating the industry's effort to develop a hand probe that can tell whether or not the blade is accessible. The Commission has put a considerable amount of time and effort into evaluating the industry's efforts to come up with an alternative.

An alternative to stopping the blade is a less harmful blade. The fish line mowers that have come on the market in the last couple of years are examples of innovation in response to a safety stimulus, if you will. That is a whole new product that is on the market as a result of the concern of safety.

Mr. COUGHLIN. And the latter standard you promulgated?

Ms. KING. We do not have a proposal yet on thrown objects. The research is still going on in the area.

JUSTIFICATION FOR BUDGET INCREASE

Mr. COUGHLIN. Your justification indicates that you need about $1,600,000 more in fiscal year 1981 to maintain the fiscal year 1980 level of effort in 1981. Yet the present recommended increase of $2.3 million over the fiscal year 1980 appropriations, for what will that difference be used?

Ms. KING. The budget is somewhat complicated by the fact that the Commission got a supplemental in 1979 and the supplemental moneys are being spent in 1979 and 1980. The increase in the budget request is very much tied to the expanded efforts in the chronic hazards program.

Mr. COUGHLIN. Is that to what the increase would basically be devoted?

Ms. KING. Yes.

Mr. COUGHLIN. Can any of this effort be deferred in an effort to reduce Federal spending and its impact on inflation?

Ms. KING. We have deferred what we believe we can defer. We have cut right down to the bone, both in terms of administrative cutbacks and programmatic cutbacks. We have dropped and curtailed projects and deferred some contractual spending this year against the considerable vocal protests of the staff people involved. We have cut people back as far as I think we can cut them.

SKATEBOARDS

Mr. COUGHLIN. A couple of projects on your priority list for 1979 are not on the priority list for 1980. One which I am very sympathetic to is the problem of skateboards. What is your thinking on what you can do about skateboards other than keep people off them?

Ms. KING. Skateboards were on the 1979 priority list. They are not on the priority list for this year. They were a product whose sales went up very, very rapidly over a period of time. Injury rates just zoomed up. It was the conclusion of the Commission that it is not a design problem of the product. It is a matter of educating the parents and children on how to use them. We have had some very, very successful information and education programs directed at kids.

UNVENTED GAS SPACE HEATERS

Mr. COUGHLIN. Space heaters are on your list. You discuss having some kind of a control on the heaters which would cut off when the oxygen level——

Ms. KING. The Commission originally proposed a ban because of the carbon monoxide that can build up in a room and can cause death. In the course of proposing a ban, the Commission obtained information that there were possibly devices available that would allow the continued use of the heaters. They are very important in low-income areas and in the South where people do not have central heating and need heaters only for certain months of the year. We had regional hearings and there was strong opposition to banning the products.

Mr. COUGHLIN. Does this substantially increase the price of the product?

Ms. KING. $20 a unit. What it would do is put a safety shut-off device on the heater. When the oxygen level in a room falls to a point of danger level, which would indicate an increased carbon monoxide buildup, then the heater shuts off.

Mr. COUGHLIN. So this would take a $20 heater and make it a $40 heater.

Mr. PITTLE. It would take a $100 heater and make it $115 or $120.

CB ANTENNAS

Mr. COUGHLIN. I notice CB antennas remain on your list. We discussed that before.

Ms. KING. We have discussed with the Committee staff the status of that project at this time. Sales have begun to go down with these

base station CB antennas. These are not antennas on automobiles or in homes, they are the outdoor, very tall antennas. The danger is from coming in contact with high tension wires—the danger of electrocution. Over a period of three, four years, we were showing 200, 250, 275 deaths a year.

Mr. COUGHLIN. What is the status of that?

Ms. KING. The item remains in the budget. The engineering work is going forward at this point. We are continuing to monitor the injury data and the sales data and also the voluntary standards that we might be able to encourage within the industry.

We will have to make a judgment in the course of this year as to whether to proceed on that or not.

We believe the hazard remains quite a serious one. The question of how the Commission proceeds will have to be addressed and we will need data.

Mr. TRAXLER. How many deaths are there a year from that hazard?

Ms. KING. They were running in one year 276.

Mr. COUGHLIN. All electrocutions?

Ms. KING. It was the leading cause of electrocutions. The new market data indicates the sales are down dramatically and that deaths are down tremendously. We don't know if that is temporary. We don't know whether the sales will go back up. We don't have enough base line data. The antennas are labeled. We do have a label on them.

Mr. PITTLE. The development process now is aimed at what is called an omni-directional antenna. This is the simplest form of antenna there is. It is a straight pole mounted on top of a tower. The most expensive are the elaborate antennas called directional antennas and look very much like TV antennas. There have been a number of electrocutions with both types of antennas and TV antennas, which are not included in the proceeding. However, the staff believes that the work they are doing on omnidirectional antennas may be simply transferrable to the whole class of antennas.

Mr. COUGHLIN. Have the electrocutions continued despite the fact of labels?

Mr. PITTLE. We have investigated where the label was on the antenna. We have in-depth investigations where the people said, "I read the label first, but when the antenna started to fall, I grabbed for it, and got shocked anyway."

Ms. KING. Let me add that last week we deferred part of the contract work on this into fiscal year 1981 until we are able to make a determination.

Mr. ZAGORIA. I would like to add, too, that this issue has been proposed to the Commission and the vote to go forward with it was divided. There were three in favor and there were two who were not. So there has been some feeling by at least two of us that it was not one of the things that should be a high-priority item involving expenditure of the $200,000, $300,000 in research on a product where sales have declined on the order of 80 to 85 percent. So it wasn't a major rift within the Commission. It was just, as so often happens, that there were differing points of view about an issue that was put before the Commission.

TAP WATER SCALDS

Mr. COUGHLIN. I notice tap water scalds is an item on your list now. I personally do not have enough hot tap water——

Ms. KING. That is a very controversial issue. It is on there because of the large number of serious scalds and burns suffered by children, and elderly people, and the handicapped. In some cases home hot water heaters are set at temperatures where people can be burned. We have been working with the industry, both for purposes of labeling hot water heaters so that people can lower the temperatures at will, and also to reduce the factory pre-set temperature level, when it is installed in the home. You can possibly reduce the temperature and still have water hot enough to wash dishes and perform the other needs in the house.

We have published requests for information in the Federal Register to gather information on this.

Lowering hot water temperature is also complementary to the energy conservation effort.

Mr. COUGHLIN. I wish I could get my temperature setting up.

ASBESTOS

Finally, I want to explore the asbestos problem on which I realize you are working in tandem with EPA. It is a serious question, but from some comments I have received, I note there is great importance in moving promptly. You have an entire, very substantial industry at this point in the game involving asbestos products. Some of these products may be perfectly non-hazardous, some may be hazardous. The industry is under considerable trauma right now because architects, for example, will refuse to specify products containing asbestos. They don't know if they will be banned, until such products are found to be hazardous or non-hazardous.

My comment goes to the importance of finding things that are non-hazardous, if they are non-hazardous, as quickly as possible so you don't have things held in suspense. How is your asbestos investigation?

Ms. KING. We agree with you on that. Particularly in the area of chronic hazards, the ability of the government to tell the public which products are not hazardous is certainly as important as identifying products that are hazardous. In asbestos, we issued an advance notice of proposed rulemaking with EPA, and the comment period was extended at the request of the industry to February 18. It will close at that time and we will review all comments.

One of the purposes of the ANPRM is to be sure that we have a comprehensive picture of where and how asbestos is used. We are preparing and will be considering very shortly general orders to determine the use of asbestos in consumer products. From that our determination must go to whether there is consumer exposure. We have set up a joint agreement with NIOSH, the Occupational Testing Lab of OSHA, and have set up testing facilities so that we will be able, with our own staff people, at NIOSH, to undertake tests as rapidly as possible to address the question of whether or not there is a problem.

The agency has been in contact with Underwriters Laboratories requesting them to undertake a thorough review of all the volun-

tary standards where asbestos is recommended in products to determine whether or not there are substitutes available. That is proceeding at this time. And we have a petition now in house requesting that the Commission ban the use of asbestos paper as it is sold to consumers in hardware stores. We will be taking that up with the industry.

Mr. COUGHLIN. To me it is important to try and categorize the products somehow so you can get off your schedule considering potentially hazardous those that are not hazardous, but there is not——

Ms. KING. We agree and, once we know the full range of products in which asbestos is used, the effort will be to prioritize—I hate that word.

Mr. COUGHLIN. I like the word.

Ms. KING [continuing]. establish some priorities within the asbestos program as to where there is a hazard and where there is not.

Many products containing asbestos are bonded in, thus no asbestos fiber are released.

Mr. COUGHLIN. It is as important to announce those, maybe reserving judgment on others.

Ms. KING. Would you like our Director of Health Sciences, Dr. Preuss to respond to that?

Mr. COUGHLIN. Yes.

Dr. PREUSS. We are basically using two approaches to try and draw this dividing line. One is through the process of advanced notice of proposed rulemaking we have published jointly with EPA, where we are trying to define which products contain asbestos and we have asked a certain number of specific questions very similar to the ones you have been proposing.

In addition, we are in the process of preparing a general order asking some more detailed questions about the use of asbestos in consumer products specifically. I believe that those two efforts will help us to draw lines across products where action is or is not required.

Mr. COUGHLIN. I think the rapid development of those lines are important from the standpoint of not having a whole segment uncertain as to the legitimate use of the products.

Ms. KING. One of the reasons for going with EPA on the joint notice was to try to reduce the burden on the manufacturers. They can respond to one request rather than supplying information to two agencies. It was at the request of the industry that the comment period was extended.

Mr. COUGHLIN. Thank you, Mr. Chairman.

Mr. BOLAND. Ms. Sloan?

Ms. SLOAN. I just wanted to make two brief comments. One is on tap water scalds. Industry is coming forth with dishwashers and other appliances which have their own hot water heaters, some sort of mechanism installed. You don't have to have your heater for the house set as high. That is one thing you can look forward to.

The only thing is that then you do lower your thermostat on the heater to, say, 120. Then you will have a person who likes a very hot bath or shower. That is the down side of it.

The second part is on the unvented gas heaters. I am very concerned because after the proposed ban, they went back into production. About 102,000 are being produced per annum, that means they will be there, sold on the market without the oxygen depletion sensor. That means 20 years from now we may be faced with the same problem we are faced with now. We still don't have a company that has been able to produce a heater with an oxygen depletion sensor that works. So this will continue to be a concern of ours.

I note Mrs. Boggs will be very concerned because they are in use predominantly in the Southeast.

Mr. TRAXLER [presiding]. Mrs. Boggs.

Mrs. BOGGS. I am very pleased to see all of you, and I apologize for being late. But, unfortunately, again this year when you are here, I have conflicting subcommittee meetings. I met Chairman Boland on the way over. I said I had taken care of one section of the country, with respect to energy and water resources. He said he is going to take care of the Northeast.

I am pleased to see all of you. I thank you for the testimony that you provided and for the work you have done since you were here last.

INTERAGENCY COOPERATION

I am very pleased to see this idea of cooperation among various programs. I do think, in an effort to go forward with energy conservation and other energy programs, that we sometimes are reluctant to take the time out to investigate products that are being used. You probably have already discussed, for instance, insulation materials—in particular the gaseous type. Is there an ongoing investigation of these before they go into production?

Ms. KING. I think if you take a look at our priority list for this year and the projects that we have on for next year, there is almost a thematic focus that comes out of this. The major concerns are overlapping: acute and chronic hazards, the question of energy conservation devices and energy conservation generally, and the question of fire and fire hazards. They are very often related.

As people are insulating their homes and creating a tighter environment, there are many problems that arise that have got to be addressed. We first became concerned about putting ground up paper over recessed lights, perhaps on deteriorating older wiring systems, and the questions of possible fire hazards that result. With urea formaldehyde insulation, we are concerned about the acute toxic response of some sensitive individuals to the fumes inside the house and also the possible long-term chronic effects that may result.

We were talking about hot water heaters, the sort of side benefit of turning down the temperature of the hot water heater is an energy conservation measure, but it has other problems that are raised therefrom. The whole question that a number of agencies are interested in right now is this concept of the thermal envelope, with an enclosed residence, you are having a buildup of possibly toxic fumes or substances as a result of chemical releases in the house, insulation questions, carbon monoxide buildup.

We are working with newly introduced energy conservation devices, like flue dampers, where there is an effort to recapture heat from heating systems where you may have toxic gas problems. The question of coal and wood-burning stoves—every day in the newspaper, we are seeing rising incidences of home fires due in some measure to improper installation of coal and wood-burning stoves, improper maintenance and improper use.

It is to some degree a question of consumer information. There may be insulation and structural problems that may have to be addressed. The problems very much overlap. Fire and energy conservation plus some of the toxic questions are very much interrelated.

We have worked very hard with the Department of Energy, HUD and other agencies to be sure we are coordinating in these areas. We spend a lot of time in meetings with the other departments.

Mrs. BOGGS. We have the problem, of course, of asbestos in the public schools. Are you working with the Education Department on this?

Ms. KING. Asbestos in schools has come under the jurisdiction of the EPA, because it is an air quality problem. Frankly, the problem is too big for our limited resources. But we do work with them in a number of other areas of asbestos concern because it is a cumulative problem, like many other chronic hazards. Exposure to many, many sources of asbestos over time is what causes the problem. It is probably not one single exposure or one single item that causes the problem.

We, of course, also work with OSHA.

Mrs. BOGGS. So you simply coordinate your investigations with OSHA and EPA?

Ms. KING. We have interagency task groups. There is one on asbestos, there is one on formaldehyde. So we will be sure we will know what the others are doing.

Mrs. BOGGS. I think that is a splendid step in the right direction.

Ms. KING. The IRLG was the stimulus in the area of toxic substances. It has been a stimulus and model for other interagency cooperation because it has worked so well. It is something that we can be really proud of because I think one of the problems of the bureaucracies, as we know them, is oftentimes they simply don't talk to each other. We are trying to bridge that gap.

Mrs. BOGGS. A man was telling me yesterday about conflicting regulations. He had been required to put beepers on trucks that backed up so that workers would know that the trucks were approaching. Then another man came along and said because of the noise of the beepers, some of the workers had to wear earmuffs. It is an exaggerated example.

I am delighted to know you have such coordination and cooperation. Thank you very much, Mr. Chairman.

Mr. TRAXLER. Mr. Sabo?

Mr. SABO. Mr. Chairman, I would also like to welcome members of the Commission to the subcommittee. I am not sure if you have seen the story, but you made the Wall Street Journal this morning.

Ms. KING. No, I have not seen the Wall Street Journal. Do you want to read it to me?

Mr. SABO. The title of the article is "Safety Commission Has Avoided War on Regulation." Then it has a quote from Ralph Nader. Let me read it to you and see how you might respond.

Ms. KING. I knew I should have gotten up earlier.

Mr. SABO. "The FTC is trying to expose fraud in the sale of sleeping pills by requiring disclosure says consumer activist Ralph Nader. The Consumer Product Safety Commission is taking sleeping pills."

Mrs. BOGGS. That is better than causing nightmares.

Mr. ZAGORIA. While the Chairman is reading, please let me say that I think it is important to recognize, and it goes to something Congressman Coughlin raised earlier, that there is a lot of what we do that doesn't provide a bottom line of a new mandatory standard. It is the recall business that really in effect sets a number of standards for people in various industries.

Last year we had 198 recalls. Two of them involved 36 million products, 18 million coffee pots and 18 million hair dryers. Despite the efforts of the Commission in such things, it is kind of easy for someone who wants to be a critic of the Commission to ask, "How many mandatory standards have you got on the books and what have you been doing with your time, your money and your energy? But if you recall 198 different products and forcibly get them off the market, manufacturers who are making the same kinds of products will know that if they do likewise and market a hazardous product, they are going to get the same kind of treatment. Then you are really doing an awful lot to try and protect consumers. That is the kind of thing people don't pay much attention to, but it is a very important aspect of our work.

If we weren't here, those recalls probably wouldn't be taking place. If the Commission wasn't on the job identifying, pursuing, actively pressing, negotiating, pressuring these manufacturers, those hazardous products would be out on the market.

Sometimes the recalls result from insights in knowledge. For example, asbestos in the hair dryers. When those hair dryers were first made, Underwriters Laboratories (UL) said it was all right to use asbestos paper because it was thought to be safe. And at that time the state of our knowledge was such that this was believed. It was credible.

Subsequently we got better information. Science had advanced somewhat and pointed out a very serious hazard.

If you use a hair dryer inside a house and those microscopic fibers of asbestos are emitted and there is very little air exchange, those fibers remain in the house to eventually be breathed in by the occupants of that house. There is a lot that is going on that isn't captured in a statement of "they are taking sleeping pills.

Let me assure you all five of us are not taking sleeping pills. Now that should give you a chance to read the editorial.

Ms. KING. I just skimmed the entire article. The interview was sometime ago. The Commission has been trying to respond, as we said earlier, using the array of tools at our disposal and we have more than most agencies. We try to pick the most effective way to go at a specific problem.

We have found that section 15 product recall efforts where a negotiated agreement with the industry addresses a problem, as

was the case with hair dryers, where within a matter of weeks virtually every manufacturer agreed to cease using asbestos and to recall, repair or replace the products they had out in consumers' hands that did contain asbestos. We were able to accomplish in a matter of months what would have taken two to three years if we had taken regulatory action on that.

I don't think, and we have made this point to this Committee many times, the evaluation of the Commission's activities can be limited to the number of mandatory standards the Commission puts out. As I said, we do have 33 at this point. The figure you see all the time is 3, which is not correct. If reference is made to standards that the Commission worked on in the early days of its existence, that is a refusal to recognize the action the Commission has taken since then.

The power mower standard was a controversial one. The development of the Commission's upholstered furniture flammability standard was deferred for a year to allow the industry program to work. This was done on the basis of a Commission judgment based on what we are required to consider under our statute: the utility of the product, the impact on the consumer as to price, the feasibility of response by the industry, in effect an economic analysis. It was a decision of the Commission to let the industry try its program, the voluntary program with upholstered furniture, for a year. The cost was considerably less than the mandatory standard and is believed to be in the best of all circumstances capable of addressing 80 percent of the injuries that a mandatory standard would have been able to do at less cost.

I would welcome any input from Mr. Nader as to what he thinks we should be doing or should not be doing at this point. We think we are doing more with fewer resources and doing them perhaps faster than we have been in the past.

Mr. KRULWICH. If I might add from the perspective of the General Counsel's Office where we are defending against cases brought against us, that I would doubt the toy manufacturing industry, the amusement park industry, the lawn mower industry, the shirt manufacturing industry, the aluminum wiring industry, the architectural glass and glazing industry, heating manufacturing industry would agree we have been sleeping in light of the litigation that they feel was necessary to bring against us.

Mr. PITTLE. May I add one thought to this? You said earlier—"you, meaning CPSC, have only done four or five standards since you started." This notion was planted four or five years ago, and it is like a dandelion—hard to get out by the roots to replace with a better plant.

The Chairman is absolutely correct in pointing out that for those who want to count those things, we have developed more than 30 mandatory regulations: bans, standards, and labeling rules, and we have recalled 850 products over the past several years. I also think a large number of voluntary actions took place only because we started to do a mandatory standard.

For example, the upholstered furniture industry didn't move an inch for the five years we were studying the flammability of their products. Only when our staff put a draft standard on our table was substantial voluntary progress made in a matter of months. I

am convinced that if that standard had not been drafted, industry never would have made the movements it did.

Because of that voluntary action, we may never propose that draft regulation. So we won't have a regulation to count. But there will be considerably improved product safety in that area.

On another topic I wanted to tell Mr. Sabo that yesterday was a very chilly day in Minneapolis, with 6 inches of snow. CPSC held a hearing on formaldehyde foam insulation yesterday in Minneapolis. I would like to compliment the Minnesota State Department of Health on their presentation at that hearing. They gave excellent testimony. They have well documented statistics to help us determine the problems with the use of formaldehyde in mobile homes.

Mr. TRAXLER. Mr. Sabo?

Mr. SABO. I just thank them for the response. I tend to agree with what you say, mandatory standards are not appropriate in all cases and where voluntary standards can work, they are better.

Mr. TRAXLER. Were you thanking them for the commercial?

Mr. SABO. Our nice warm weather.

Mr. TRAXLER. Mr. Stewart?

SECTION 15 PRODUCT RECALLS

Mr. STEWART. It appears that you are doing an excellent job on recalling. Could you tell me how so many dangerous and hazardous materials get on the market?

Ms. KING. The figures that are stated in the beginning of the testimony are that we believe 30,000 deaths occur a year and 33 million accidents occur that are related to product safety. Not all of those, by any manner of means, flow fron a product that is dangerous or defective. The question of consumer behavior comes into play here.

The Congress was aware when it drafted the Consumer Product Safety Act that the question of foreseeable abuse or misuse of a product could very well be a problem in the large number of accidents and deaths and injuries. It gave the Commission explicit authority to address the question of foreseeable misuse by developing standards and also by using information and educational programs.

Section 15 of the CPSA requires manufacturers or retailers to report to the Commission when they believe that they have a product which may pose a substantial hazard. On the basis of industry self-monitoring and self-reporting requirements contained in the law, plus our own survey of newspaper clippings, death certificates, our own hospital emergency room injury data base, and statistics that come from the States, we assess what is a problem and to begin to move on that basis.

In the case of product recalls, which is a product specific action, we sit down and negotiate with the company, either because they have reported to us or we have come up with something we believe causes a problem. The first thing we try to do is to identify the problem and its cause. There can be many causes. It could be a violation of a standard that is in place. It could be a quality control problem on the manufacturing line. It could be a design defect that is not addressed by a standard.

It may be limited to one toaster, not all toasters. It could be one day's run of a given company's line and not all of those. It would be impossible for me to say what is the cause because it is many causes, and the effort of the Commission is to address them really on a case-by-case basis and assess the hazard of each and the amenability in each case to government action.

The recall effort, as we indicated, has become one of enormous importance to us because it is negotiated with the company, it involves much, much more comprehensive, much stronger, more demanding, in many cases, much more expensive public notice efforts on the part of the company. They do it at their expense, everything from press releases to direct mail to a list of purchasers if, in fact, the company maintains such a list; everything from counter cards to efforts to contact even by telephone consumers who may have these products to get them back.

It is, we believe, a very cost effective way to get hazardous products out of consumers' hands. I would say that since the creation of the Commission, industry's concern for safety has risen. Not solely the presence of the agency, but the increased prospects of product liability have made companies much more conscious of safety.

Many firms have adopted a much more aggressive stance inside the companies so that they are aware and avoid the problems themselves. One of the issues that we emphasize a lot is the question of corporate responsibility here, that they must begin to pay more attention inside their own operations to keep these hazardous products off the market. If in fact they know they have a problem, they must both notify us and move immediately to try to remove the products from the distribution chain, the retailers and from the consumers' hands.

That is a long, and I hope responsive, answer to your question.

Mr. STEWART. I won't ask another question in that direction.

SENSITIVE POPULATION AND MINORITY OUTREACH

In your statement, I think you identified two initiatives that you have taken this year. One I believe was concerned with instruction on the safe use of chemicals in high school laboratories.

Ms. KING. Yes.

Mr. STEWART. Another initiative was to identify groups that may be more susceptible than the general public to certain hazardous materials.

Ms. KING. Yes.

Mr. STEWART. Do you think that low-income families or low-income individuals may have a peculiar problem with reference to hazardous materials?

Ms. KING. Yes, and we have attempted to strengthen our minority and low-income consumer outreach programs. That is a matter of major concern to us now for two reasons: first, low-income individuals when purchasing a product may be limited by one consideration only—price. Very frequently it is the lower cost item that poses the problem.

Second, low income individuals may lack full information that may be available to higher income and better educated people

about what the hazards are. The whole question of reaching low-income and minority populations is one of enormous importance to us.

Children are, also, a very vulnerable group that has been very important to us.

The information for use of chemicals in laboratories springs in no small part from the fact that the government has learned a great deal in the last few years about the hazards of chemicals. Many of these chemicals are handled directly by people working in laboratories.

Ph. D. candidates and researchers in large institutions may have the means available to them to be sure they are not unduly exposed, taking care not to use these chemicals in a hazardous situation. We are not so sure that is true in a high school classroom.

A very good example of the need to identify sensitive populations is the question of formaldehyde. Not all people react the same to formaldehyde exposure, and we are attempting to understand which groups are more sensitive to specific chemicals and why. It is a very complex, scientific question.

Mr. STEWART. How do you inform these low-income families about the dangerous and hazardous materials you have been able to identify?

Ms. KING. That is another internal mechanism that we are evaluating now to see how we can improve it. Traditionally we have used press releases and concentrated on radio, television and newspapers. For example, in trying to recall the hair dryers in which there was asbestos, we made a concentrated effort to reach black hair salons because we had information that some of the hair dryers that were used in minority salons were more hazardous or were emitting more asbestos than the generally, commercially available hair dryer. We made a concentrated effort through the media that we could identify to reach these target populations. Publications, newspapers, black radio stations, black educational stations where there were black programs to get information out to specific people and to identify, where we could, individual salons and name them directly.

Edith, you may wish to respond to that.

Ms. SLOAN. It is an ongoing concern and it is one which my voice has been heard on, not only finding out which products might be more hazardous. I have been told by one of the physicians at the Commission that asbestos is a substance which is hazardous to Afro-Americans and Japanese-Americans more than any other group. So we have to get a handle on those chemicals which might be more harmful to various groups.

There is now a study which should be completed by March of this year which will give us some knowledge we haven't had as to how we can better reach out to low-income families and also very often minorities.

Of course, I am urging the Commission to earmark funds to implement findings from the study, to develop materials and to develop ways to reach out so that the Commission's programs will not be primarily aimed at the middle class. It is to all classes and to all parts of the population. The entire Commission believes this must be done.

Mr. STEWART. In your budget request, have you requested sufficient funds for this program?

Ms. KING. The request does include funds for that project.

Ms. SLOAN. Of course, I feel we could use more.

Mr. STEWART. Thank you.

Mrs. BOGGS. Mr. Chairman, to pursue that for a moment—are there pieces of literature available to the specifically identified persons to whom these substances may be more toxic?

Ms. KING. We don't know enough now about sensitive populations to undertake such an educational effort.

Mrs. BOGGS. I was just thinking, if you had any type of consumer product safety materials available. So many of us in Congress have newsletters in which we always try to include some of the new brochures and information that is available from different departments and agencies. It seems to me this would be a good way to get word out.

Ms. KING. We can explore that to some degree to make that available to Members. It is an excellent vehicle.

I will give you one example where we have undertaken that type of effort. We have recently developed material for mailing to physicians to help them identify symptoms of formaldehyde exposure in a home insulated with U.F. foam. These are generalized, undifferentiated symptoms that a doctor might not recognize as being caused by formaldehyde. They oftentimes can resemble severe asthma, eye irritation, nose irritation. It could appear to be very similar to flu or a severe cold. A physician may not know to ask, "Have you recently had your house insulated?" We want to see if we cannot identify more of those individuals who are suffering from these generalized symptoms and to try to identify what the problem is.

AFFIRMATIVE ACTION PLANS

Mrs. BOGGS. Also, if I may—since Mr. Stewart didn't ask the question, we would like to know what your affirmative action has been in hiring and placing into managerial positions minority persons and women?

Ms. KING. We have a very aggressive EEO program generally. Right now we are undertaking to strengthen the existing program at the recruiting level. What we would like to do is actively recruit on college campuses to bring in at the professional staff level minority candidates and women candidates.

I would have to supply for the record the actual statistics. I believe we have one of the best records.

[The information follows:]

As of January 1, 1980, the following full-time permanent staff were employed at CPSC:

Grade	Caucasians		Minorities	
	Male	Female	Male	Female
GS–12	71	30	8	5
GS–13	75	12	12	4
GS–14	69	13	7	.....
GS–15	62	8	8	3
GS–16	12	2	1	.....
Level I	.....	.....	.....	.....

Grade	Caucasians		Minorities	
	Male	Female	Male	Female
Level II				
Level III		1		
Level IV	3			1

The Upward Mobility program is being used to enable lower graded employees to progress from dead-ended positions to more meaningful positions with career potential. We have 15 Upward Mobility positions, all of which are occupied by women. Because of the success of the program, we are considering establishing more Upward Mobility positions.

Mrs. BOGGS. The National Science Foundation has a splendid scientific program and they have been working with educational television on this. There is a new show aimed at the young people who are oftentimes left out in television programming—specifically those from age 10 to 15 or so. It directs itself to young people of the junior high age level.

They also have a teaching program in tandem with this. Teachers can make science exciting to young people. I think that the recruiting efforts should go down below the college level to excite young people into programs at the college level to prepare them to take on positions that would be open to them in the field. It is a very good effort on the part of NSF because, of course, children of all conditions and races and sexes are exposed equally to the excitement.

Ms. KING. I couldn't agree with you more. In government, public health, in the whole area of the technical sciences, there is enormous demand now, extreme shortages of certain types of expertise and if kids know this when they are coming through school, it can be a very exciting career development for them.

Ms. SLOAN. I would like to just comment on the affirmative action program. It is a subject that is very close to my heart and I am working with the new Executive Director and General Counsel, to get minorities and women into policymaking positions because the majority of the minorities, at least, are now in the supportive positions, not the policymaking positions.

I must say since our new General Counsel came, we now have one black attorney in the Office of General Counsel. We are looking for more. I also hope that we will have minorities and women well placed in the senior executive service and other key positions of the agency throughout. This is something we will have to continue to work on and work very closely with them. I also wanted to bring to your attention one program that we have now aimed at primarily minorities and disadvantaged in the fire and burn series. In 1980, we have a $96,000 portion aimed at trying to reach out in five communities to minorities and disadvantaged to educate, to lessen the fire fatalities, fire injuries.

The statistics for fire fatalities among minorities and the elderly are catastrophic. For every white fatality in fires, there are three black fatalities. For every white male fatality in fires, there are four black male fatalities from burns. For every one white child under one year of age fatality from fire, there are five black children. I don't know what the statistics are for other minorities.

Thirty percent of all fire fatalities are people over 65, while they only represent 15 percent of the population. So this is something we certainly have to concentrate on and we realize that this is where we have to make inroads in reaching out to the elderly.

Mr. TRAXLER. I want to complete a series of questions before adjouring for lunch, so when we return we can move to the budget questions. We will then be through with the philosophical part of our session.

OFFICE OF INTERNAL AUDIT

Your Office of Internal Audit prepared an investigation report at the agency's request, of a very serious lapse in the Commission's controls on supplies. That lapse may have resulted in fraud costing the government and taxpayers some hundreds of thousands of dollars. Among the audit's findings are, and we appreciate you supplying that information to us:

A. No records or accounting of items purchased, inventoried, or disbursed was kept so it is impossible to determine what purchases were fictitious.

B. Records of headquarters' purchases were found missing and apparently removed after 1977. The Associate Executive Director for Administration failed to account for the missing records.

C. To date, CPSC has instituted no effective ongoing account control system. That is as of September 29, 1979, the date of the audit.

I am sure this is disturbing to you. We ask for your comment. We want to know what the agency is doing about this and what about other Commission employees involvement?

Ms. KING. Let me clarify the audit a bit, if I may. It was undertaken because a former CPSC employee had been indicted after leaving the Commission as a result of a larger GSA investigation. Because the individual had been employed by the Commission, we undertook a review of the period of his employment to see if there were any additional problems. This investigation was separate from the indictment count that had been brought down.

The audit of the individual's employment turned up no evidence of fraud or mismanagement or any actionable occurrences in the individual's employment.

You make reference to the absence of documents. The documents that are missing were receipts for a period of a couple of years. They have no relevance whatsoever to the question of fraud. Any information that might have been on those documents would not have been helpful to that inquiry. There was no information on them that would have helped us to evaluate whether or not there had been any mismanagement or fraud during that course of time.

I think that it is a considerable overstatement to say as the audit report does that apparently the documents were removed. Our conclusion is only that the documents cannot be located. They were shipped across the country at least a couple of times and various individuals had access to them. They are missing. We have not been able to locate them.

Since receiving the audit report the Commission, at my direction, has instituted two tracking systems, for items received at the warehouse, and for tracking and locating items leaving the warehouse

and moved to employees' offices. We think that these systems provide full control over the material.

But let me emphasize again that the missing documents, even if they were located, would shed no light on that investigation.

Mr. TRAXLER. Quoting from page 1 of the digest of the audit report, "Thus, the missing schedules, apparently containing pertinent headquarters purchase records, must have been removed between 1977 and the present. The Associate Executive Director for Administration was asked to account for the missing schedules and has failed to do so indicating that a serious breach in the security and control of Commission records has occurred."

Ms. KING. That is a conclusionary statement, not a statement of fact.

Mr. TRAXLER. It is not my report. I neither subscribe to it nor do I criticize it. We have you here to respond to it.

Here is an interesting quote from page 2 of the digest, "An investigation by the Department of Justice of possible criminal involvement of others seems warranted." Has the Commission discussed that possibility and what was your decision?

Ms. King. Despite that conclusion, there seems to be no basis for further investigation since the records were looked at previously by the Commission and by the FBI and there was nothing found. The documents have apparently been lost or misplaced since then in two shipments across the country. Again, the information on the documents would have listed only how much was signed for. It would shed no light on the real issue of whether or not a slip was fraudulent or not fraudulent.

As I said, the documents had been examined prior to this specific inquiry. This was a cautionary investigation that the Commission undertook simply to be sure that since there had been questions raised about an employee who had since left the agency, there were no other misdeeds at the time of his employment.

If it is helpful to you, I can expand a little bit on the OIA, Office of Internal Audit procedures. When I ask the office to undertake an audit or to look at a specific problem for us, an audit report is prepared. The officer who is being examined has an opportunity to respond to the conclusions and the responses both come back to me. This has resulted on occasion in a redrafting of some of the recommendations or conclusions from the audit itself. Then the recommendations are made. Some are implemented and some are not.

Mr. TRAXLER. How do the other Commissioners feel about this matter? Are you satisfied with the statements?

Mr. ZAGORIA. I regret to say I have not seen this audit nor for that matter have I seen any internal audit. It is a report to the Chairman.

Ms. KING. They are all available in my office for examination by any Commissioner at any time.

Mr. ZAGORIA. I would be delighted to be more responsive had I seen it. I am not in that position, sir.

Mr. TRAXLER. Maybe you will put it on your agenda for some future——

Mr. ZAGORIA. I have made careful note of it. My colleague has, also.

Mr. TRAXLER. Do you feel comfortable with your system of internal controls over supplies?

Mr. STEWART. Mr. Chairman, I wonder if I could request from Madam Chairman something to go in the record on this since it seems no one, I guess I shouldn't say it seems like no one, knows anything about it but the Chairman. But there is no response that indicates anything to the contrary, I would like for us to have something——

Mr. TRAXLER. Mr. Stewart, for purposes of the record, Madam Chairman did provide the Committee staff with a copy of that audit. The committee has been aware of it for about two days. It is available to you, of course.

Ms. KING. We will be glad to respond more fully for the record on this, if you would like, detailing any systems that have been put in place. We believe they are more than adequate control systems. If I can let Mr. Gross respond.

Mr. GROSS. Reviewing the Chairman's audit recommendations, discussing with the appropriate Associate Executive Director about the additional controls, I would like to note for the record one of the tracking systems recommended for the audit was about twice as expensive as the purchases to be audited. We rejected that as——

Ms. KING. That is my point. For all audit reports, we review the recommendations that have been made, and in some cases, suggest that a recommendation is not the appropriate response. Here we believe we have devised two tracking systems which are quite adequate and ones in which we are very confident. However, I agree with the conclusion of the audit that there were probably inadequate control systems prior to that.

[The information follows:]

CPSC has initiated a new tracking form to be used by offices both to request supplies and to acknowledge receipt of items actually delivered. This form is designated as "Form 291 Stockroom Invoice" and is a multi-copy affair. CPSC is now in a position to track those items and quantities delivered from GSA Self-Service stores to our warehouse stockroom and to keep account of what items are removed from the stockroom and delivered to utilizing CPSC offices. Using this system in conjunction with physical inventories of the stockroom, we are in a position to track and control supply purchases and utilization.

We have further instituted stricter inventory controls for higher-value, personal appeal items such as lamps, fans, heaters, clocks and dictionaries. These items are kept under more stringent physical security and logs are continuously maintained of the number of items in stock. Total supply expenditures are also closely monitored at several organizational levels to detect any significant deviation in costs.

In addition, the General Services Administration has new procedures which are designed to prevent recurrence of the earlier problems.

Prior to fiscal year 1978, several CPSC organizational units were issued a GSA shopping plate for obtaining office supplies from GSA Self-Service Stores. GSA would issue supplies to anyone bearing a shopping plate and record only the cash amounts of a transaction. No list of item descriptions or quantities was made.

In August, 1978, GSA instituted changes in its procedures. Employees making purchases were required to present a new multi-copy GSA Form 3146 listing each item and quantity ordered and signed by a CPSC Approving Official. In conjunction with these new procedures CPSC designated a single Approving Official and an alternate authorized to sign the Form 3146. Under the system, GSA mails copies of orders as actually filled to the Approving Official.

Mr. TRAXLER. First, I want to say your request of the audit, speaks well of yourself and the Commission. Obviously an agency always feels a little uncomfortable when it is pursuing the possibil-

ity of misconduct among one or more of its employees. You are to be congratulated.

Ms. KING. We had no basis to believe there was misconduct.

Mr. TRAXLER. That is why I said possible. Ms. King. It was a cautionary audit just to be sure.

Mr. TRAXLER. We appreciate the fact that you initiated this review. We trust and hope that the possibility that existed at that time does not occur in the future. The agency has taken such precautions as is necessary to correct any deficiencies that may have existed.

Ms. KING. The audit pointed up a major deficiency in our tracking and control system which had already been remedied. We made further refinements as a result of the audit. But, I would repeat that the audit was undertaken only because there had been an incident unrelated to the Commission and although there was no reason to believe that it involved the agency, we wanted to make sure.

Mr. TRAXLER. Do you think there was a bit of overkill in the report?

Ms. KING. Yes.

Mr. TRAXLER. I would like to break for lunch and reconvene at 2:30 this afternoon. If members of the Commission have other things this afternoon, we certainly would understand. Thank you very much.

AFTERNOON SESSION

Mr. TRAXLER. We want to welcome back everyone after a brief recess.

1979-80 SUPPLEMENTAL APPROPRIATION

On page 1 of your justifications it is stated that the Commission needs $1,686,000 more than the fiscal year 1980 current estimate to maintain the level of effort in fiscal year 1981.

We have trouble with that. The 1980 current estimate of $43,252,000 includes $2,652,000 in 1979 and 1980 supplementals. We see an increase in 1981 above the current estimate of 1980 of $700,000.

Isn't that what is needed to maintain the 1980 level as opposed to $1,686,000 that is said to be needed?

Ms. KING. The actual appropriations for 1980 is $40.6 million. The unobligated funds from the supplementals was roughly $1.6 million, which brings us to an available figure for fiscal year 1980 of $42,232,000.

Mr. TRAXLER. That doesn't include your pay cost.

Ms. KING. To cover the pay increase we requested $1.8 million. The OMB mark on that was $1.2 million. We, perhaps, should have asked for a larger budget.

Mr. TRAXLER. Last year the Committee approved a 1979 supplemental appropriation of $2,190,000 to offset the Commission's cost associated with implementing a Congressionally mandated cellulose insulation standard. That 1979 supplemental was made available for two years instead of elapsing at the end of fiscal year 1979.

The justifications indicate on page 3 that $558,000 of the supplemental was obligated in 1979 and $1,632,000 was carried forward in 1980.

What is the total amount the Commission obligated in 1979 for the cellulose insulation standard and what is the total amount planned to be obligated in fiscal year 1980 for the same purpose?

Ms. KING. The supplemental was provided for two purposes—to address the cellulose needs and other insulation related needs, and to replace funds which have been diverted from other programs to meet the cellulose needs.

Over 1978 and 1979 the Commission spent $2,590,000 on cellulose, which is in excess of the total amount of the supplemental.

Mr. TRAXLER. From which projects were funds diverted in fiscal year 1979 to implement the cellulose standard?

Ms. KING. From the Chronics program.

Mr. TRAXLER. That was in fiscal year 1979?

Ms. KING. Yes.—from a variety of other across the board programs, from the children's program. Contract work was deferred in a number of areas.

Mr. TRAXLER. Did you use the supplemental appropriations to restore funds only to those projects that were reduced to implement the cellulose standard?

Ms. KING. Yes. And at the time we came before the Committee and requested the supplemental, that request was made clear and it was with that understanding that the supplemental was approved.

Mr. TRAXLER. Subjectively, do you think that Congress did the right thing in mandating the cellulose insulation standard?

Ms. KING. There was a great deal of concern at the time about the hazards of cellulose insulation. Our concern, I would say, after getting into the cellulose standard, was a broader concern of fire hazards associated with cellulose insulation and other insulation questions as well.

So, in the sense of opening up an area of importance, the answer is, yes.

Mr. TRAXLER. The Authorizing Committee will agree with that.

ADMINISTRATIVE POSITION REDUCTION

Two years ago the Committee abolished 28 positions in the administrative functions of the CPSC. I believe you came within two or three positions of meeting that requirement.

Do you want to tell us how that directive finally was implemented?

Ms. KING. I believe by the end of fiscal year 1979 we were in total compliance with the recommendations of the Committee Report of 1978.

Mr. TRAXLER. How did you do it?

Ms. KING. The Committee recommended that the Commissioners' offices not exceed staffing of 21; that required a cut of eight. In that area we were, at the time that we reported back to the Committee, in compliance on that. In the Office of Strategic Planning, the Committee recommended a cut of 16 from a total of 26 staff people on board. We subsequently abolished that office and

created a Budget and Planning Evaluation Office. Ten people from the old OSP were incorporated into the budgeting office, but 16 positions were abolished.

You also suggested reductions, minor, in the Office of the Secretary, the Office of Internal Audit and the in the Office of the Executive Director. The Senate disagreed with your Internal Audit recommendation but we complied with all of the other areas.

Subsequently I explained to the Committee that there were immediate needs, particularly in the Office of Executive Director, that we had a need for a little bit of relief in that area and discussed it with the staff. They said that since we had been in full compliance with the order of the Committee, it would appear that a good faith effort had been made and the specific needs at the time were acknowledged.

BURN PREVENTION DEMONSTRATION PROJECT

Mr. TRAXLER. Turn to page 14 of the justifications. You briefly describe the Burn Prevention Demonstration Project conducted in the Boston area.

Ms. KING. Yes.

Mr. TRAXLER. What was the total price tag on that project incurred by the Commission?

Ms. KING. Throughout the development and evaluation of the program, a little over $1 million.

Mr. TRAXLER. Would that kind of project be a high priority project today?

Ms. KING. It is not a priority project on the Commission's priority list now. We are conducting the final evaluation of the program. It was an effort to undertake an intensive learning and information program for school children specifically. The results are mixed. As we are getting the responses back, there appears to be a great deal of interest on the part of some outside parties and some other government agencies as to picking up the program.

The Commission is of the view that it should not be our responsibility to carry forward this program in perpetuity. The materials are available to others who are interested in picking it up. We have only a small amount of money allocated to it this year. By "mixed results" I mean that over a three-year period we do not see a dramatic decrease in the number of actual fire injuries, but there is evidence of children learning from it.

Mr. TRAXLER. Would you place that on your priority list today?

Ms. KING. I would not, no.

UPHOLSTERED FURNITURE PROJECT

Mr. TRAXLER. On page 13, the justifications discuss the upholstered furniture project. Here again the Commission was on the verge of considering a mandatory standard and has now settled for voluntary action—which, of course, could be just as effective in addressing the problem. When do you see the upholstered furniture standard coming out?

Ms. KING. The Commission deferred action on a fully developed staff recommendation for a mandatory standard for one year to allow the industry to put in place the voluntary program they

developed. We would be evaluating that program throughout the year, working on our own and with the industry as is appropriate, both to see whether the furniture that is made available under the voluntary program complies, and whether or not it is available to consumers in retail outlets. We do some actual testing, purchasing and testing of the furniture to see if it complies and at the end of the year's time we will evaluate the effectiveness of the voluntary program.

We retain the option at that time to go with the mandatory standard if it is necessary.

CHAIN SAWS

Mr. TRAXLER. Following through, in connection with chain saws, have you ruled out the mandatory standard approach there?

Ms. KING. No.

Mr. TRAXLER. Would your answer apply in that situation just as well?

Ms. KING. There actually should be an update on the material that is in the budget document that is here because the Commission has since December received the submission of the industry in response to the 16-month effort to develop the voluntary standard.

The staff is evaluating the materials that were submitted and will bring forward to the Commission options for Commission action.

I think I indicated this morning that we were somewhat disappointed with the submission.

CHRONIC HAZARDS

Mr. TRAXLER. On page 26 of your justifications you are asking for $3,558,000 and 50 positions to permit continuation of work in the chronic hazards area. As the justifications indicate on page 24, this is an area where cooperation with other Federal agencies is key. Among those agencies are the Environmental Protection Agency, the Occupational Safety and Health Administration, the Food and Drug Administration and one or two others.

How does your $3½ million budget compare with that of these other agencies that are responsible for a national "carcinogenic policy?"

Ms. KING. I would have to submit for the record a breakdown of the OSHA, EPA and other agencies' budgets that are specifically devoted to toxic substances.

[The information follows:]

We do not have a precise break-out of what all agencies working on toxic substances spend on that effort. The following is the total budget of agencies or specific portions of agencies with chief responsibility for toxic substances:

[In millions]

Agency	Fiscal year—	
	1981	1980
Office of Pesticides and Toxic Substances in EPA	$106	$95
OSHA	212	187
NIOSH	83	77

Agency	Fiscal year—	
	1981	1980
NCI	1,000	996
NIEHS	97	90
CPSC (chronics and acute)	4	4
NTP	92	69

Mr. TRAXLER. What is your view of the new United States Regulatory Council?

Ms. KING. It has been very helpful.

Mr. TRAXLER. How does that differ from the Interagency Regulatory Liaison Group?

Ms. KING. IRLG is an informally constituted group of five agencies to deal only with the question of toxic substances. The heads of the agencies meet on a regular basis. We have permanent work groups to deal with specific topics—formaldehyde work group, asbestos work group and training and coordination groups for the purposes of developing joint inspections. So we try not to do each other's field work. There is staff cooperation on a regular basis and agency cooperation on a regular basis. It is somewhat institutionalized. The Regulatory Council was set up for purposes of developing the regulatory calendar so that there would be one comprehensive piece published on a regular basis so that industry groups and the public and consumer groups would know what varying agencies are doing in different areas.

Another purpose of the Regulatory Council in terms of regulatory reform is to try to address questions of overlapping and duplicating regulations and to foster cooperation where it is possible. It is much larger and much less informal as a body. It has its own staff. The IRLG does not have a staff.

Mr. TRAXLER. Are you a member of the Council?

Ms. KING. The Council is composed of 36 Executive branch departments and includes quite a large number of independent regulatory agencies. We are not bound by the Executive Order, but we have attempted to fully comply with the spirit of regulatory reform and provide in plain English, the analysis that is required. And I sit on the Executive Committee of the Regulatory Council.

Mr. TRAXLER. As a regular member?

Ms. KING. Yes.

HAZARD IDENTIFICATION AND ANALYSIS

Mr. TRAXLER. On page 38, the justifications outline a request for $3,834,000 and 44 positions for hazard identification and analysis in 1981.

On the next page there is reference made to the National Electronic Injury Surveillance System (NEISS). The NEISS sample was redesigned in 1978 and became fully operational in 1979. It is now using 74 rather than 121 hospital emergency rooms and the justification indicates that the new sample maintains the system's statistical reliability while freeing resources. How can you retain reliability by reducing by almost half the data points?

Ms. KING. It remains statistically valid as a projection tool. We included in the sample four or five tiers of different hospitals

which are statistically representative of the hospital population in the country. We lost a small percent of statistical reliability—plus or minus five percent—by going to a smaller sample. On the other hand, the inflationaary cost involved with making a system of 119 hospitals prompted us to ask the question, "Could we do this with fewer hospitals?" The answer was, yes.

But we built into the system four burn hospitals so that we would pick up burn information which we think is important, and a handful of large metropolitan hospitals. In addition, the samples were drawn so that we would have adequate representation from burn areas.

With the savings that will be realized over time with the new system in place, we think we need to look at other sources of data for which hospital emergency rooms are not an adequate source. For example, chronic hazards. There is a question of how to attain adequate data here. We have a concern with burns. We also have to turn to the poison control center for poison information. Therefore, we are undertaking a very comprehensive look at the whole data gathering system to be sure that our data needs are met as the Commission's needs are changed.

Mr. TRAXLER. What were the top five injuries recorded in the hospital emergency rooms in 1979?

Ms. KING. You mean as to what comes in? They don't change overmuch in terms of numbers. Roughly the same types of accidents will appear very high on the list over a period of time.

Mr. TRAXLER. What were the product/activities associated with injuries?

Ms. KING. I will supply that for the record.

[The information follows:]

According to NEISS, the following five products/activities were most commonly associated with injuries treated in hospital emergency rooms in 1979:

	Estimated
1. Stairs	691,000
2. Bicycles	537,000
3. Baseball	439,000
4. Football	425,000
5. Basketball	389,000

The value of the NEISS system is not what are the ten most frequent accidents caused in the home. The value of the NEISS system is much broader than that; it is seeing new injuries as they begin to show up in hospital emergency rooms. They provide the baseline data for us to go out and do in-depth investigations into specific types of injuries.

FIELD ACTIVITIES

Mr. TRAXLER. On page 49 you are requesting $12,873,000 and 326 positions for field activities. You currently have an area office reorganization underway that will reduce the number of field offices from 13 to 10. Is that correct?

Ms. KING. We will reduce the number of what we call regional offices to ten. We will not remove offices from the three cities which were formerly characterized as regional offices. They will be satellite offices.

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The purpose of the reorganization is to reduce administrative top-heaviness in the organization.

Mr. TRAXLER. Would that result in a reduction of your 326 positions?

Ms. KING. No.

The purpose of the reorganization is to free-up field staff for on-the-street work, investigators, inspectors, to do the compliance enforcement work in the field, and it was a managerial decision.

Mr. TRAXLER. You have to have cops on the beat?

Ms. KING. Yes.

SENIOR EXECUTIVE SERVICE

Mr. TRAXLER. On page 52, the justifications detail a request of $5,210,000 for administration and general support. How much is the Commission requesting in 1981 for the Senior Executive Service bonus allowance?

Ms. KING. How many dollars for the bonus allowance?

Mr. GROSS. $70,000. I don't know if our request—we can supply that for the record.

[The information follows:]

The Commission plans to spend $56,000 on SES bonuses.

Mr. TRAXLER. Please. You are presently paying cash bonuses to GS employees. Is that correct?

Mr. GROSS. Yes, some cash bonuses. The number has dropped from 1978 to 1979.

Mr. TRAXLER. Can you provide us with the highest cash bonus paid in fiscal year 1979?

Ms. KING. $1,500.

Mr. TRAXLER. Did any of the employee's salary and bonus exceed the statutory ceiling on salaries?

Ms. KING. No.

Mr. TRAXLER. Provide also for fiscal year 1979 the number of employees that received cash bonuses.

Ms. KING. In 1979, 30 employees. There were two group awards and 17 individual superior performances. The total money was less than $15,000.

Mr. TRAXLER. What are your plans regarding bonus allowances for Senior Executive Service?

Ms. KING. We are in the process of implementing that entire procedure just as every other agency is.

Mr. GROSS. The bonus recommendations of the 14 SES positions that report to me will be made with the recommendation by me, through our Executive Resource Board and will then be forwarded to the Chairman for final review.

Mr. TRAXLER. Do you anticipate that your proposal will permit bonus and salaries that would exceed statutory ceilings?

Mr. GROSS. It is my understanding from OMB that the $10,000 SES awards are exempt from the current ceiling. It is contemplated that they will be above and beyond the maximum.

Mr. TRAXLER. It is possible.

Mr. GROSS. It is probable.

Ms. KING. It was my understanding that was the intent of the system.

CPSC STAFFING

Mr. TRAXLER. On page 59, the table compares object class obligations for 1979 through 1981. In 1981 you are requesting 880 positions and $23,500,000 in salaries and benefits. What is the current number of full-time permanent positions on board?

Ms. KING. Full-time permanent at present, 899.

Mr. TRAXLER. What is the current number of part-time permanent and temporary positions occupied?

Ms. KING. Thirty-seven part-time permanent, 32 full-time or part-time temporaries and 18 students.

Mr. TRAXLER. What is the estimated number of staff years funded in the 1981 request?

Ms. KING. We will supply that for the record.

[The information follows:]

The Commission will fund 951 staff years in 1981. The breakdown of the staff years is as follows:

Full-time equivalent	924
Overtime	9
Others (students)	18
Total	951

CPSC TRAVEL

Mr. TRAXLER. In connection with travel. Last year you requested $1,300,000 for CPSC travel. That was reduced to $1,200,000 as a part of the reduction made by Congress for 1980. The current estimate is $1,116,000. Does that include a further eight percent reduction resulting from an additional $500 million cut in government-wide travel included in the 1980 continuing resolution passed last November?

Ms. KING. Yes, sir.

Mr. TRAXLER. What have you obligated through the first quarter of fiscal year 1980 for travel?

Ms. KING. $349,525.

IMPORT-EXPORT POLICY

Mr. TRAXLER. One of the Committee staff visited the Dallas Field Office in the past two months. The Director of that Office suggested that it may be a worthwhile idea to detail two or three employees to the ports of Galveston or Houston in an attempt to cut off foreign products that constitute a safety hazard.

How do you feel about that suggestion? Does it have any validity?

Ms. KING. The question of import and export controls are of serious interest to the Commission. The statute defines an importer as a manufacturer covered by the law, so we do have direct jurisdiction over products coming into the country which are in violation of a standard. If the Commission takes action against a product in this country, the question of the dumping of it overseas is an issue for us. Whether or not we would ever have the adequate staff resources to police all the ports is another question. We have to work with Customs and other officials here. There is no question about that.

We have also taken steps with the assistance of the amendment that Congress passed to set up an international notification system with regard to exports from this country, and we are very interested in seeing some system which would apply to imports coming in into this country.

Mr. KRULWICH. What has become a bigger problem is when we deal with the question of recalls. A question continuously comes up, can I export this product?

It is an area that I would expect is going to be more and more active in the next year or two as we, and other agencies as well, come to grips with this particular problem.

Mr. TRAXLER. American businessmen have complained about the manner in which the Japanese treat their products as they come off the ships and sit in the docks and warehouses with long delays.

In your efforts to provide a safer product for the American consumer, on products that are primarily imports, are we open to the same kinds of criticism from foreign governments? What we are doing is imposing foreign trade restraints and controls on their products.

Mr. KRULWICH. There is a potential for that. I don't think it has happened as a practical matter. I am not aware of any complaints coming through to us of that having happened, at least in areas that we deal with. But, there is potential that a restriction on imports can be considered a trade barrier.

Mr. TRAXLER. It supports a need for a system that is recognized internationally by the major trading countries—having everyone operate by the same rules in terms of notification.

Mr. PITTLE. The Commission has grappled with this problem over the years. It is impossible for us to open all the containers that come across in a ship and which are not normally opened at the port of entry. We don't require that a container be embargoed somewhere until an inspector comes to dig in the middle of one to check a product.

If we did hold up containers, importers would legitimately object that their goods are getting outdated or moldy or they are spending large sums for storage because we have a very small field staff. Consequently, we have adopted a policy of treating imported products much the same as we do those manufactured domestically.

We have tried to put leverage on importers to obtain certification from foreign manufacturers that their product has been tested by a third party in the country of origin. Then, when the product is imported, there is some evidence that due care has been taken to ensure that the imports comply with our regulations.

Finally, since importers are treated like domestic manufacturers, they may not re-export noncomplying products. Instead, they must fix or destroy them. This provides an incentive to importers to make sure that what they are bringing in does comply.

Mr. TRAXLER. Mr. Stokes.

Mr. STOKES. Thank you, Mr. Chairman.

MINORITY OUTREACH

This morning you testified about fire and thermal burn hazards, I believe, that you had budgeted $96,000 in fiscal year 1980 for these activities.

Ms. KING. For minorities, yes.

Mr. STOKES. Can you tell me whether these activities will be continued and expanded in fiscal year 1981?

Ms. KING. I would have to supply for the record the exact amounts.

The activity that we have undertaken this year and have projected into next year—next year's activities—will be based on the findings of some studies that are going on now.

It may be difficult to give you absolute projections with dollar amounts attached because what we do need are the conclusions of the studies that are now going on concerning how we would go about getting such an undertaking.

[The information follows:]

In fiscal year 1980, $96,000 is budgeted for minorities program development.These funds will be used for the development and pre-testing of materials directed toward raising the awareness level and knowledge level of minority consumers about the safe selection, use, maintenance, storage and disposal of those consumer products found to be hazardous to their safety.

In fiscal year 1981, $100,000 is budgeted to promote I&E programs directed toward minorities utilizing the materials developed with fiscal year 1980 funds. At the present time we would plan to spend the money on the following activities:

Conduct of 17 Community Demonstration Projects at $5,000 each to be awarded to those organizations identified as having the most influence and the most extensive communications network for reaching minority populations with product safety information—$85,000.

Exhibiting at 7 minority conferences, and conducting workshops at these conferences to demonstrate the use of these materials in existing programs—$10,000.

Purchasing special mailing lists to reach the 7 target populations in the study. (Blacks, Hispanics, Native Americans, older consumers, low-income rural, low-income urban, handicapped)—$3,500.

Prompting the materials through minority press by sending repro-proofs to the press—$1,500.

Mr. STOKES. Would you also supply for the record, to the extent possible, other areas in which consumers products hazards have a disproportionate impact on the minority population?

Ms. KING. If we can document it. I wish we had information of that specificity. We may not be able to document specific areas.

[The information follows:]

There is evidence that certain hazards pose a greater threat to minority groups than to the general population. These hazards are primarily those associated with life in a low-income environment.

For example, non-whites suffer a death rate almost twice that of whites in accidental fires. It is likely that this difference is explained by the greater fire hazards present in low-income neighborhoods populated more often by non-whites.

Objective data have shown black children in urban environments have higher levels of lead in their blood than Hispanic or white children. A major source of environmental lead exposure is lead-in-paint which is more accessible in older dwellings where paint is peeling and chipping.

The study mentioned earlier by the Chairman, which is now on-going to help identify consumer products which seem to cause injury to minority groups, will be completed shortly and should provide more detailed information.

Mr. ZAGORIA. I think that one of the areas that surfaces is in this whole issue of formaldehyde. When we started holding our regional hearings, we heard from a lot of people who lived in mobile homes. They were largely low income people who couldn't afford the traditional homes, and who were subjected to fumes of such intensity that they had to give up living in their own homes. So even though we have a particular project directed at disadvantaged persons, we also find that in dealing with particular hazardous products, the special interest of low income groups comes up.

We also endeavored to convene the first of a series of little cup-of-coffee meetings with Washington organizations that represent low income groups—Black, Indian, Japanese Americans, labor union groups, consumer groups. It is an effort to try to make sure that whatever we do find that indicates hazard, that provides some warning signals, to have it transmitted through their membership, through their membership publication, so we can get a multiplier effect. But the most important thing is to get the word out as to what the trouble things are and the things to watch our for.

I think some of us have been very concerned that our organization may have a little tilt toward a middle class kind of concern. Indeed, it may take people of substantial education and income even to be aware of the existence of the Commission, much less to know that you can file a petition or use a hot line and even there you have to know the number. So there has been an extra effort to reach out and make sure that the hot line number gets known, that the existence of the area offices is publicized and that many publications are available through which our efforts to protect the public from hazardous products are carried forward.

Mr. STOKES. I think you are right, Commissioner. This is an area in which some type of out-reach program is beneficial, particularly for the low income and minority population. That is why I am concerned, Chairman King. It seems that there ought to be some way to acquire the necessary data to be able to ascertain whether a problem exists in the minority population.

Ms. KING. One of the questions we like to ask ourselves is, are there certain types of injuries that are occurring in specific population groups with greater frequency? Oftentimes data is not kept in a fashion—from hospitals or other data gathering modes—that makes that distinction possible. One of the frailties of the NEISS hospital data system is the fact that, understandably, a hospital emergency treating room is first concerned with treating the injury, and sometimes it is difficult, although we try, to get the identification of the problem, the causual relationship. But when you get into the questions, what is the income and what is the race or the age of the individual coming in, it gets more and more difficult with the more questions you try to ask.

It has been our major thrust to say that if we can assure the production and retailing of safer products generally, that the population as a whole benefits, and if in fact low income and minority groups are suffering more, then there will be a greater benefit at those levels as well.

We wish we had a sophisticated and thorough data gathering operation that could be constructed because we could answer a lot of the questions we simply don't know the answers to now.

Commissioner Zagoria has been specifically interested in the question of improving recall rates. How do you reach low income and minority groups to get them to return a product for a new one or to have a product repaired. It is easier if you don't have to mail it in or you don't have to take it 250 miles away to get it replaced.

We are trying to explore ways to facilitate such activities.

Mr. ZAGORIA. We have to do a lot of educating of manufacturers and retailers. They are very good at knowing how to merchandise their products. What we are trying to get across is that if you are that good at selling it, and it turns out to be hazardous, you ought to be even better at figuring out ways to get the warning out and the product back.

Here is an example applying to people with low incomes. We had under consideration a fan which under certain conditions bursts into flames. It has a plastic casting. Who are the people who use fans these days? They tend to be low income people who live in apartment houses and tenement houses. When is the fan likely to be used? At night so they can sleep through the night. They are in the worst possible position to react to an emergency. This particular fan company has only been able to recapture about one percent of the total number distributed. So, some of us have been pressing the retailer, asking whether he can do any better than he has. At least, can he check his charge accounts and see who bought fans and notify them? Well, the retailer has come back and said that is impossible to do. He can't connect the names with the products and do it.

There is another department store chain that had a bicycle that turned out to be hazardous. They went through their charge accounts and they recaptured more than 60 percent of those bicycles.

A lot of this goes to how determined one is to try to make good on a hazardous product. We are now pursuing, at least I am endeavoring to pursue with this company, how about putting a stuffer in your monthly charge bills, for then you will hit all charge customers including some of those who may have bought your fan? Initially their response was, this is a very expensive thing and if we put the warning notice in there about this fan, we are foregoing the opportunity to make a profit on something else that we can be featuring in our envelope stuffers.

I think that if one sells a hazardous product, he has a moral obligation to tell his customers, "It turned out to be hazardous, bring it back in for replacement or retrofit."

You are dealing with very sensitive areas. We had a toy which had been largely merchandised by television. The company thought it was doing very well when it undertook to put out press releases and even some display advertising. But it didn't buy television advertising, which is the way it sold the product and where it would have hit the same people to whom the toy was sold.

It isn't easy. But, we are really trying to get more effective results. We encourage using pictures of products because people don't necessarily think in terms of a brand name or a model number. But, when you see a picture, you think "That looks like the one I have at home," that kind of thing.

We are also trying to get the warning language a little more precise. Sometimes people can write a hazardous notice in such a

way that only a Madison Avenue lawyer can figure out that what they are really saying is that the product is dangerous and you had better do something immediately.

Ours is a constant process. Our intentions are good, I assure you.

Mr. STOKES. It is important to know that you are sensitive to the problem.

On page 44 of your budget request, it is noted in regard to information and education activities, that product safety materials specifically designed for minority group members will be developed and distributed during fiscal year 1981. What do you have in mind here?

Ms. KING. That goes back to the answer that I tried to give a little bit earlier, that as a result of the contract studies that are underway now, the material will be developed on the basis of what we are able to learn from that.

Mr. PITTLE. Some of the materials that the Commission has been using over the years have been directed to specific populations. Some, for example, have been written in Spanish because roughly 11 percent of the public is Spanish speaking, either as their first or second tongue. We also have materials that are developed and aimed specifically at the elderly or at children.

We are waiting for the results of a study that is specifically directed to how to communicate most clearly with minorities to be sure that the language is understandable and the message is pertinent. We have sent thousands of pieces of educational material in the past. We are going to see if we can improve them so the impact is greater.

Mr. STOKES. Your budget justification shows five proposed activities, under the information and education heading and the amount budgeted is $2,160,000

For the record, please indicate the allocation between those five proposed activities.

Ms. KING. Yes, sir, if they are approximate.

[The information follows:]

The cost of each of these proposed activities is:

A. Approximately $843,000 to respond to consumer requests for information. This includes the Commission's Hotline and individual correspondence.

B. Approximately $582,000 to distribute product safety information and education materials to schools and community groups.

C. Approximately $121,000 to distribute films and film strips, which we estimate will reach approximately 4 million viewers nationwide.

D. Approximately $130,000 for development and distribution of product safety materials specifically designed for minority group members. ($100,000 in contracts; $30,000 in staff time).

E. Approximately $324,000 will be used for production of three national media campaigns based on priorities to be established early in fiscal year 1981.

Mr. STOKES. Chairman King, is there any coordination between your agency and other Federal agencies that have a specific focus on the consumer, such as the U.S. Office of Consumer Affairs and the Consumer Information Center?

Ms. KING. I meet regularly with Esther Peterson. We now have a person on loan to their office to help with preparation of consumer booklets. We participated in the development of the Executive Order. We are a consumer organization. Everything we do is aimed at consumers. We had people working in the development of the

President's Executive Order requiring departments to set up consumer affairs offices. We met only last week with representatives from Action for purposes of possibly tapping into their groups of retired persons at the community level. We worked with the Federal Trade Commission. We have worked with outside groups as well.

EMPLOYMENT OPPORTUNITIES FOR MINORITIES

Mr. STOKES. I have one other area of inquiry. Would you tell me something about your Affirmative Action Program? Please indicate whether you have minorities in policy making positions within the agency?

Ms. KING. We have both Black and female representatives in the SES system. Ours is a small agency. As I indicated this morning, we have a vigorous EEO program. We are preparing to launch a vigorous recruitment effort at entry level of government specifically aimed at Affirmative Action Programs. And we are very conscious of this. As I indicated this morning, I think we have one of the better records in government on that point and the fact that we have had more female representation at Commission level makes us doubly sensitive on that.

Mr. ZAGORIA. Last year we had more women than men in the Commission. We almost lost our men's room.

Mr. GROSS. The Director of the Office of Equal Employment and Minority Enterprise has been charged with the responsibility of ensuring that the Executive Resources Board will respond appropriately in the area of Affirmative Action, so we maintain an adequate promotion of minorities in senior management at the agency. I have nearly tripled the number of upward mobility slots from eight to twenty positions so that we will make available additional opportunities for lower grade employees, including minority employees, to advance within the agency. Those plans will be implemented in the next few weeks. That will have a positive effect within the agency in terms of upgrading which is part of Affirmative Action.

Mr. STOKES. One of the things I have found is that there is a scarcity of minorities, particularly Blacks, at the GS–12 level and above where policymaking decisions are being made. What does the record look like in this area?

Ms. KING. To be absolutely accurate, I will supply that for the record.

[The information follows:]

Grade	Caucasians		Minorities	
	Male	Female	Male	Female
GS–12	71	30	8	5

I would indicate also that we have a very good, but small, business and minority contracting operation.

Mr. STOKES. And you have some data that you can provide for the record?

Ms. KING. Yes.

[The information follows:]

Listed below is a summary of small business and minority firms, including 8(a) contracts awarded in fiscal year 1979:

Organizations	Contracts	Amount
Small business (other than minority and 8(a))	23	$656,812.54
Minority (including 8(a))	16	871,163.30

The total number of all contracts awarded in fiscal year 1979 was 144 for a total dollar amount of $5,854,132.93.

Mr. STOKES. Thank you very much.

Mr. BOLAND. Mr. Coughlin.

STATE AND LOCAL GOVERNMENT COOPERATION

Mr. COUGHLIN. In connection with your field office, they apparently commissioned State and local officials to enforce the Federal CPSC statutes?

Ms. KING. They don't; we do.

Mr. COUGHLIN. There is no commission program? You refer to a commissioning program on page 49, what is that?

Ms. KING. The Commission, working directly with governors' offices, has been able to commission State employees as agents of the Commission for performing certain specified functions.

Mr. COUGHLIN. Such as?

Ms. KING. Inspections, additional recall work, retail surveillance work at the store level. They are generally people who are working in the consumer protection area in the State and because they are doing a great deal of comparable work at the State level can do additional duties for us at the same time at no cost to the Federal Government.

INFORMATION AND EDUCATION ACTIVITIES

Mr. COUGHLIN. The paragraph at the bottom of page 43 reads in part, "Informing, educating consumers about the products they use and supplement regulatory activity."

In my mind it should be the other way around, the regulatory activity should supplement consumer information.

Ms. KING. We do have a broad scale information and education program. There are many things for which regulatory activity is not appropriate but education is.

An example of this, what you consider the cart before the horse, is in the area of the crib regulation. When it first went into effect, a very extensive information program to parents followed. It was after this went into effect and after the information program was made available that we began to see the injuries and deaths drop because people were made very aware of the hazard as they looked for new cribs that are on the market. That is a direct compliment of the regulatory program.

Mr. COUGHLIN. Would you consider your basic purpose as education or is your basic purpose to regulate?

Ms. KING. The statute says both. The basic purpose is to reduce injuries.

Mr. COUGHLIN. I notice, for example, your compliance and enforcement program, four new positions, at $67,000 but your information and education is dropping by some $57,000 which would indicate more emphasis on one and deemphasis on the other.

Ms. KING. Compliance and enforcement is going up in large measure to reflect the hazardous and specific section 15 type activity which is not standard-writing but recall efforts. In the information and education area, the Commission is attempting to focus, rather than scatter shoot, to complete and support those priority projects that we have identified as a major hazard area rather than try to respond to every program that we encounter.

There has been some concern in the past that we can't meet all the needs. We could print brochures and write materials and develop school curriculum programs that would consume a budget 50 times as large as we have and still not get all the injury information.

Mr. COUGHLIN. My final question or comment, I will be interested in your response to Chairman Boland's questions which, I believe, you will supply for the record, if your agency had to absorb a budget cut equivalent to your share of the deficit, where would it come?

Ms. KING. That is a very very difficult question.

Mr. COUGHLIN. Would you answer that for the record?

Ms. KING. Yes, we will. (Response appears at p. 97.)

Mr. COUGHLIN. Thank you, Mr. Chairman.

Mr. TRAXLER. In conclusion, we note that 2 years ago the Office of Management and Budget only very reluctantly supported a reauthorization of the Consumer Product Safety Commission. And 1981 represents the last year of the most recent Congressional authorization for the Commission's activities.

I must say that I have been very pleased with your presentation today and I thought your introductory remarks certainly were a vast improvement over prior years, no reflection on any Commissioner at that time.

But sitting here I must tell you that I have confidence in the agency and a comfortable feeling about the direction this Commission has taken.

How would you characterize your current relationship with OMB—and how would you characterize OMB's assessment of your work at this time? What do you think their recommendations and thoughts are going to be when you get to the Authorizing Committee this year?

Ms. KING. I am very pleased to say that I believe that we have a very good and cooperative and productive working relationship with OMB now. We now have a good working relationship with the new Office of Personnel Management although we have had trouble with both areas in the past. Since this agency has not in a number of years gotten any dollar increase over the appropriation of the year preceding, we are encouraged by the fact that there is now a small increase. It is an increase, not a cut.

The staff pointed out that if you included the supplemental in there, the increase, perhaps, isn't an increase. But we were told that is not true. We represent to you our understanding that it was

a one-time request for that supplemental and it is not a part of the ongoing budget.

So, we take that as something of a vote of confidence by OMB. We have not had the strained relationship we have had in the past.

FUTURE DIRECTION OF CPSC

Mr. TRAXLER. Assuming that Congress authorizes you, what do you see as some of the real hot issues as far as your agency is concerned?

Ms. KING. I can voice a personal opinion and perhaps the other two Commissioners would want to respond as well. I think that the Commission, since it was created, has dealt with a large number of those hazards which were listed as the product safety problems identified by the Presidential Commission which recommended establishing this agency and that we have turned something of a corner in the area of consumer protection. We are trying to make our laws and regulations work. We are recognizing the problems of some of them, and are trying to iron them out.

By and large, we have addressed a lot of the acute mechanical hazards that faced the consumer in the past and with adequate information the consumer can make a choice. Products are available that were not available before, safer products are available with information, a consumer can exercise choice of how and what to purchase.

The problem I think for the 1980s is going to be one of governmental responsibility where the consumer does not have a choice, where the hazard is unavoidable or unknown. This is one reason the product area is of such concern to a lot of agencies. Even the best informed consumer is ill-equipped to make judgments or to make choices concerning some products. I think the governmental responsibility now is in the area of injury prevention. That is what we ought to be looking into.

Mr. COUGHLIN. I want to second the Chairman's statement that the quality of the presentation here has been superior. I am very encouraged by the direction that you appear to be taking. I don't want the questions that I am asking to be considered critical, but judgmental questions.

Mr. TRAXLER. We wouldn't want you to walk out of here feeling too comfortable.

Mr. ZAGORIA. What I would like to say really fits into the context of that question. I think I agree with what Susan has said. As I see it, we should be proceeding on two fronts. One is the recall mode. If you were to float on a graph the number of recalls this Commission has been involved in, it goes up like that, not only as to the individual products but as to the number of different products of individual companies.

In other words, if you multiply the different recalls by the number of individual units of that recall, you get into 50 million units very quickly. This indicates that the product is a result of poor design, of quality standards that have fallen down. In other words, it is a continuing kind of thing.

The other thing that I think is involved, the more ominous one, is the hidden hazard, the kind of thing that few consumers can ever determine for themselves. For example, if someone buys a hair dryer, sometimes the only way he or she can tell if the asbestos is coming out would be to put a $150,000 electron microscope in his or her room to check it out. You almost have to rely on government to give you that kind of warning system. Formaldehyde is something that very few of us can measure within our own homes or can even determine whether we are sensitive to.

We need an awful lot of health science ability, a lot of technical measurement capability and that kind of thing is very expensive. Moreover, we are dealing with symptoms from which you don't see an immediate impact. It is not as if you have a chain saw and there is a kickback and you cut off a finger. There, you know there is a connection between that product and that result. But, if you live in a trailer home and you are taking in formaldehyde fumes from the plywood or the drapes or even perhaps from some of the products in room deodorizers, et cetera, you need to know whether you are in danger and you need government help on that. It is here where I think our efforts are bound to be of some significance.

If the Commission was not around, there is a real question whether you would have these recalls taking place. There would be no one who would be saying, you've got to do it, you've got a moral obligation to do it. On the other hand, who would there who would be undertaking a whole series around the country to gather information on formaldehyde?

In short, I think we must travel these two immediate routes as well as a long-range route if we are to do what Congress told us to do in order to achieve better safety for our citizens.

Mr. PITTLE. While I agree with much of what my two colleagues have said, I think it is fair to say that what constitutes a hidden hazard is a relative matter. Clearly, substances you can't see except with an electron microscope are hidden because they are hidden to the eye and people don't suspect they are present in a product. But I also feel that hazards of chain saws, electrical insulation and a lot of other things are hidden to the untrained consumer even though they may seem apparent once you point them out. I may be able to spot more than a lot of people can because I am technically trained. So, hidden hazards are a relative thing. I think hazards like chain saws will always be serious enough to fit the mandate Congress gave us and I am sure we will address problems like that in the future.

Concerning product recalls, we have jurisdiction over 15,000 products and we have regulations for less than 50. So, there are 14,950 that are uncovered—I am not saying they ought to be covered. The point is that there have been 850 recalls of products the majority of which did not have a standard to guide the individual who designs it or the individual who manufacturers it. As a consequence, I think section 15 is something that is going to be a continuing activity even if the need to write standards tapers off within the next few years. There is always going to be a need for that general activity.

Mr. TRAXLER. I want to thank you for coming. The subcommittee stands adjourned. Your justification will be placed in the record at this point.

[The justification follows:]

COMMISSIONERS' STATEMENT

This budget request for Fiscal Year 1981 is submitted by the Commissioners of the Consumer Product Safety Commission.

Susan B. King
Chairman

Sam Zagoria
Vice Chairman

Stuart Statler
Commissioner

Edith Barksdale Sloan
Commissioner

R. David Pittle
Commissioner

A. APPROPRIATION LANGUAGE PROPOSED BY CPSC

CONSUMER PRODUCT SAFETY COMMISSION

Federal Funds

General and Special Funds:

SALARIES AND EXPENSES

For necessary expenses of the Consumer Product Safety Commission, including rent in the District of Columbia and hire of passenger motor vehicles, services as authorized by 5 U.S.C. 3109 but at rates for individuals not to exceed the per diem rate equivalent to the rate for GS-18, and not to exceed $500.00 for official reception and representation ($40,600,000) $43,959,000 (Department of Housing and Urban Development - Independent Agencies Appropriation Act, 1980).

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Introduction. The Consumer Product Safety Commission is an independent regulatory agency established by Congress in 1973 (P.L. 92-573) to reduce the risk of injury, illness, or death associated with consumer products. The Commission administers five statutes* which provide it with a broad range of legal and other tools to remedy product-related hazards.

FY 1981 Budget Request. In September the Commission submitted a request for $47,434,000 and 903 positions. The President subsequently recommended $43,959,000 and 880 positions, an increase of $2,339,000 over the FY 1980 appropriation. In view of the need to restrain the federal budget, we support the President's recommendation. A chart comparing our September request to this request may be found on page 4.

Our analysis indicates that the Commission needs $1,686,000 more than the FY 1980 current estimate to maintain the FY 1980 level of effort in FY 1981. A fuller discussion of increased costs, as well as a description of the austerity measures we have initiated to avoid disruption of essential operating programs, can be found in Appendix A. The requested resources are presented in a new format that we believe will give the Congress a clearer picture of the agency's structure, its substantive programs, and the choices available in allocating staff and financial resources. The new format contains three sections. Commission Policy Development and Direction includes the Commissioners and the staff reporting directly to them. Product Safety and Enforcement includes the Commission's hazard-related programs as well as the scientific and technical staffs that support these activities. Administration and General Support includes general overhead, supplies, and services such as personnel and contracts administration. Cross-walks to the structure used last year may be found on pages 54-56.

Commission Program for FY 1981. The resources requested represent the Commission's considered judgments on what regulatory and other initiatives are necessary to ensure product safety in the marketplace. This carefully balanced product safety program provides for enforcement of Commission regulations to ensure that the public is adequately protected and for an increased emphasis on retrospective evaluation of Commission actions to ensure that they are in the public interest. The requested level of funding will allow us to continue ongoing work in the various hazard program areas, including work on the Commission's priority projects (Appendix B). We will also be able to increase or initiate efforts in several crucial areas:

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* The five Acts administered by the Commission are the Consumer Product Safety Act (15 USC 2051), the Flammable Fabrics Act (15 USC 1191), the Federal Hazardous Substances Act (15 USC 1261), the Poison Prevention Packaging Act of 1970 (15 USC 1471), and the Refrigerator Safety Act of 1956 (15 USC 1211).

o Product Defect Correction Activities. Actions under Section 15 of the Consumer Product Safety Act--the section that requires company notice to the Commission and authorizes Commission action on defects that may present a substantial product hazard--have been, and will continue to be, the Commission's fastest, least expensive, and most selective way of removing hazardous products from the marketplace. The increased level of funding requested for FY 1981 will permit us to act on industry reports required by law, and to investigate the reports of injury we receive in consumer complaints, news clippings, and so on, to determine if substantially hazardous products are involved.

o Energy Conservation. Conservation of scarce and expensive energy supplies is an urgent national need, but some energy conservation measures may have hazardous side effects. Some insulation materials are flammable, or emit irritating gases; more tightly sealed residential buildings may permit build-up of toxic gases in home environments; improperly installed coal or wood-burning stoves may present a fire hazard. The Commission has already made progress, which will continue in FY 1981, in the important area of saving energy safely.

o Chronic Hazards. The development and use of new chemicals since World War II has brought, along with major benefits, alarming and unforeseen consequences. We now know that some of these chemicals present chronic hazards: they cause cancer, birth defects, genetic alterations, or other effects that may take years to manifest themselves. The Commission has focused initially on substances that may cause cancer, now second only to heart disease in claiming American lives. An estimated 60-90% of all cancer is related to environmental or external factors. With no cure yet established, prevention by halting or limiting exposure to cancer-causing substances, must be a key aspect of the federal response. Consumers may be exposed to cancer-causing substances in a wide variety of consumer products. The Commission will continue to monitor products and chemicals in the marketplace, to identify and evaluate the significance of consumer exposure, and to act to protect consumers from unreasonable risks of injury.

o Federal/State/Local Cooperation. The Commission shares the Administration's commitment to involve state and local officials in developing national policies and programs. We have found that cooperative efforts have major benefits: greater impact for product safety activities; reduced duplication of effort; and more effective use of tax dollars. The Commission now works actively with state and local governments to plan and conduct product safety programs, and plans to continue these efforts in FY 1981.

Each year, we estimate, 36 million people are injured and 30,000 die in accidents involving consumer products. All Americans--young or old, black or white--suffer the consequences, whether in individual pain and suffering or in the effects which rising medical costs and lost days at work have on our economy. The Commission believes that the product safety program outlined on the following pages will provide benefits for all consumers.

U. S. CONSUMER PRODUCT SAFETY COMMISSION

Summary of Resources for FY 1979, 1980 and 1981
(Funds in Thousands of Dollars)

	FY 1979 (Actual)		FY 1980 (Estimate)		FY 1981 (Estimate)		Difference 1980 to 1981	
	Pos.	Funds	Pos.	Funds	Pos.	Funds	Pos.	Funds
I. Commission Policy Development & Direction	88	$3,067	88	$3,407	88	$3,425	-	+$18
II. Product Safety and Enforcement								
Office of the Executive Director	37	1,258	37	1,460	37	1,474	-	+ 14
Hazard Programs								
Petitions	12	695	10	485	10	638	-	+153
Fire/Thermal Burn	27	1,427	27	1,735	16	767	-11	-968
Electrical Hazards	20	860	23	1,423	24	1,406	+1	-17
Acute Chemical Hazards	16	811	16	785	14	856	-2	+71
Chronic Chemical Hazards	45	2,519	50	2,742	50	3,558	-	+816
Mech. Hazards- Child./Recreation	13	648	15	788	13	860	-2	+72
Mech. Hazards - Power Equipment	13	849	14	844	11	830	-3	-14
Mech. Hazards - Household Products	30	2,255	28	1,925	15	901	-13	-1,024
(Subtotal, Hazards Programs)	(176)	(10,064)	(183)	(10,727)	(153)	(9,816)	(-30)	(-911)
On-going Activities								
Hazard Identification & Analysis	44	3,134	43	3,294	44	3,834	+1	+540
Engineering & Sciences	15	907	16	1,572	31	2,501	+15	+929
Information and Education	33	2,559	34	2,217	37	2,160	+3	-57
Compliance & Enforcement	56	2,808	57	2,599	61	2,666	+4	+67
Field Activities	329	11,852	319	12,375	326	12,873	+7	+498
(Subtotal, On-going Activities)	(477)	(21,260)	(469)	(22,057)	(499)	(24,034)	(+30)	(+1,977)
(Subtotal, Product Safety & Enforcement)	(690)	(32,582)	(689)	(34,244)	(689)	(35,324)		(+1,080)
III. Administration and General Support	103	5,300	103	5,601	103	5,210	-	-391
Total, Direct Appropriations	881	40,949[1/]	880	43,252[2/]	880	43,959	-	+707
Reimbursements		563		750		750		
Total Commission Resources		41,512		44,002		44,709		

1/ Includes $558,000 from Supplemental Appropriation
2/ Includes $1,632,000 from Supplemental Appropriation and $1,020,000 proposed for the FY 1980 Pay Supplemental

Comparison of FY 1981 Budget Request September 1979
with FY 1981 Budget Request January 1980
(Funds in Thousands of Dollars)

	FY 1981 Budget Request September 1979		Adjustments for October 1979 Pay Raise	Total Funds	FY 1981 Budget Request January 1980		Difference	
	Pos.	Funds	Funds		Pos.	Funds	Pos.	Funds
I. Commission Policy Development & Direction	88	$3,323	$102	$3,425	88	$3,425	-	$-
II. Product Safety & Enforcement								
Office of Executive Director	37	1,432	42	1,474	37	1,474	-	-
Hazard Programs								
Petitions	10	626	12	638	10	638	-	-
Fire/Thermal Burn	24	1,107	31	1,138	16	767	-8	-371
Electrical Hazards	24	1,527	27	1,554	24	1,406	-	-148
Acute Chemical Hazards	14	838	18	856	14	856	-	-
Chronic Chemical Hazards	60	4,195	58	4,253	50	3,558	-10	-695
Mech. Hazards-Child./Recreation	13	843	17	860	13	860	-	-
Mech. Hazards-Power Equipment	11	814	16	830	11	830	-	-
Mech. Hazards-Household Products	15	869	32	901	15	901	-	-
On-going Activities								
Hazard Identification	44	4,479	50	4,529	44	3,834	-	-695
Engineering & Sciences	31	3,319	18	3,337	31	2,501	-	-836
Information & Education	37	2,542	39	2,581	37	2,160	-	-421
Compliance & Enforcement	61	3,414	66	3,480	61	2,666	-	-814
Field Activities	331	13,015	373	13,388	326	12,873	-5	-515
III. Administration & General Support	103	5,091	119	5,210	103	5,210	-	-
Total	903	47,434	1,020	48,454	880	43,959	-23	-4,495

I. COMMISSION POLICY DEVELOPMENT AND DIRECTION

(Funds in Thousands of Dollars)

FY 1979 (Actual)		FY 1980 (Estimate)		FY 1981 Request (Estimate)		Difference 1980 to 1981	
Pos.	Funds	Pos.	Funds	Pos.	Funds	Pos.	Funds
88	$3,067	88	$3,407	88	$3,425	-	+$18

Explanation of Resource Changes

	Positions	Funds ($000)
1980 Estimate	88	$3,407
1981 Program Changes	-	+18
1981 Estimate	88	$3,425

Program Description

The Commission requests $3,425,000 and 88 positions to carry out its policy development and direction functions during FY 1981.

The Consumer Product Safety Commission is led by five Presidentially-appointed Commissioners who share equally in making policy decisions about Commission activities. From the variety of remedial actions available, these officials must choose the approach or approaches most suitable for protecting the public. To make their decisions, they must consider economic and scientific information and weigh the legal consequences of their actions.

Equally important, they must maintain an overall perspective on what can be done given the Commission's resources. Besides making decisions on all regulatory matters, the Commissioners establish goals, objectives, and priorities which provide overall direction to the staff. The Chairman of the Commission is also the Commission's principal executive officer, and, subject to general policies of the Commission, is responsible for exercising all of the administrative and executive functions of the Commission. Each Commissioner has a staff to provide assistance.

In addition to the Commissioners and their staffs, this activity includes all the Commission offices reporting directly to the Chairman:

o Office of the General Counsel -- provides legal advice to the Commissioners and ensures that the Commission's activities are in accordance with applicable laws and regulations.

o Office of Congressional Relations -- maintains liaison with Congress on matters concerning the Commission and the Congress.

o Office of the Secretary -- maintains the Commission's official files, administers the Commission's Freedom of Information Program, carries out the Commission's responsibilities under the Privacy and Sunshine Acts, and manages the Commission's Advisory committees.

o Office of Media Relations -- ensures that the public is kept informed of important Commission activities by coordinating contacts with the press.

o Office of Public Participation -- ensures participation by groups such as consumers and small businesses in Commission rule-making activities by administering the Commission's public participation funding programs.

o Office of Internal Audit -- an internal "watchdog" office charged with ensuring that Commission programs are carried out in the most efficient manner.

o Office of Equal Employment opportunity and Minority Enterprises -- implements the Commission's affirmative action and other equal employment opportunity programs, and ensures the support of miniority owned and controlled businesses through contract and grant awards.

II. PRODUCT SAFETY AND ENFORCEMENT

(Funds in Thousands of Dollars)

FY 1979 (Actual)		FY 1980 (Estimate)		FY 1981 Request (Estimate)		Difference 1980 to 1981	
Pos.	Funds	Pos.	Funds	Pos.	Funds	Pos.	Funds
690	$32,582	689	$34,244	689	$35,324	-	+$1,080

Program Description

The following sections provide more specific information on the Commission activities in these areas.

Hazard Programs
Petitions
Fire/Thermal Burn
Electrical Hazards
Acute Chemical Hazards
Chronic Chemical Hazards
Mechanical Hazards (Children's/Recreational)
Mechanical Hazards (Power Equipment)
Mechanical Hazards (Household Structural Products)

On-going Activities

Hazard Identification
Engineering and Sciences
Information and Education
Compliance and Enforcement
Field Activities

II. PRODUCT SAFETY AND ENFORCEMENT

OFFICE OF THE EXECUTIVE DIRECTOR
(Funds in Thousands of Dollars)

FY 1979 (Actual)		FY 1980 (Estimate)		FY 1981 Request (Estimate)		Difference 1980 to 1981	
Pos.	Funds	Pos.	Funds	Pos.	Funds	Pos.	Funds
37	$1,258	37	$1,460	37	$1,474	-	+$14

Explanation of Resource Changes

	Positions	Funds ($000)
1980 Estimate	37	$1,460
1981 Program Changes	-	+14
1981 Estimate	37	$1,474

Program Description

The Office of the Executive Director includes the Executive and Deputy Executive Director; the Office of Budget, Program Planning, and Evaluation; and the Office of Program Management.

The Executive Director is the chief operating manager of the agency. Under the broad direction of the Chairman, and in accordance with Commission policy, the Executive Director directs the development of the agency's budget and operating plans for Commission approval, and manages the execution of the plans. The Commission's six directorates (Hazard Identification and Analysis; Engineering and Sciences; Communications; Compliance and Enforcement; Field Operations; and Administration) all report directly to the Executive Director, as do the Office of Budget, Program Planning and Evaluation (OBPPE) and the Office of Program Management (OPM).

The Office of Budget, Program Planning and Evaluation is a new office, created in June of 1979. In it are consolidated the budget functions formerly located in the Comptroller's Office and the planning and evaluation functions of the the former Office of Strategic Planning. Consolidating these three key management functions under one director and placing them within the Office of the Executive Director provides the Executive Director with the resources needed to manage the agency. It also ensures that the results of evaluations are considered carefully as we plan for future years.

The Office of Program Management manages the Commission's hazard-related programs and projects. The Commission uses a multi-disciplinary team approach in each of the hazard areas. Program Management staff work together with personnel from the six functional directorates and the Office of General Counsel to ensure that together the legal, technical, economic, social and environmental aspects of regulatory and other projects are presented to the Commission as objectively and comprehensively as possible. Office of Program Management staff also monitor voluntary standards activity to ensure that the Commission is aware of industry plans; once the Commission decides to participate in a voluntary standards effort, staff from the appropriate hazard program take the lead. Only Program Management direction and support are included in this activity. Other resources which relate directly to the individual hazard programs are included under those programs.

The Commission believes that resources of $1,474,000 and 37 positions will allow it to carry out its key management functions effectively.

II. PRODUCT SAFETY AND ENFORCEMENT

PETITIONS AND EMERGING HAZARDS
(Funds in Thousands of Dollars)

FY 1979 (Actual)		FY 1980 (Estimate)		FY 1981 Request (Estimate)		Difference 1980 to 1981	
Pos.	Funds	Pos.	Funds	Pos.	Funds	Pos.	Funds
12	$695	10	$485	10	$638	-	+$153

Explanation of Resource Changes

	Positions	Funds ($000)
1980 Estimate	10	$485
Net Built-in changes	-	+26
1981 Adjusted Base	10	$511
1981 Program Changes	-	+127
1981 Estimate	10	$638

The net built-in changes represent a prorated share of the increased costs shown in Appendix A.

The program increase in 1981 results from a greater use of other than full-time permanent personnel. We believe that greater use of non-permanent staff will allow us to respond to the workload in this area without assigning full-time positions to an activity which has an inherently unpredictable workload.

Program Description

The Petitions Program and the Emerging Hazards/Special Projects Program share a common purpose: to collect and analyze information on specific consumer product hazards that might require Commission attention. If the Commission decides that regulatory or other action is necessary, the project is transferred to the appropriate hazard program.

The Petitions Program deals with concerns identified by the public. Many of the projects the Commission is now involved in -- tap water scalds, home insulation, benzidine dyes, power mowers, CB antennas, projectile toys -- began with petitions. Under the Consumer Product Safety Act the Commission must respond to petitions in 120 days. We try to respond to petitions under the other acts we administer within the same time frame whenever possible. The Commission grants or denies petitions on the basis of currently available information gathered by the staff, but, in particularly complex cases, may direct the staff to investigate the issue further.

The Emerging Hazards/Special Projects Program was formed in FY 1979. We expect that within this organized framework staff concerns about emerging consumer product hazards can be carefully explored. The program staff serve as "in-house" petitioners; once they have gathered sufficient data to meet the legal requirements of a petition, the project moves into the Petitions Program for further consideration.

FY 1979 and FY 1980 Activities

o Petitions. In FY 1979, the Commission received 22 petitions (1 was withdrawn by the petitioner). The Commission addressed 7 of the 21, as well as 17 carried over from the previous year. During the first quarter of FY 1980, the Commission has received 6 petitions (1 has been withdrawn by the petitioner) and acted on another 6. As of December 31, 1979, the Commission had 28 petitions awaiting action of which 6 were over 120 days old.

o Emerging Hazards. In less than one full year of operation, the Commission has conducted preliminary reviews of 54 potential problem areas. A total of 17 are still under consideration and may be forwarded to the Commissioners, the remaining 37 were not found to be of sufficient magnitude or the Commission took other action on the hazards. One recommendation has been sent to the Commissioners on electrical house wiring and thermal insulation. Three other recommendations are in final evaluation, amusement rides, overheating and current leakage in electrical appliances and devices; and automatic garage door openers.

Proposed Activities for FY 1981

With the requested resources, $638,000 and 10 positions, the Commission will be able to:

- o process petitions received from the public in a timely manner
- o conduct preliminary investigations of consumer products that, based on consumer complaints news clippings, CPSC injury data, and other sources, may warrant further Commission attention.

II. PRODUCT SAFETY AND ENFORCEMENT

FIRE AND THERMAL BURN HAZARDS
(Funds in Thousands of Dollars)

FY 1979 (Actual)		FY 1980 (Estimate)		FY 1981 Request (Estimate)		Difference 1980 to 1981	
Pos.	Funds	Pos.	Funds	Pos.	Funds	Pos.	Funds
27	$1,427	27	$1,735	16	$767	-11	-$968

Explanation of Resource Changes

	Positions	Funds ($000)
1980 Estimate	27	$1,735
Funds Provided by 1979/80 Supplemental		-321
New built-in changes		+42
1981 Adjusted Base	27	$1,456
1981 Program Changes	-11	-689
1981 Estimate	16	$ 767

Supplemental funds appropriated to replace funds reprogrammed to the home insulation project provided a temporary increase above the program base. The net built-in changes represent a prorata share of the increased costs shown in Appendix A.

The program reduction in FY 1981 results from several factors. First, the plastics research project is being transferred to the Engineering and Sciences activity in order to provide a closer relationship to the research activities of the Commission. Second, it is anticipated that the demand for rule development activity will decline. This will provide resources which can be used for other program areas. Finally, the burn demonstration pilot project has been completed.

Program Description

Fire is the fourth most frequent cause of fatal acccidents in the United States. The U. S. Fire Administration (USFA) and the National Fire Protection Association estimate that each year 300,000 people are injured and 7,500 die in fires. Fire-related property losses, according to USFA, reach $4.2 billion annually.

CPSC's Fire and Thermal Burn Hazards Program works to reduce deaths and injuries from burns involving fires or contact with hot surfaces. To achieve this goal, we must consider the role of consumer products both as fuel sources and as sources of ignition. The ways warning systems can be used to reduce deaths and injuries must also be considered. The program staff is also concerned with the toxic gases produced during combustion. These gases are major contributors to fire-related deaths.

Interagency cooperation is important in this program. At the Federal level we work closely with USFA, which provides us with detailed data on fire incidence and causation. The program staff is also exploring ways that energy conservation devices can be used without generating additional consumer exposure to fires or toxic combustion products, this has necessitated our cooperation with the Department of Energy. State and local fire officials are especially knowledgeable about fire causes and prevention, and our close working relationships with organizations of these officials have helped to promote consistent and cooperative approaches to America's fire problem.

FY 1979 and FY 1980 Activities

o Upholstered Furniture. The Commission staff estimates that each year at least 800 people die in upholstered furniture fires that are usually started by cigarettes. In FY 1979, the Commission staff submitted a recommended standard that, by National Bureau of Standards estimates, could reduce upholstered furniture fire deaths by 42% over a 30-year period (estimated product life). Shortly after the staff recommended the mandatory stanard, the upholstered furniture industry submitted a plan for voluntary action that they believe would improve the cigarette ignition resistance of upholstered furniture. The Commission has evaluated the industry proposal and judged it to be an adequate first step towards eliminating the cigarette ignition problem. The Commission granted the industry one year to demonstrate the effectiveness of its program and is working with industry to find a solution to the remaining flammability problems.

o Smoke Detectors. Consumers depend on smoke detectors to give them early warning of fires, so the devices should be accurate and reliable. In FY 1979 Commission contracted for a review of voluntary standards for smoke detectors. Preliminary data suggests that one of the existing voluntary standards is technically adequate. The Commission staff also began a study, based on U.S.F.A. data, to examine how well smoke detectors perform in actual fire situations. When these reports are completed the Commission expects to decide whether regulatory action on smoke detectors is appropriate. In the meantime, the Commission plans to work with federal, state and local agencies to inform consumers of the advantages of smoke detectors and how to make effective and safe use of them.

o Space Heaters. Our staff estimates that since 1973 at least 165 people have died from asphyxiation because unvented gas-fired space heaters have filled their living quarters with carbon monoxide. Although the Commission originally believed that a ban would be necessary, we later learned that an oxygen depletion sensor could be used to shut the heaters off if the oxygen level in the room fell. The Commission has withdrawn the proposed ban on unvented gas space heaters, and has approved a draft rule requiring the use of these sensors.

o Energy Conservation Devices. The Commission is committed to saving energy safely. As energy prices rise, energy conservation devices are likely to be used more extensively. Thus far, the Commission staff has evaluated the safety of devices such as vent dampers and flue gas heat recirculators, both of which permit the use of heat that would otherwise be wasted, but which may permit build-up of toxic combustion products. The results of our analyses have been shared with the public, industry, voluntary standards groups, and the Department of Energy. Three voluntary standards for vent dampers, the first in this area, were approved in FY 1979 by the American National Standard Institute and the Underwriters Laboratories. In FY 1980, the Commission will continue to promote improved product design and safe use of energy conservation devices through its contacts with voluntary standards organizations, the Department of Energy, and state and local building code officials.

o Burn Prevention Demonstration Project. FY 1979 saw the completion of a four-year program conducted in the Boston, Massachusetts area and designed to determine whether informing consumers about fire hazards could reduce burn injuries. Although the final report is not expected until later in 1980 preliminary results suggest that burn injuries did decline. In FY 1980, the Commission expects to provide a limited amount of technical assistance to communities interested in conducting their own burn prevention programs.

o Coal and Wood Burning Stoves. One consumer response to high energy prices has been a dramatic increase in the use of alternate fuel sources like coal and wood. In FY 1979, the commission granted a petition asking that coal and wood burning stoves have permanently affixed labels bearing information on proper installation. Improper installation, we estimate, is responsible for about 20% of the fires involving these stoves (improper use being responsible for most of the remaining fires). The Commission expects to publish a mandatory labeling rule in FY 1980.

o Carbon Monoxide Monitor. Carbon monoxide (CO) levels in living spaces are likely to increase as consumers try to save energy by sealing their homes more tightly against weather. At present, CO monitors that warn of dangerous levels of this toxic gas are expensive and are used mostly by industry. In FY 1980, the Commission will look into the feasibility of a low-cost CO monitor which could be installed in residences, perhaps as smoke detectors are now.

o Plastics Research. Plastics are used in large numbers of consumer products, and the Commission believes that their role in fires should be further investigated. In FY 1980, we began a three year effort to examine the combustibility of selected plastic consumer products, as well as the toxicity of their combustion products. The FY 1980 effort focused on reviewing existing data and selecting plastic products needing further investigation. Beginning in FY 1981 this project will be transferred to the Engineering and Sciences activity as part of our research program.

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o Evaluation. During FY 1979, the Commission contracted for evaluations of its carpet/rug and mattress flammability standards. These standards were developed by one of CPSC's predecessor agencies, and have been in effect since the early 1970's. During FY 1980, the contractor will examine the impact of these standards on manufacturers. Based on the contractor's report, due in FY 1980, the Commission will decide whether amendments or modifications of these standards are necessary.

Proposed Activities for FY 1981

The requested level for the Fire and Thermal Burn Program, 16 positions and $767,000, will permit the Commission to:

- o continue work on upholstered furniture. Depending on Commission decisions in FY 1981, the staff will monitor compliance with voluntary standard or prepare to proceed with a mandatory standard.
- o continue evaluation of energy conservation devices. This activitiy will allow monitoring of injury data to spot potential problem areas, continued work with voluntary standards groups that might result in additional voluntary standards, and continued coordination with the Department of Energy in its energy conservation mission.
- o enforce existing standards in fire-related areas, such as fireworks, carpets and rugs, mattresses, and children's sleepwear, and respond to requests for amendments to these standards.
- o enforce the mandatory standard for space heaters which may be adopted in FY 1980.

II. PRODUCT SAFETY AND ENFORCEMENT

ELECTRICAL HAZARDS
(Funds in Thousands of Dollars)

FY 1979 (Actual)		FY 1980 (Estimate)		FY 1981 Request (Estimate)		Difference 1980 to 1981	
Pos.	Funds	Pos.	Funds	Pos.	Funds	Pos.	Funds
20	$860	23	$1,423	24	$1,406	+1	-$17

Explanation of Resource Changes

	Positions	Funds ($000)
1980 Estimate	23	$1,423
Supplemental Funding	-	-120
Net Built-in changes	-	+62
1981 Adjusted Base	23	$1,365
1981 Program Changes	+1	+41
1981 Estimate	24	$1,406

Supplemental funds appropriated to replace funds reprogrammed to the home insulation project provided a temporary increase above the program base. The net built-in changes represent a prorata share of the increased costs shown in Appendix A.

The Commission has begun an investigation of household wiring system components such as light fixtures, fuses, circuit breakers, and switches. We already know that these products are involved in fires and shock injuries, but we must understand how they are involved before we can take any remedial action. The additional resources requested for this program will be used to build on data collected during FY 1980 to identify possible remedial actions.

Program Description

Electrical shocks and electrical fires are the concern of the Commission's Electrical Hazards Program. According to the National Center for Health Statistics as many as 1,200 people die as the result of electric shocks each year; we suspect that consumer products within our jurisdiction are involved in half of these accidents. About 20% of residential fires, or about 143,000 annually, are believed to be electrical in origin.

One project in this program, television receivers, provides a good example of how industry responsiveness to Commission-identified concerns can result in safer products for consumers without mandatory federal regulation. A few years ago the Commission believed that a mandatory standard would be necessary to deal with the problem of television fires. However, as industry made substantial improvements in its voluntary standard for television sets, we noted a continuing decline in the incidence of fires. According to reports by nine major television manufacturers, sets manufactured in 1973 experienced fires at the rate of 33 per million in 1973 and 1974, but only 3 sets per million produced in 1976 were involved in fires in 1976 and 1977. The Commission has now decided that a mandatory standard for television sets will not be necessary.

FY 1979 and FY 1980 Activities

o Communications Antennas. As many as 200 people die each year as they install or remove CB or TV antennas inadvertently bringing them into contact with overhead power lines. A Commission rule, effective in early FY 1979, requires cautionary labeling on antennas and antenna support structures to warn of the electrocution hazard. We began enforcement of this rule in FY 1979 and will continue in FY 1980. In addition, the Commission has begun development of a mandatory standard for omnidirectional CB antennas, which we estimate will reduce deaths associated with this product by 50%. This development effort will continue in FY 1980.

o Aluminum Wiring. The Commission's lawsuit asking that manufacturers be required to repair "old technology" aluminum wire, which we believe presents an imminent fire hazard, remains in litigation. To support our case, we conducted a national survey of homes in FY 1979, and found that overheating conditions that could lead to fires were 55 times more likely to occur in homes with "old technology" aluminum wiring than in homes with copper wiring.

o National Electrical Code Improvements. The Commission, as the result of a petition, suggested that the use of uninsulated service drop wires be prohibited. This suggestion will be incorporated into the National Electrical Code, which is followed by most state and local jurisdictions. We plan to make other suggestions for revision in FY 1980, since code improvements can have widespread safety benefits to consumers.

Proposed Activities for FY 1981

The requested level of funding, $1,406,000 and 24 positions, would permit the Commission to:

- continue development of a mandatory standard for CB omnidirectional antennas
- continue an interagency agreement with the U. S. Fire Administration which provides us with investigations of fires involving residential wiring systems
- continue litigation on "old technology" aluminum wiring
- monitor industry compliance with recently adopted voluntary standards for miniature Christmas tree lights. Based on the results of the survey, the Commission will decide whether it is necessary to finalize its proposed mandatory standard for these lights.
- investigate the fire hazards of extension cords and cord sets, which are involved in approximately 17,000 fires annually
- investigate failure modes of household wiring system components such as light fixtures, fuses, circuit breakers, and switches to identify those that present fire or shock hazards
- participate actively in the triennial revisions of the National Electrical Code

ACUTE CHEMICAL HAZARDS
(Funds in Thousands of Dollars)

FY 1979 (Actual)		FY 1980 (Estimate)		FY 1981 Request (Estimate)		Difference 1980 to 1981	
Pos.	Funds	Pos.	Funds	Pos.	Funds	Pos.	Funds
16	$811	16	$785	14	$856	-2	+$71

Explanation of Resource Changes

	Positions	Funds ($000)
1980 Estimate	16	$785
Supplemental Funding	-	-65
Net Built-in Changes	-	+36
1981 Adjusted Base	16	$756
1981 Program Changes	-2	+100
1981 Estimate	14	$856

Supplemental funds appropriated to replace funds reprogrammed to the home insulation project provided a temporary increase above the program base. The net built-in changes represent a prorated share of the increased costs shown in Appendix A.

An increase is requested in this program to provide additional contract funds to address the acute toxicity of formaldehyde in consumer products. This is part of an agency-wide program to address the hazards associated with this widely used substance. The long-term effects of formaldehyde are being addressed by our Chronic Chemical Hazards Program and the specific problems associated with urea-formaldehyde foam insulation are being addressed in our Household Products Program.

Program Description

Last year an estimated 260,000 people--110,000 of them children under five--were treated in hospital emergency rooms for poisoning, chemical burns, and other acute injuries associated with chemical consumer products. This figure, of course, does not reflect the accident victims who sought treatment from private physicians.

The Commission's Acute Chemical Hazards Program is concerned with products that have immediate injurious effects. Such hazards have long been recognized and Congress has given the Commission specific powers to deal with them. Under the Poison Prevention Packaging Act (PPPA), the Commission may require child-resistant packaging for household substances which present serious hazards. In addition, the Federal Hazardous Substances Act (FHSA) not only sets baseline labeling requirements for hazardous household products and allows the Commission to require additional cautionary labeling if necessary, but also allows the Commission to ban products altogether if labeling is inadequate to protect the public.

Special packaging requirements are now in effect for fourteen categories of hazardous substances. According to a recent evaluation conducted by Commission staff, poisonings to children under 5 have dropped by about 50,000 each year since 1973 and the number of deaths has been halved as a result of these regulations. But, vigilant surveillance is needed to ensure compliance with these regulations and the constant flow of new products to the marketplace requires careful monitoring of data from the Commission's National Electronic Injury Surveillance System, the National Clearinghouse for Poison Control Centers, in-depth investigations, and death certificates to identify emerging problem areas.

FY 1979 and FY 1980 Activities

o Acetaminophen-containing Products. Late in 1979, the Commission finalized a regulation that would require child-resistant packaging for certain products containing this increasingly popular aspirin substitute, overdoses of which may cause liver damage.

o Sulfuric Acid Drain Cleaners. The Commission will consider proposing a ban on this product in FY 1980. Drain cleaners of this kind can react violently with standing water in drains, and spatter bystanders with acid.

o Toxicological Advisory Board. Created by the 1978 amendments to the Consumer Product Safety Act, the Toxicological Advisory Board serves as a source of expert opinion on toxicological matters. In FY 1979, the 9 board members were selected and held their first two meetings. The Commission has referred several major questions to the Board, including the usefulness of neutralization as a first aid technique when caustic substances have been ingested; the appropriateness of inducing vomiting as a first aid measure; and the adequacy of first aid labeling for products containing methylene chloride, which may present special hazards to individuals with heart disease.

o Compliance and Enforcement Activities. Regulations under the FHSA and PPPA already cover many hazardous products, but continuing surveillance of manufacturers and retailers is necessary to ensure compliance. We place special emphasis on following up on reported violations of the special packaging requirements for prescription drugs. These requirements have been proven effective in reducing deaths and injuries.

o Formaldehyde. The Acute Hazards Program is one of several Commission program areas involved in a coordinated approach to dealing with the hazards of formaldehyde in consumer products. Formaldehyde is used increasingly in many consumer products, but causes respiratory irritation, headaches, and eye irritation in some people. In FY 1980, we will receive a National Academy of Sciences recommendation on an appropriate level of formaldehyde in home environments. The Commission will consider regulatory options on products containing formaldehyde.

o Petroleum Distillates. When aspirated into the lungs, petroleum distillates can cause fatal chemical pneumonia. In FY 1980, we plan to review available injury data to determine whether special packaging should be required for these products.

Proposed Activities for FY 1981

The requested level of funding, $856,000 and 14 positions, will permit the Commission to:

- o continue intensive enforcement of special packaging requirements
- o revise the test method used to identify effective child-resistant closures to reduce the testing burden on industry
- o depending on Commission action, initiate regulatory program on consumer products containing formaldehyde
- o propose special packaging requirements, based on Commission decisions in FY 1980, for petroleum distillates
- o fund the activities of the Toxicological Advisory Board
- o begin investigation of the need for special packaging requirements for camphorated oil and over-the-counter antihistamines
- o participate in Poison Prevention Week, a national program to educate consumers about proper use, storage and disposal of hazardous products. We cooperate in this program with the Food and Drug Administration.

II. PRODUCT SAFETY AND ENFORCEMENT

CHRONIC CHEMICAL HAZARDS
(Funds in Thousands of Dollars)

FY 1979 (Actual)		FY 1980 (Estimate)		FY 1981 Request (Estimate)		Difference 1980 to 1981	
Pos.	Funds	Pos.	Funds	Pos.	Funds	Pos.	Funds
45	$2,519	50	$2,742	50	$3,558	-	+$816

Explanation of Resource Changes

	Positions	Funds ($000)
1980 Estimate	50	$2,742
Supplemental Funds		-460
Net Built-in Changes	-	+129
1981 Adjusted Base	50	$2,411
1981 Program Changes	-	+1,147
1981 Estimate	50	$3,558

Supplemental funds appropriated to replace funds reprogrammed to the home insulation project provided a temporary increase above the program base. The net built-in changes represent a prorata share of the increased costs shown in Appendix A.

The increase in this program is attributable to our efforts to address the hazards of asbestos, formaldehyde and carbon monoxide.

Program Description

The goal of the CPSC Chronic Hazards Program is to reduce consumer exposure to products which cause or contribute to adverse chronic health effects.

Exposure to toxic substances in consumer products may result in either acute or chronic health effects. Because of the widespread distribution of chemical consumer products, the total population exposure may be quite high; that is, the concentration anticipated, multiplied by the duration of each exposure, multiplied by the number of times the product is used, may give rise to high population doses. In addition, use of some consumer products may result in almost continuous exposure to specific substances (for example, as a result of constant evaporation or volatilization in the home).

Chronic health effects which result from such exposures may manifest themselves in a relatively short time, such as with certain neurological effects or birth defects. Other effects may appear after a lag time of many years, such as cancer. Since consumer products may result in the exposure of particularly vulnerable populations, such as pregnant women and children, these potential effects are of special concern.

In order to deal with these problems, the program is designed to enable the agency to identify the substances and exposures of concern, evaluate them and their risks, set priorities, and determine the regulatory and non-regulatory methods for reducing or eliminating the risks.

Initially, during FY 1979, the program focused on carcinogens for a variety of reasons: (1) cancer is the second leading cause of death in America; (2) consumer exposure to carcinogens in consumer products may be unknowing, involuntary, and unavoidable; (3) known carcinogens are present in a number of consumer products; and (4) the lack of a cure for cancer means prevention is the best means of protection.

Prevention means reduction of consumer exposure to substances posing chronic hazards. CPSC is uniquely qualified to protect the public from such exposure through the Acts it administers because of its ability to regulate and ban particular products and product components. The most significant Acts for chronic hazards are the Consumer Product Safety Act and the Federal Hazardous Substances Act.

During FY 1980 and beyond, the program will continue to emphasize carcinogens while paying careful attention to chemicals that cause other chronic health problems, particularly birth defects and neurological dysfunctions.

To help us meet our goal of addressing the most important chronic hazards, we have developed a process for monitoring the marketplace to identify candidates for regulation. We look first to the research agencies, like the National Cancer Institute, for the results of their tests of specific chemicals. Our process, involving a pipeline of increasingly fine screens, asks whether the chemical has toxic properties (such as an ability to

cause cancer, mutation or birth defects); whether it is used in consumer products; whether the uses are within our jurisdiction; whether the uses may result in consumer exposure; whether the exposure results in ingestion, inhalation or absorption of the chemical; and whether the exposure is widespread, of long duration, or intense. This step-by-step process is designed to enable the Commission to set priorities for action among the thousands of chemicals in use today.

In addition to looking at suspect chemicals, we look at product categories which may result in widespread consumer exposure. We then ask what the products contain, whether the contents have been tested for potential toxic effects by any government agency, whether industry has tested the contents, and, as appropriate, whether testing needs to be conducted to measure the safety of an ingredient we suspect may be hazardous.

Cooperation with other Federal agencies is a central part of CPSC's chronic hazards strategy. Through cooperation, we minimize our own administrative costs, we avoid duplication of effort, we avoid imposing duplicative or inconsistent burdens on regulated industry, and we foster a consistent, government-wide approach to similar issues.

Foremost among our interagency programs is the Interagency Regulatory Liaison Group (IRLG) which was formed to increase interagency cooperation in the assessment and control of hazards posed by toxic substances in the environment.

A second major cooperative effort is our participation in the National Toxicology Program (NTP), established in November, 1978. The purpose of the program is to get the regulatory agencies together with the research agencies in order to improve the work of both. The research agencies can help the regulatory agencies strengthen the scientific basis upon which their regulatory initiatives are premised. The regulatory agencies can help direct the priorities of the research agencies by nominating for testing substances likely to present significant public health problems and by ensuring that test procedures are adequate to support regulatory actions.

FY 1979 and FY 1980 Activities

The Commission has made significant progress in reducing consumer exposure to identified chronic hazards in the last few years.

o The Commission's investigation, and negotiations between the Commission staff and firms which share approximately 90% of the consumer hair dryer market resulted in the firms agreeing to cease production and distribution of hair dryers containing asbestos and offering consumers some form of replacement, repair, or refund on their dryers.

o A systematic screening process to identify potential chronic hazards in consumer products was implemented. So far, approximately 202 substances identified as potential chronic hazards have been screened, of which five have been found to merit continued inquiry (chromium and chromates, cadmium compounds, 1, 2-dichloroethane).

o Most chlorofluorocarbon propellants were removed from consumer products in an action undertaken by CPSC jointly with EPA and FDA.

o The Commission banned patching compounds and artificial fireplace emberizing materials containing asbestos.

o The Commission banned the use of vinyl chloride as an aerosol propellant in consumer products.

Currently, work is in progress on a number of substances which appear to be important chronic hazards.

o There is much evidence which indicates that benzene is a human carcinogen. New information suggests it also may cause adverse reproductive effects. CPSC has proposed to ban the intentional use of benzene in consumer products and to limit its presence as a contaminant to 0.1%. Our most recent information indicates that benzene as an intentional ingredient has now been eliminated from consumer products. We are aware of only a few products that still contain significant quantities of benzene as an unintentional contaminant. In FY 1980, public comments on the proposed regulation will be analyzed, an exposure assessment will be conducted, and a decision on the need for a regulation will be made.

o Benzidine-type Dyes consist of dyes based on benzidine (Type I), o-tolidine (Type II) and o-dianisidine (Type III). Benzidine is a known human carcinogen to which consumers may be exposed by using commerical dye products. Three Type I dyes have proven carcinogenic in animal tests at the National Cancer Institute. Type II and Type III dye products may contain, or be metabolized to, compounds that are suspected of being human carcinogens. Potential consumer exposure to all three is large - including the familiar dyes sold in packages in supermarkets for home use, as well as the more specialized dyes used by artisans in textile work, weaving, and silkscreening. CPSC will soon vote on a petition to ban all three types of dyes. Population exposure may be significant. In FY 1980 the agency plans to evaluate toxicity data, assess bioavailability, determine exposure, and develop control options of Type I dyes.

o Asbestos is a recognized cause of lung cancer from inhalation of minute particles. By some estimates, the number of consumer products containing asbestos may range well into the hundreds. In FY 1980, CPSC and EPA will jointly conduct a survey of the marketplace to identify how many and what kind of products contain asbestos. CPSC will also begin exposure assessments and hazard evaluations for selected consumer products, taking appropriate action where warranted. CPSC has published an Advance Notice of Proposed Rulemaking requesting information and describing the Commission's intended course of action, and will issue orders requiring manufacturers of selected asbestos-containing consumer products to report information on markets and exposures.

o Incomplete combustion of fuels can result in the formation of carbon monoxide. Each year almost one hundred people are killed in this country as a result of carbon monoxide produced by unvented gas space heaters in the home. There is a device, an oxygen depletion sensor, which can greatly reduce the likelihood of carbon monoxide poisoning (currently being examined under the Commission's Fire and Thermal Burn Program). However, there

is also a need to investigate possible chronic health effects that may be produced under routine operation of the heaters. In FY 1980, CPSC will evaluate data on the chronic toxicity of carbon monoxide and assess the potential long-term health effects of exposure resulting from a variety of home products.

o To a large degree, hydrocarbon propellants have replaced vinyl chloride and chlorofluorocarbons in aerosol consumer products. The safety of some of these substitutes, especially their potential toxicity and flammability, has been questioned. In FY 1979, CPSC began a study to determine the extent of their use in consumer products. In FY 1980, the agency plans to obtain formulary data, and to evaluate the toxicity of consumer products containing these substances.

o Formaldehyde is a chemical which is widely used in consumer products and which has well known adverse health effects in relatively high concentrations. It is now used extensively in urea-formaldehyde foamed-in-place home insulation. CPSC has begun a study to assess the availability of free formaldehyde from such insulation and the conditions under which it is released. In FY 1980, we will complete this study and evaluate the chronic toxicity of free formaldehyde released from consumer products.

o In addition to this work on specific substances CPSC will continue to screen approximately 250 substances identified as potential chronic hazards. This will result in a number of specific substances being identified for possible action by the agency.

o In 1980, the Commission will initiate a project to evaluate the utility of short-term tests for preliminary identification of candiates for study to determine whether they cause cancer or changes in genes.

Proposed Activities for FY 1981

Resources requested, 50 positions and $3,558,000 will permit the Commission to follow through on work begun in prior years. More specifically:

- the screening program will continue processing about 250 chemicals and control strategies will be developed for selected products identified through this process
- benzidine-type dyes -- control strategies for Type II and Type III dyes (likely substitutes for Type I dyes) will be developed and implemented
- asbestos -- in cooperation with EPA, exposure assessment will continue for selected products and control strategies will be developed and implemented
- carbon monoxide -- in cooperation with other federal agencies, CPSC wil evaluate the problem of indoor levels of carbon monoxide and develop control options strategies to limit emissions for selected products

- o formaldehyde -- control strategies for selected products will be developed

- o short-term testing -- evaluation will continue. Some testing will be conducted to evaluate the utility of short-term tests for use in product safety decision-making

- o toxic heavy metals -- two of these metals, cadmium and chronium were identified through the screening process in FY 1979 as potential chronic hazards. In FY 1980, the toxicity of consumer products containing these metals will be evaluated. In FY 1981, other similar metals such as antimony, arsenic and mercury will be evaluated and control options developed. In addition, we will continue our control efforts on several lead-containing products.

- o room deodorizers -- inhalation of the substances emitted by room deodorizers is certain. Exposure is likely to be prolonged and occur in a closed room. CPSC plans to obtain formulary data on these products in FY 1980. In FY 1981 the Commission will assess the toxicity of their ingredients and determine whether consumers are being exposed to unreasonable risks and, if so, develop and implement control measures.

- o laboratory chemicals -- can be found in every high school and in many elementary and intermediate school science classes. CPSC plans to review the toxicity of these chemicals and to develop a safety chart for student's use as well as a teacher's guidance manual.

- o sensitive populations -- toxic substances may affect certain population groups more severely than others. The Commission would analyze the literature and data on population (i.e., age, sex, race, blood type) sensitivities and consider implications for assessing chronic hazards posed by consumer products.

II. PRODUCT SAFETY AND ENFORCEMENT

CHILDREN'S AND RECREATIONAL PRODUCTS PROGRAM
(Funds in Thousands of Dollars)

FY 1979 (Actual)		FY 1980 (Estimate)		FY 1981 Request (Estimate)		Difference 1980 to 1981	
Pos.	Funds	Pos.	Funds	Pos.	Funds	Pos.	Funds
13	$648	15	$788	13	$860	-2	+$72

Explanation of Resource Changes

	Positions	Funds ($000)
1980 Estimate	15	$788
Supplemental Funds		-85
Net Built-in Changes	-2	+35
1981 Adjusted Base	13	$738
1981 Program Changes	-	+122
1981 Estimate	13	$860

Supplemental funds appropriated to replace funds reprogrammed to the home insulation project provided a temporary increase above the program base. The net built-in changes represent a prorata share of the increased costs shown in Appendix A.

During FY 1979 and 1980 the Commission completed studies of the hazards inherent in playground equipment designed for preschool children. We are now preparing to publish and distribute a handbook presenting this information to potential purchasers. We are also studying the problem of children's toys which have hazardous protrusions. The increased program cost reflected above is primarily attributable to increased contract costs in these two areas.

Program Description

The Commission believes that it has a special responsibility to protect children from product-related hazards. Children, we believe, are particularly vulnerable to injury because they may not recognize hazards or respond to them appropriately.

Among the Children's and Recreational Products Program major concerns are toys and other articles designed specifically for use by children. Often consumers believe that a product intended for children must be "safe," but nearly a quarter of a million children are treated in hospital emergency rooms each year after accidents involving toys and nursery products. Recreational products like bicycles are involved in another 750,000 injuries.

Over the last few years, the Commission has issued regulations for toys and children's products that address hazards common to many product types, such as sharp edges, sharp points, and small parts. These regulations, and others addressed to specific products like bicycles and pacifiers, provide a minumum level of safety for many products, and they must be strictly enforced.

There are about 150,000 toys now on the market and some of them still have significant potential for causing injury. New products are constantly introduced, and fads have a significant impact on injury rates. For example, skateboard injuries rose dramatically for several years, but are now beginning to decline. Conversely roller skating injuries are increasing dramatically. The Commission plans to continue its work on identified hazards, and to remain alert for new ones.

FY 1979 and FY 1980 Activities

o Small Parts. Since very young children tend to place objects in their mouths, small toys or parts of toys pose a spacial hazard to them. In FY 1979, the Commission issued a final rule banning small parts in toys or other products intended for children under 3. Enforcement will begin with the rule's effective date in FY 1980.

o Public Playground Equipment. About 93,000 children are treated in hospital emergency rooms each year for injuries involving public playground equipment. In FY 1979 the Commission completed extensive studies of public playground equipment hazards. We plan now to develop a handbook that will present this technical information to purchasers of playgound equipment in a useable form.

o Kites. Some kites are made of an electrically conductive, aluminized polyester film, and can create a serious hazard if they are flown into power lines. The Commission has now finalized a ban on such kites and is conducting compliance programs.

o Projectile Toys. FY 1979 saw the completion of a technical report containing a test method for identifying projectiles capable of causing irreversible eye damage. This report will form the basis for a possible mandatory regulation, to be considered in FY 1980, addressing the hazards of projectile toys.

o Cribs. A recent evaluation of the Commission's crib safety activities showed a 45% drop in injuries since the standard went into effect and 50 fewer crib related deaths each year. In FY 1980 the Commission plans to refine this regulation to deal with a previously unaddressed head entrapment hazard.

o Amusement Rides. Carnival-type amusement rides travel from state to state, and it is often difficult to trace those that have been involved in injuries. In FY 1980 the Commission will conduct a pilot program to help state and local governments exchange information on amusement ride safety. The Commission is also involved in the development of voluntary standards for amusement ride maintenance and operation.

o Hazardous Protrusions. Many toys and children's products have protrusions that are not sharp enough to be banned as sharp edges or points, but which are still capable of puncturing skin, if for example, a child falls on one. In FY 1980, we will begin developing a test method to identify potentially hazardous protrusions, which may be incorporated into a future mandatory or voluntary standard.

Proposed Activities for FY 1981

The requested resources, 13 positions and $860,000, will allow the Commission to:

o enforce existing regulations for children's and recreational products

o continue voluntary standards efforts for amusement rides, and serve as a clearinghouse for information on licensing, inspection, and maintenance of these rides for state and local governments

o develop recommended guidelines for public playground equipment specifically intended for pre-school children who have special needs because of their smaller size and less developed muscle coordination

o continue work on hazardous protrusions, including possible development of a mandatory regulation

o evaluate the voluntary standards for strollers and playpens, and consider the need for regulatory or other action

II. PRODUCT SAFETY AND ENFORCEMENT

Mechanical Hazards: POWER EQUIPMENT
(Funds in Thousands of Dollars)

FY 1979 (Actual)		FY 1980 (Estimate)		FY 1981 Request (Estimate)		Difference 1980 to 1981	
Pos.	Funds	Pos.	Funds	Pos.	Funds	Pos.	Funds
13	$849	14	$844	11	$830	-3	-$14

Explanation of Resource Changes

	Positions	Funds ($000)
1980 Estimate	14	$844
Net Built-in Changes	-	+29
1981 Adjusted Base	-	873
1981 Program Changes	-3	-43
1981 Estimates	11	$830

Supplemental funds appropriated to replace funds reprogramed to the home insulation project provided a temporary increase above the program base. The net built-in changes represent a prorata share of the increased costs shown in Appendix A.

The Commission efforts on safety standards for power mowers and chain saws, which account for approximately 50% of all power equipment injuries have been at a high level for several years. In FY 1981 we anticipate that the major regulatory development effort will be substantially completed for these products.

Program Description

Americans are "do-it-yourselfers," and power tools such as drills, saws, and lathes are found in many homes.

We expect that as prices rise, more and more people will be doing their own home repair and maintenance work. Energy prices also have an impact in this area: in the last three years chain saw injuries have risen from 30,000 to 50,000 annually, reflecting increased consumer interest in wood as a heat source.

The Commission's Power Equipment Program works to reduce injuries associated with power tools, and yard and garden equipment. These injuries are often severe lacerations or amputations. People in their active wage-earning years are the most frequent victims.

Of the 220,000 power tool injuries treated in hospital emergency rooms last year more than half involved only two products: power mowers and chain saws. For the last few years Commission activities in the power equipment area have focused on these products.

FY 1979 and FY 1980 Activities

o Power Mowers -- Blade Contact. In FY 1979 the Commission issued a final standard to address blade contact injuries associated with mowers; 33,000 injuries of this kind occur each year. This standard, the major provisions of which become effective in FY 1982, is expected to eliminate almost 80% of blade contact injuries. In FY 1980 we will finalize the certification rule for power mowers, and will check industry compliance with the labeling provisions of the blade contact standard which became effective early in FY 1980. In addition, we have received a petition to amend the standard from the industry and are taking the necessary action on it.

o Chain Saws. The Commission is working with industry and consumers in a cooperative effort to develop a voluntary standard to reduce chain saw kickback, the biggest single cause of chain saw injuries. The Commission is closely monitoring this project.

o Riding Mowers. These mowers are not covered by the Commission's blade contact standard for walk-behind mowers, but present both blade contact hazards and a variety of special hazards, such as instability. About 14,000 riding mower injuries are treated in hospital emergency rooms annually. In FY 1980 the commission staff plans to begin an analysis of the hazard data on these mowers as a first step toward possible standard development.

o Power Mowers -- Thrown Objects. Bystanders, as well as users of power mowers, can be struck by objects which are thrown from the discharge chutes of the mowers. We estimate that 8,000 injuries involving thrown objects are treated in hospital emergency rooms annually. In FY 1980 the Commission will consider what actions are necessary and appropriate to protect consumers from this hazard.

Proposed Activities for FY 1981

Funding at the level of 11 positions and $830,000 would permit the Commission to:

- o evaluate, in cooperation with industry, the effectiveness of the voluntary standard for chain saw kickback and identify other potentially hazardous aspects of chain saws
- o train field staff and conduct industry seminars to prepare for the effective date of the power mower blade contact standard in FY 1982
- o finalize, based on Commission decisions in FY 1980, a test for thrown objects and propose a rule
- o develop and propose, assuming appropriate Commission decisions in FY 1980, a thrown objects certification rule
- o continue the analysis of riding mower injury data and develop regulatory and non-regulatory options for Commission consideration
- o collect base-line data on walk-behind power mower blade contact injuries that will form the basis for a later evaluation of the standard's effectiveness
- o analyze injury data on power tools to determine how injuries are caused and to identify products for possible regulation

Mechanical Hazards: HOUSEHOLD STRUCTURAL PRODUCTS
(Funds in Thousands of Dollars)

FY 1979 (Actual)		FY 1980 (Estimate)		FY 1981 Request (Estimate)		Difference 1980 to 1981	
Pos.	Funds	Pos.	Funds	Pos.	Funds	Pos.	Funds
30	$2,255	28	$1,925	15	$901	-13	-$1,024

Explanation of Resource Changes

	Positions	Funds ($000)
1980 Estimate	28	$1,925
Supplemental Funds		-581
Net Built-in Changes	-13	+40
1981 Adjusted Base	15	$1,384
1981 Program Changes	-	-483
1981 Estimate	15	$ 901

Supplemental funds appropriated to replace funds reprogrammed to the home insulation project provided a temporary increase above the program base. The net built-in changes represent a prorata share of the increased costs shown in Appendix A.

During FY 1979 and 1980 we had a large program on cellulose insulation. By FY 1981 we anticipate that activities in this area primarily will involve enforcement through our field offices. For this reason we have allocated these resources to other programs.

Program Description

The Household Structural Products Program works to reduce injuries from products that are fixed in place in homes. These products--for example, architectural glazing, bathtubs and showers--are often selected and installed by the home builder. Frequently it is not economical or feasible for the consumer to replace them. Poor product design may

therefore result in life-long exposure to a hazard. We estimate that products in this area are involved in 8.2 million injuries annually, and in 40% of the deaths reported to us in which a consumer product is specifically identified.

We have now completed the quick regulatory action on cellulose insulation mandated by Congress, and plan to continue activities on other types of insulation. We anticipate that enforcement of existing insulation regulations and development of any necessary new ones will be possible with less resources than were required for the major cellulose effort.

We expect that the Commission will undertake a new energy conservation safety project in FY 1981. Consumers often try to save energy by reducing heating loss to the outdoors. They seal their homes more tightly, but the reduced air infiltration may permit the build-up of undesirable gases. CPSC and the Department of Energy believe that the possible increase of radon, formaldehyde, and carbon monoxide in homes as a result of this tighter "thermal envelope" warrants further investigation.

FY 1979 and FY 1980 Activities

o Cellulose Insulation. As required by the Congress, the Commission conducted a major enforcement effort for its interim standard for flammability and corrosiveness, and published an amended standard based on the General Services Administration's revised specifications. We have also published a final certification rule, and a labeling rule to address fire hazards caused by improper installation.

o Tap Water Scalds. Our death certificate files indicate that scaldings from excessively hot tap water have caused 160 deaths since 1973. The Commission's work with voluntary standards groups has resulted in cautionary labeling and a lower factory pre-set temperature for some electric water heaters. Similar changes are being considered for gas water heaters. In FY 1980 the Commission will consider whether regulatory action is necessary for these products. As part of the consideration the commission has issued a 10(c) notice to collect additional information.

o Enforcement of Regulations. Particularly important in this area are the ban on unstable refuse bins, which can tip over if children hang on the projecting side, and the safety standard for architectural glazing. Efforts in this area will continue in FY 1980 and FY 1981.

o Formaldehyde. Building on the work being done in our Acute Chemical Hazards Program, the Household Structural Products Program will concentrate in FY 1980 on urea-formaldehyde foam insulation. The Commission has received hundreds of complaints about this product. People have become so ill from escaping formaldehyde gas that they have been forced

to abandon their homes and in addition there is concern about chronic hazards from this product. Regulatory possibilities include labeling, standards, or a ban. Public hearings on this subject are being held during this heating season. The results of these hearings will be presented to the Commission for a decision.

o Ladders. In FY 1980, the Commission plans to evaluate voluntary standards for ladders to determine if improvement is necessary.

Proposed Activities for FY 1981

The requested resources, 15 positions and $901,000, will permit the Commission to:

- o enforce existing regulations on architectural glazing, refuse bins, and cellulose insulation
- o continue investigations and take possible regulatory action on urea-formaldehyde foam insulation
- o conduct studies on the effect tighter thermal envelopes have on the build-up of dangerous gases inside homes
- o study, in close cooperation with the Department of Energy, the hazards of alternative energy producing devices, which will become more common as energy prices rise

II. PRODUCT SAFETY AND ENFORCEMENT

HAZARD IDENTIFICATION AND ANALYSIS
(Funds in Thousands of Dollars)

FY 1979 (Actual)		FY 1980 (Estimate)		FY 1981 Request (Estimate)		Difference 1980 to 1981	
Pos.	Funds	Pos.	Funds	Pos.	Funds	Pos.	Funds
44	$3,134	43	$3,294	44	$3,834	+1	+$540

Explanation or Resource Changes

	Positions	Funds ($000)
1980 Estimate	45	$3,294
Net Built-in Changes	-1	+114
1981 Adjusted Base	44	$3,408
1981 Program Changes	-	+426
1981 Estimate	44	$3,834

The net built-in changes represent a prorata share of the increased costs shown in Appendix A.

The FY 1981 increase required in this program area is primarily attributable to the enhancement of data bases for fire and burn injuries, electrical hazards, and chronic chemical hazards. The enhancement of these additional data bases will permit the Commission to address potential hazards more quickly and accurately. In addition to development of these data bases, the Commission plans to make extensive improvements in our existing data bases in FY 1981. We believe that the maintenance of complete and accurate data bases is essential to the Commission's mission.

Program Description

The Commission's Hazard Identification and Analysis activity provides technical support to all the hazard programs by collecting and analyzing injury, economic, and other information. This information is used not only to

identify hazards which warrant Commission attention and to develop appropriate strategies for reducing them, but also to evaluate the effectiveness of actions taken.

Major sources of injury information are:

- o data from the National Electronic Injury Surveillance System (NEISS), which we use to estimate the number of product-related injuries treated in all hospital emergency rooms in the United States
- o death certificates, which 50 states, Washington, D. C., Puerto Rico, and the Virgin Islands provide to us monthly
- o Medical Examiners and Coroners Alert Project--voluntary reports of product-related deaths over our toll free Hotline
- o news clippings, consmuer calls and letters, and Area Office reports.

Our staff analyzes data from these sources, from comprehensive data bases maintained by private and government organizations, and from special surveys on product exposure, consumer attitutdes, and the manufacture and distribution of specific products. These analyses identify possible approaches to injury reduction, and provde the basis for the economic and environmental findings the Commission must by law make.

The National Injury Infomation Clearinghouse responds to public requests for hazard-related data, and publishes a monthly newsletter, "NEISS Data Highlights," as well as special reports and hazard analyses.

FY 1979 and FY 1980 Activities

- o A redesigned NEISS sample, using 74 rather than 121 hospital emergency rooms, became fully operational in FY 1979. The new sample maintains the system's statistical reliability while freeing resources. Specific proposal for using these funds to improve the Commission's injury data systems are currently under consideration.
- o Under continuing interagency agreements with the Environmental Protection Agency, the Department of Transportation, and the Food and Drug Administration, the Commission provides injury data developed through NEISS. In FY 1979 these agencies paid us $490,000 for these services and we anticipate $622,000 in FY 1980.
- o A comprehensive review system was implemented for all injury and potential injury reports to identify emerging hazards quickly.
- o Two new data bases for toxic chemicals and human factors were added which provide analysts throughout the Commission with direct access to information.
- o The National Injury Information Clearinghouse responds annually to more than 6,000 requests for information from manufacturers, educators, and consumers.

- o Initiate a data base to support the household wiring work underway in the Electrical Hazards Program.
- o Special studies, hazard analyses, and economic/environmental analyses supported Commission activity in every hazard program.

Proposed Activities for FY 1981

The Commission requests $3,834,000 and 44 positions, for this activity in FY 1981 to:

- o continue general data collection and analysis
- o provide statistical support for Commission activities
- o provide economic support for Commission activities
- o provide new data bases for fire and burn injuries
- o continue to develop data for electrical hazards
- o investigate data sources in support of the Chronic Hazards Program

II. PRODUCT SAFETY AND ENFORCEMENT

ENGINEERING AND SCIENCES
(Funds in Thousands of Dollars)

FY 1979 (Actual)		FY 1980 (Estimate)		FY 1981 Request (Estimate)		Difference 1980 to 1981	
Pos.	Funds	Pos.	Funds	Pos.	Funds	Pos.	Funds
15	$907	16	$1,572	31	$2,501	+15	+$929

Explanation of Resource Changes

	Positions	Funds ($000)
1980 Estimate	16	$1,572
Net Built-in Changes	-	+83
1981 Adjusted Base	16	$1,655
1981 Program Changes	+15	+846
1981 Estimate	31	$2,501

The net built-in changes represent a prorata share of of the increased costs shown in Appendix A.

In FY 1981 the Commission is expanding the scope of research activities conducted in this program area. Many research programs previously conducted in hazard programs will now be conducted by Engineering and Sciences. The Commission believes this will equip us with a greater capability to identify solutions to hazards. The increase in funding in this program area represents a transfer of research projects from other Commission programs.

Program Description

The Commission's Engineering and Sciences activity provides engineering, biological, toxicological, and other scientific support to the hazard programs. It is responsible for the Commission's only engineering laboratory and

its headquarters health sciences laboratory, which check compliance with Commission regulations and conduct applied product safety research. Engineering and Sciences also supervises the technical aspects of the Commission's Field laboratories, which are used to support compliance activities, and coordinates work done under contract at the National Bureau of Standards and elsewhere.

Research is a necessary function for an agency that deals in the problems of technology. Our regulations must be solidly based on scientific findings if they are to be effective in reducing injuries and enforceable. Industry uses the information developed by Commission research, particularly in their voluntary standards work. The work conducted by the Commission draws extensively on the research of other government agencies and private industry, but seeks to apply it to specific product safety areas.

Since its inception the Commission has recognized that cooperating with other Federal agencies can minimize duplication of effort and reduce costs. CPSC, along with the Environmental Protection Agency, the Occupational Safety and Health Administration, and the Food and Drug Administration, were charter members of the Interagency Regulatory Liaison Group (IRLG); (the Food Safety and Quality Service of the Department of Agriculture recently joined). The Engineering and Sciences staff works closely with this group, as well as with the Department of Energy, the National Institute for Occupational Safety and Health, the U. S. Fire Administration, and other agencies with mutual interests and concerns.

FY 1979 and 1980 Activities

- o renovation of our Engineering Laboratory continued with occupancy scheduled for FY 1980.
- o completed a study of Health Science laboratory needs. To keep costs low, we will concentrate in FY 1980 on negotiating for space in existing or planned Federal facilities.
- o Efforts with the IRLG continue to show steady progress. Accomplishments in FY 1979 include: publication of compendium of regulatory plans for 24 hazardous chemicals that will guide coordinated regulatory development; development of common guidelines for conducting five laboratory tests, and development of a guide for the scientific identification and evaluation of potential carcinogens.

Proposed Activities for FY 1981

The requested resources, 31 positions and $2,501,000, will allow the Commission to:

- o provide engineering support in areas such as electrical hazards and energy conservation

- continue to cooperate with the IRLG and other government agencies
- collect toxicity data on substances which may present acute or chronic hazards
- provide research support for the investigation of hazards associated with the combustion of plastic consumer products
- develop test methods to support compliance testing
- investigate the potential safety hazards associated with the household use of energy conservation devices
- work with the Department of Energy to develop safety requirements for new alternative energy producing devices

II. PRODUCT SAFETY AND ENFORCEMENT

INFORMATION AND EDUCATION
(Funds in Thousands of Dollars)

FY 1979 (Actual)		FY 1980 (Estimate)		FY 1981 Request (Estimate)		Difference 1980 to 1981	
Pos.	Funds	Pos.	Funds	Pos.	Funds	Pos.	Funds
33	$2,559	34	$2,217	37	$2,160	+3	-$57

Explanation of Resource Changes

	Positions	Funds ($000)
1980 Estimate	34	$2,217
Net Built-in Changes	+3	+97
1981 Adjusted Base	37	2,314
1981 Program Changes	-	-154
1981 Estimate	37	$2,160

The net built-in changes represent a prorata share of the increased costs shown in Appendix A.

In FY 1981, a contract to provide consultative services to local officials and community groups will terminate.

Program Description

Although bans and safety standards can have a direct and dramatic impact on product-related injuries, the Commission believes that informing and educating consumers about the products they use can supplement regulatory activity. The Commission's Information and Education activity develops and disseminates product safety information that supports Commission work in the various hazard program areas.

The materials produced in this activity range from one page "Fact Sheets," which describe hazards of various products and make suggestions for safe use, to sophisticated public service announcements which can reach millions. The staff also develops materials which can be used by schools or community groups in educational programs.

The Information and Education staff also operates the Commission's toll free Hotline and responds to consumer correspondence. These activities are our most direct and perhaps most important link to the consumers we serve.

FY 1979 and FY 1980 Activities

o In FY 1979, more than half a million consumers contacted us by Hotline or letter -- and we distributed more than 6,000,000 copies of pamphlets and brochures in response to their requests. Work in this area increased 150% over FY 1979, and we expect high levels in coming years.

o We keep track of complaints and requests for information though a computerized "Consumer Complaint/Contact Data Base." Information in this data base is also used by other Commission offices to track hazard patterns.

o We installed a teletypewriter (TTY) to allow deaf consumers to use the Hotline.

o Our public service announcement "Wheels," was selected as one of the year's hundred best television commercials by Advertising Age magazine, and was a finalist for a Clio Award in the public service category. More importantly, many children requested more information on safe skateboard use after seeing the "Wheels" spot on television.

Proposed Activities for FY 1981

The requested resources, 37 positions and $2,160,000, will enable the Commission to:

o respond to consumer requests for infomation through correspondence and the Hotline. We will use the Consumer Complaint/Contact Data Base to ensure response within 10 days.

o distribute product safety information and education materials to schools and community groups

o distribute films and film strips to about four million viewers nationwide

o develop and distribute product safety materials specifically designed for minority group members

o develop and produce three national media campaigns on products of priority interest to the Commission

II. PRODUCT SAFETY AND ENFORCEMENT

COMPLIANCE AND ENFORCEMENT
(Funds in Thousands of Dollars)

FY 1979 (Actual)		FY 1980 (Estimate)		FY 1981 Request (Estimate)		Difference 1980 to 1981	
Pos.	Funds	Pos.	Funds	Pos.	Funds	Pos.	Funds
56	$2,808	57	$2,599	61	$2,666	+4	+$67

Explanation of Resource Changes

	Positions	Funds ($000)
1980 Estimate	57	$2,599
Net Built-in Changes	-	+160
1981 Adjusted Base	57	$2,759
1981 Program Changes	+4	-93
1981 Estimate	61	$2,666

Program Description

The Commission's Compliance and Enforcement activity helps create a safer marketplace by ensuring that firms comply with the laws, regulations, and standards that protect consumers from hazardous products. This activity has three major concerns:

o Surveillance. The Commission ensures the best possible coverage at the lowest possible cost by : (1) planning enforcement strategies as part of the regulatory development process, (2) conducting intensive compliance activities when a new regulation goes into effect, and shifting to a maintenance level once acceptable compliance is achieved, (3) delegating case handling authority to the area office, (4) tracking cases with an automated system, and (5) cooperating with state and local authorities.

o Product Defect Correction Activities. Sections 12 and 15 of the Consumer Product Safety Act provide the authority for removing hazardous products from the marketplace swiftly even when no safety standards have been issued. The Commission places particular emphasis on Section 15 which requires manufacturers, distributors, and retailers to report potentially hazardous products to the Commission, which may then require their removal from the marketplace. Our actions under Section 15 are selective affecting only specific hazardous products, and cause minimum disruption in the marketplace. When industry cooperates, as it usually does, actions are swift and inexpensive. Administrative proceedings have been necessary in only 10 the 600 actions taken under Section 15. Since 1973 we have taken action on about 117 million products under Section 15.

o Enforcement Actions and Litigation. The Commission uses informal means such as letters of advice, notices of non-compliance, and meetings, to give firms a reasonable opportunity to comply with regulations. Only if these informal and relatively inexpensive methods fail does the Commission turn to litigation. Even then the Commission uses relatively quick remedies such as product seizures, injunctions, and civil penalty actions more frequently than more expensive and time-consuming criminal prosecutions.

FY 1979 and FY 1980 Activities

o In FY 1979 we conducted several major compliance programs, including statutorily required efforts on cellulose insulation. In FY 1980 we plan a major effort on refuse bins, where non-compliance has led to several deaths since our ban went into effect.

o According to a staff evaluation pharmacists' compliance with special packaging requirements for prescription drugs rose from 80% to 92% during the course of the compliance program. These regulations have been shown to significantly reduce poisonings of children under 5.

o FY 1979 saw the first use of authority under Section 15 to address a chronic hazard -- asbestos in hair dryers. As of December 1979 corrective action has been taken by 39 firms responsible for 90% of the hairdryers containing asbestos. It is estimated that a total of 20 to 22 million hand-held and bonnet style dryers were involved in this action. These products are being removed from the marketplace -- and from consumers hands.

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o Industry reports and staff investigations in FY 1979 led to opening 198 defect files involving 53.4 million products, a significant increase over the 128 defect files opened in FY 1978. In FY 1979, 3.6 million products were recalled. We expect continued high levels of activity in this area in FY 1980.

o Litigation was used to prevent the export of flammable carpet and Tris-treated sleepwear.

o We proposed and implemented procedural regulations which specify what information firms are to submit to the Commission if they intend to export non-complying goods. These regulations clarify authority granted to us in the 1978 amendments to the Consumer Product Safety Act.

Proposed Activities for FY 1981

The requested resources, 61 positions and $2,666,000, will allow the Commission to:

o plan and coordinate enforcement of Commission regulations, including agreements and contracts with state and local governments

o begin limited enforcement of the new export regulations

o Provide sufficient resources to cover increasing workloads in the Section 15 area, including careful consideration of potential hazards noted in news clippings and consumer complaints.

o Litigation activity as needed.

II. PRODUCT SAFETY AND ENFORCEMENT

FIELD ACTIVITIES
(Funds in Thousands of Dollars)

FY 1979 (Actual)		FY 1980 (Estimate)		FY 1981 Request (Estimate)		Difference 1980 to 1981	
Pos.	Funds	Pos.	Funds	Pos.	Funds	Pos.	Funds
329	$11,852	319	$12,375	326	$12,873	+7	+$498

Explanation of Resource Changes

	Positions	Funds ($000)
1980 Estimate	319	$12,375
Net Built-in Changes	+7	+565
1981 Adjusted Base	326	$12,940
1981 Program Changes	-	-67
1981 Estimate	326	$12,873

The net built-in changes represent a prorata share of the increased cost shown in Appendix A.

During 1980, the Commission will reorganize its nationwide field offices, enabling it to reduce management overhead in these offices. In addition, there will be a minimal reduction in contract funds.

Program Description

The Commission field staff implements the Commission's programs for injury data collection, compliance and enforcement, information and education, and state/local cooperative activities. About 30% of the Commission's resources go to field activities supporting the work of: 13 Area Offices, 23 resident posts, 3 laboratories,

and a small headquarters coordinating staff. Most of the Commission's direct contact with the public comes through the work of the field staff, such as investigators checking industry's compliance with Commission rules and regulations, and community services personnel working with state and local government agencies, schools, consumer groups, and individuals to provide product safety information.

President Carter has emphasized greater consideration of state and local needs during Federal policy development and program planning. We have found state and local cooperative activities to be particularly valuable in increasing the impact of product safety activities. State and local agencies participate actively in the development and implementation of Commission programs to ensure that local as well as national needs are met. Our contacts with thousands of organizations also help us to extend product safety coverage far beyond our staff limitations.

The Commission contracts with state and local agencies to perform compliance and information and education activities. These agencies often have large, geographically dispersed staffs and can interact directly with more people at reduced costs. Both the Commission and cooperating agencies also benefit from the increased expertise gained through sharing technical knowledge.

Area Office staff also work closely with state designees appointed by the Governor of each state to communicate and coordinate product safety efforts. At least once a year state designees and other state and local officials meet with Area Office staff to develop joint product safety program plans. This joint planning permits greater industry coverage during compliance efforts, and reduces the burden both on individual firms and government agencies by eliminating duplicative inspections. We also "commission" state and local officials, legally delegating to them authority to enforce the Federal statutes we administer. To date, 130 state officials in 27 states have been commissioned. During a recent voluntary toy recall, Commission field staff conducted 39 recall effectiveness checks, state contractors conducted 40 such checks, and state employees performed 1,300 checks at no cost to the Federal government.

FY 1979 and FY 1980 Activities

o Area Offices received and responded to almost 105,000 complaints and inquiries from consumers and industry representatives in FY 1979. In addition, we performed 3,200 in-depth investigations, 4,000 inspections, 2,000 recall effectiveness checks, 3,600 sample collections and 2,000 sample analyses.

o More than 2,200 people attended 13 public meetings on the cellulose insulation standard conducted by field staff in FY 1979. Field staff also conducted 63 seminars for regulated industries.

o Under contractual agreements with the Commission, 28 state and local government agencies conducted compliance activities, and 23 conducted information and education activities. Field staff trained the state personnel, and monitored their performance. We will continue these activities in FY 1980, and plan to commission an additional 5 states and 25 officials.

- Area Offices now have the responsiblity and authority to review and evaluate all in-depth investigation reports for evidence of a substantial product hazard, perform follow-up establishment inspections, and make recommendations to headquarters. We believe that this will expand the Commission's ability to detect substantial product hazards in the marketplace.

- An Area Office reorganization in FY 1980 will reduce management overhead by about 10%.

Proposed Activities for FY 1981

The resources requested, 326 positions and $12,873,000, will allow the Commission to:

- provide compliance and enforcement support for selected regulations
- continue or complete basic information and education programs
- maintain existing compliance and information and education contracts with states
- provide daily monitoring of the information submitted by NEISS hospitals
- monitor industry compliance with voluntary standards on upholstered furniture, Christmas tree lights and other products such as water heaters, stepstools/ladders and bathtubs
- expand activities in support of Section 15 by conducting more follow-up inspections on suspected substantial product hazards, and by monitoring an increased number of product recalls
- continue seminars to educate members of industry about new and existing regulations
- continue joint planning efforts, work sharing and commissioning activities with state and local agencies

III. ADMINISTRATION AND GENERAL SUPPORT

(Funds in Thousands of Dollars)

FY 1979 (Actual)		FY 1980 (Estimate)		FY 1981 Request (Estimate)		Difference 1980 to 1981	
Pos.	Funds	Pos.	Funds	Pos.	Funds	Pos.	Funds
103	$5,300	103	$5,601	103	$5,210	-	-$391

Explanation of Resource Changes

	Positions	Funds ($000)
1980 Estimate	103	$5,601
Net Built-in Changes	-	+268
1981 Adjusted Base	103	$5,869
1981 Program Changes	-	-659
1981 Estimate	103	$5,210

The net built-in changes represent a prorata share of the increased cost shown in Appendix A.

During FY 1979 and 1980, the Commission was in the process of implementing provisions of the Civil Service Reform Act. This process required contract assistance to ensure timely and proper implementation of these changes. In FY 1981, such contract services will not be required since the implementation process has now been completed. This contract cost reduction represents a substantial portion of the decrease in required funding for Administration. In addition, we have been able to introduce operational effiencies which have further reduced required funding for Administration.

Program Description

The Administration and General Support activity provides administrative service and support to program activities. It includes personnel administration, data processing systems support, procurement, financial and information management, training, library services, management analysis and other general support services.

The major objectives are to:

- o provide accurate and timely accounting of obligations and expenditures of appropriated funds
- o provide efficient and cost effective services and support
- o deliver necessary services in a responsive and timely fashion
- o adjust operations in response to changing priorities, technological innovations, and needs
- o provide accurate and timely management information
- o provide a safe, healthful, and pleasant work environment
- o provide career opportunities and employee development programs which promote the accomplishments of the agency mission
- o facilitate agency compliance with administrative rules, regulations, orders and directives

FY 1979 and FY 1980 Activities

o We completed the personnel classification correction survey, which was implemented in FY 1980. The agency's Senior Executive Service was established.

o We instituted a managment and organizational analysis activity to improve administrative and operational management procedures.

o We streamlined the Management Information System to provide improved resource utilization information.

o We will revise our Directive System in FY 1980.

o Develop guidelines on merit system principles, performance appraisals, disciplinary actions, merit pay and labor relations activities in view of the Civil Service Reform Act, and train employees regarding the new provisions.

Proposed Activities for FY 1981

The Commission requests $5,210,000 and 103 positions for FY 1981. This level will permit us to:

- o provide necessary ongoing administrative and general support services
- o implement the performance appraisal and merit pay system in accordance with the Civil Service Reform Act
- o pursue additional Automatic Data Processing operational efficiencies for possible additional cost savings in FY 1981.
- o continue to refine and improve our administrative support systems

Crosswalk for FY 1981 Resources
To FY 1980 Budget Structures
FY 1979 Resources
($ in the Thousands)

FY 1981 Budget Structure	FY 1979 Actual 1/	Adjustments 2/	Distribution of Field Resources	Distribution of Commission Support	Support Distribution HIA	E&S	I&E	C&E	ADM	Budget Structure
I. Commission Policy Development & Direction	$3,067	--	--	-3,067	--	--	--	--	--	--
II. Product Safety & Enforcement										
Office of the Executive Director	1,258	--	--	-1,258	--	--	--	--	--	--
Programs										
Petitions	695	--	--	-695	--	--	--	--	--	--
Fire & Thermal Burn	1,427	--	665	330	915	48	267	1,410	742	5,804
Electrical Hazards	860	--	413	201	807	48	1,427	981	636	5,373
Acute Chemical Hazards	811	--	904	276	753	359	46	858	583	4,590
Chronic Chemical Hazards	2,169	350	707	724	376	598	936	613	1,325	7,798
Children's/Recreational Hazards	648	--	615	199	861	48	936	736	477	4,520
Power Equipment Hazards	849	--	142	156	861	48	89	613	318	3,076
Household Product Hazards	2,047	208	2,988	794	807	48	757	920	1,219	9,788
On-going Headquarters Activities										
Hazard Identification & Analysis	3,134	--	1,512	734	-5,380	--	--	--	--	--
Engineering & Sciences	907	--	127	163	--	1,197	--	--	--	--
Information & Education	2,559	--	1,291	608	--	--	-4,458	--	--	--
Compliance & Enforcement	2,808	--	2,488	835	--	--	--	-6,131	--	--
Field Activities	11,852	--	-11,852	--	--	--	--	--	--	--
III. Administration & General Support	5,300	--	--	--	--	--	--	--	-5,300	--
Total	40,391	558								40,949

1/ Does not include amounts from Home Insulation Supplemental
2/ Home Insulation Supplemental

Crosswalk from FY 1981 Budget Structures
to FY 1980 Budget Structures
FY 1980 Resources
(Funds in Thousands of Dollars)

Budget Structure	FY 1980 Estimate 1/	Adjustments 2/	Pay Raise	Distribution of Field Resources	Distribution of Commission Support	Support Distribution HIA	E&S	I&E	C&E	ADM	1980 Budget Structure
I. Commission Policy Development & Direction	$3,305	--	102	--	$-3,407	--	--	--	--	--	--
II. Product Safety & Enforcement											
Office of the Executive Director	1,418	--	42	--	-1,460	--	--	--	--	--	--
Hazard Programs											
Petitions	473	--	12	--	-485	--	--	--	--	--	--
Fire/Thermal Burn	1,383	321	31	384	263	937	75	225	2,141	900	6,660
Electrical Hazards	1,276	120	27	133	209	826	75	1,197	1,484	771	6,118
Acute Chemical Hazards	702	65	18	903	241	771	564	37	1,297	707	5,305
Chronic Chemical Hazards	2,224	460	58	516	412	386	940	785	929	1,606	8,316
Mech. Hazards - Child./Recreation	686	85	17	462	173	882	75	786	1,113	578	4,857
Mech. Hazards - Power Equipment	828	--	16	54	135	882	76	76	925	385	3,377
Mech. Hazards - Household Products	1,312	581	32	1,822	466	826	75	636	1,391	1,478	8,619
On-going Activities											
Hazard Identification & Analysis	3,244	--	50	1,510	706	-5,510	--	--	--	--	--
Engineering & Sciences	1,554	--	18	67	241	--	-1,880	--	--	--	--
Information & Education	2,178	--	39	1,044	481	--	--	-3,742	--	--	--
Compliance & Enforcement	2,533	--	66	5,480	1,201	--	--	--	-9,280	--	--
Field Activities	12,002	--	373	-12,375	--	--	--	--	--	--	--
III. Administration & General Support	5,482	--	119	--	824	--	--	--	--	-6,425	--
Total	40,600	1,632	1,020								43,252

1/ Does not include funds from Home Insulation Supplemental
2/ Remaining funds from 1979/80 Supplemental

Crosswalk for FY 1981 Resources
From FY 1981 Budget Structure
To FY 1980 Budget Structure
($ in the Thousands)

FY 1981 Budget Structure	FY 1981 Request In Budget	Distribution of Field Resources	Distribution Of Commission Resources	Support Distribution HIA	E&S	I&E	C&E	ADM	FY 1980 Budget Structure
I Commission Policy Development & Direction	3,425	--	- 3,425	--	--	--	--	--	--
II Product Safety & Enforcement	--	--	--	--	--	--	--	--	--
Office of the Executive Director	1,474	--	- 1,474	--	--	--	--	--	--
Programs									
Petitions	638	--	-638	--	--	--	--	--	--
Fire & Thermal Burn	767	875	245	1,120	118	235	2,335	830	6,525
Electrical Hazards	1,406	155	232	988	118	1,255	1,625	711	6,490
Acute Chemical Hazards	856	695	233	923	883	39	1,422	652	5,703
Chronic Chemical Hazards	3,558	515	604	462	1,473	824	1,015	1,481	9,932
Children's/Recreational Hazards	860	412	189	1,054	118	824	1,219	533	5,209
Power Equipment Hazards	830	26	129	1,054	118	79	1,015	356	3,607
Household Product Hazards	901	695	237	988	118	667	1,524	1,363	6,493
On-going Headquarters Activities									
Hazard Identification & Analysis	3,834	1,931	824	-6,589	--	--	--	--	--
Engineering & Sciences	2,501	77	368	--	-2,946	--	--	--	--
Information & Education	2,160	1,274	489	--	--	-3,923	--	--	--
Compliance & Enforcement	2,666	6,218	1,271	--	--	--	-10,155	--	--
On-going Field Activities	12,873	-12,873	--	--	--	--	--	--	--
III Administration & General Support	5,210	--	716	--	--	--	--	-5,926	--
Total Commission Resources	43,959	--	--	--	--	--	--	--	43,959

U.S. Consumer Product Safety Commission
Object Classification
(In Thousands of Dollars)

Identification Code:		1979 Actual	1980 Estimate	1981 Estimate
	Direct Obligations:			
	Personnel Compensation:			
11.1	Permanent positions	$20,381	$21,838	$21,800
11.3	Positions other than permanent	1,248	1,354	1,374
11.5	Other personnel compensation	211	237	245
11.8	Special personnel services payment	78	81	81
	Total personnel compensation	21,918	23,510	23,500
12.1	Personnel Benefits: Civilian	2,039	2,200	2,230
13.0	Benefits for former personnel	0	40	40
21.0	Travel and transportation of persons	940	1,116	1,200
22.0	Transport of things	35	40	96
23.1	Standard level user charges	2,332	2,505	2,846
23.2	Communications, utilities, & other rent	2,388	2,707	2,999
24.0	Printing and reproduction	768	775	822
25.0	Other services	9,603	9,658	9,479
26.0	Supplies and materials	480	500	536
31.0	Equipment	445	200	210
42.0	Insurance claims and indemnities	1	1	1
	Total direct obligations	40,949	43,252	43,959
	Reimbursable Obligations:			
25.0	Other services	563	750	750
99.0	Total Obligations	$41,512	$44,002	$44,709

COMPARISON OF OBLIGATIONS
BY SUB-OBJECT CLASS 1979 - 1981
($ in thousands)

	1979 Actual	1980 Estimate	1981 Estimate
Salaries:	21,918	23,510	23,500
Regular/Full-Time Perm.	(20,310)	(21,785)	(21,776)
Overtime	(204)	(218)	(218)
Part-time/Temp.	(1,247)	(1,338)	(1,338)
Contract	(79)	(85)	(84)
Other	(78)	(84)	(84)
Benefits:	2,039	2,200	2,230
FICA	(47)	(51)	(52)
Awards	(3)	(3)	(3)
CS Retirement	(1,464)	(1,580)	(1,602)
FEGLI	(56)	(61)	(62)
FFHBA	(382)	(412)	(417)
Accident Compensation	(26)	(28)	(28)
Real Estate Cost - Change of Station	(20)	(22)	(22)
Other	(41)	(43)	(44)
Severance:	0	40	40
Travel:	940	1,116	1,200
Parking Fees	(40)	(47)	(51)
Rental of Vehicles	(194)	(230)	(247)
Foreign	(0)	(3)	(3)
Administrative Travel	(134)	(159)	(171)
All other - Domestic Travel	(572)	(677)	(728)
Transportation:	35	40	96
Household Goods	(14)	(16)	(38)
Other Shipments	(21)	(24)	(58)

COMPARISON OF OBLIGATIONS
BY SUB-OBJECT CLASS 1979 - 1981
($ in thousands)

	1979 Actual	1980 Estimate	1981 Estimate
Space Rentals:	2,337	2,580	2,893
Warehouse	(68)	(75)	(84)
Laboratory	(232)	(256)	(287)
Resident Posts	(87)	(96)	(108)
Area Offices	(738)	(815)	(914)
Hearquarters & Others	(1,212)	(1,338)	(1,500)
Equipment Rentals:	1,020	1,126	1,262
Electronic Data Processing	(226)	(249)	(279)
Teletype	(101)	(111)	(124)
Data Communication Terminals	(141)	(157)	(176)
Photo Equipment	(260)	(287)	(322)
Other	(292)	(322)	(361)
Postage:	404	447	501
Telephone Services:	959	1,059	1,189
Printing:	768	775	822
GPO	(720)	(727)	(771)
Other Commercial	(26)	(26)	(28)
Film Development - Micro Illustrations:	(22)	(22)	(23)
Data Processing:	1,729	1,739	1,705
Training: Tuition & Fees	210	211	211
Building Maintenance/ Operations	73	73	73
Equipment Repair:	29	29	29
Payroll Service Charge:	106	107	107

COMPARISON OF OBLIGATIONS
BY SUB-OBJECT CLASS 1979 - 1981
($ in thousands)

	1979 Actual	1980 Estimate	1981 Estimate
Other Services & Contracts:	7,456	7,499	7,354
Lab Supplies:	49	51	55
ADP Supplies:	15	16	17
Subscriptions:	151	157	168
Audiovisual and Printing Supplies:	35	36	39
Office Supplies, Lab Supplies & Other Supplies:	230	240	257
Equipment:	445	200	210
Office Furniture & Furnishing	(65)	(29)	(30)
Typewriters	(99)	(44)	(46)
Books	(30)	(14)	(15)
Lab Equipment	(175)	(79)	(83)
Photographic Equipment	(6)	(3)	(3)
Other	(70)	(31)	(33)
Indemnities (Not Covered)	1	1	1
TOTAL, DIRECT OBLIGATIONS	40,949	43,252 1/	43,959
REIMBURSABLE OBLIGATIONS: (Other Services)	563	750	750
CPSC, TOTAL	41,512	44,002 1/	44,709

1/ Includes $1,020,000 requested supplemental to cover October 1979 Pay Raise.

U.S. CONSUMER PRODUCT SAFETY COMMISSION
TRAVEL CEILING BY ORGANIZATION
(Funds in Thousands of Dollars)

	1979 Actual	1980 Estimate	1981 Estimate
Chairman & Commissioners	$ 15	$ 18	$ 20
Office of Public Participation Office of the Secretary Office of Congressional Relations Office of General Counsel Office of Strategic Planning Office of Internal Audit Administrative Law Judge	50 1/	87 1/	90 1/
Office of Equal Employment Opportunity	17	19	22
Office of Communications	40	42	50
Office of the Executive Director	3	4	4
Office of Program Management	11	12	18
Office of Budget, Program Planning & Evaluation	7	20	20
Directorate/Hazard Identification & Analysis	30	35	37
Directorate/Engineering & Sciences	32	36	40
Directorate/Health Sciences	13	27	33
Directorate/Compliance & Enforcement	63	66	73
Directorate/Administration	144 2/	177 2/	182 2/
Directorate/Field Operations	515	573	611
CPSC, TOTAL	$ 940	$1,116	$1,200

1/ This amount includes travel funds for OPP, OS, OCR, OGC, OIA, ALJ and the statutory Advisory Committees.

2/ Includes Admimistration, Training & Common Cost.

JUSTIFICATION OF BASE ADJUSTMENTS
FY 1980 to FY 1981

Analysis of costs for operations continuing in effect from FY 1980 to FY 1981 reveals that, because of inflation, CPSC needs $1,686,000 more than the FY 1980 current appropriation of $40,600,000* merely to maintain the FY 1980 level of effort during FY 1981. We request that favorable consideration be given to raising the Commission's budget level, in order to meet inflationary costs and permit program expansion or new initiatives for FY 1981.

Over the last four years the Commission's budget has remained essentially unchanged, despite rising cost due to inflation. Indeed, our budget has had to absorb $1,790,000 in added costs because Congress has enacted $2,826,000 in pay increases but only increased our budget by $1,036,000. Figures from the Council on Economic Advisors show that an average government purchase will cost 34% more in FY 1980 than it did in FY 1976.

In order to cope with this situation, Commission management has initiated several austerity measures to avoid disruption to essential operating programs.

First, we have reduced the number of projects consuming staff time and funds. Projects of marginal benefit to the consumer have been eliminated. This has made it possible to redirect staff resources into priority projects or other approved efforts, so that the Commission can focus its attention where it will do the most good, and thereby provide better consumer protection.

Second, in FY 1979 we instituted strict economy measures to reduce administrative costs. These achieved cost reductions by limiting the level of overtime, administrative travel, and multiple attendance at professional meetings. Wherever it has been shown to be more economical to own equipment than to rent it, the Commission has purchased the equipment (e.g., word processing, facsimile and photocopy equipment). In instances where equipment has been shown to be under utilized, it has been removed. Further, in FY 1979, duplicating costs were reduced by eliminating several leased photocopy machines and using Government provided equipment in a central copy center staffed with contract employees. Agency managers have also exercised tight oversight over the cost of telecommunications services, renovations, subscriptions, library services and inventories of supplies. Commission management constantly reviews operations to determine activities which are too costly or no longer needed. For example, we have been able to reduce the messenger service contract and eliminate the inter-building shuttle contract by using existing Commission staff to provide these services.

* This figure does not include a supplemental appropriation now pending for the cost of the October 1979 pay raise. This supplemental is now estimated at $1,020,000.

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Finally, we have sought to expand our participation in cooperative ventures with other Federal agencies whose interests parallel ours, but whose resources exceed our own. Joint efforts, like the IRLG, give the Commission access to the facilities of the larger health or regulatory agencies. For example, the National Institute for Occupational Safety and Health recently tested hand held hair dryers for the Commission.

Although these measures have enabled the Commission to absorb past inflationary increases, it is unlikely that they will continue to be effective indefinitely. By the end of 1980, the Agency's purchasing power will have declined so much that absent a budget level higher than $41,300,000 it will be necessary to curtail activities in order to finance uncontrollable cost increases for FY 1981.

For instance, the Commission needs an estimated $570,000 to finance Within Grade Increases (WIG's) effective for part of 1980 and new WIG's becomming effective in 1981, including minimum pay increases under the Senior Executive Service System.

An additional $603,000 is required for estimated increases in the cost of space and equipment rentals, other rentals, and postage. GSA has already notified agencies that Standard Level User Charges (SLUC) costs will increased by at least 10 percent in 1981. The Commission's estimate, based on rates provided by GSA which will be in effect during 1981, is that the increase will be greater than 10 percent. Equipment rental costs based on past increases, are anticipated to increase by 10 percent in 1981. There is no systematic way of estimating postage costs, since the Commission has little or no control over this area, even though the Commission has a continuing effort to purge mailing lists of duplicate and inactive names. The estimated postage costs for 1981 are conservative, based on adjusted estimates for FY 1979 and FY 1980.

Labor costs associated with the Commission's programmatic and administrative contract efforts will require an additional $514,000. The best example of labor costs associated with a programmatic contract is our experience with the printed materials distribution contract handled by St. Elizabeth's Hospital. A department of Labor ruling that Federal contracts for such services must pay the minimum wage plue a sum for benefits has caused the distribution contract to increase approximately 56 percent. Other programmatic contracts with increasing labor costs include our aggreement with the National Bureau of Standards for research and technical services, state compliance contracts, and our data collection contracts. Other labor service contracts have increased, most noticeably, guard services, the cost of distributing publications through the Consumer Information Center, and the employee Health Unit.

The following tables provide additional information on the Commission's mandatory cost increases.

TABLE I. Summary of Changes From 1980 To 1981 By Object Class
(Funds in Thousands of Dollars)
(Note: See Table II For Additional Details)

	Built-In Increases (+)	Nonrecurring Costs (-)	Net Change (+ or -)
Object Classes 11 and 12	+$ 570	- 137	+ 433
Object Class 21	+ 60	- 20	+ 40
Object Class 23	+ 603	-	+ 603
Object Class 24	+ 75	-	+ 75
Object Class 25	+ 514	-	+ 514
Object Class 26	+ 66	- 18	+ 48
Object Class 31		- 27	- 27
COMMISSION TOTAL	$1,888	- 202	+1,686

TABLE II. Description of Changes from 1980 to 1981
(Funds in Thousands of Dollars)

Explanation of Change:	Built-In Increases (+)	Nonrecurring Costs (-)	Net Change (+ or -)
Additional cost of WIGs	$ 570	$ --	+ $ 570
One less compensable day	--	137	- 137
Increased cost of leased vehicles (GSA and commercial)	50	--	+ 50
Increased mileage and maintenance costs	10	--	+ 10
Reduction in administrative travel	--	20	- 20
SLUC payments to GSA for leased space	341	--	+ 341
Increased cost of maintaining rented office equipment	49	--	+ 49
Increased telecommunications costs (GSA and commercial)	97	--	+ 97
Increased cost of leased ADP equipment	11	--	+ 11
Increased cost of postage, mail and delivery services	105	--	+ 105
Increased cost of GPO printing and binding, including typesetting of Federal Register Notices	75	--	+ 75
Increased cost of administrative service contracts	134	--	+ 134
Increased cost of labor intensive programmatic contracts	380	--	+ 380
Increased cost of office, printing and laboratory supplies	66	--	+ 66
Reduction in subscriptions	--	18	- 18
Reduction in purchase of office equipment, books, and other capital assets	--	27	- 27
COMMISSION TOTAL	$1,888	- $ 202	$ 1,686

STATUS OF PRIORITY PROJECTS*

A. Projects Selected for Priority Attention - FY 1979

Project	1979 Status	FY 1980 Activities
Power Mowers. Power lawn mowers accounted for an estimated 69,000 injuries in 1978. Many of these injuries involved amputation of hands, feet, fingers, or toes. Others involved objects thrown from beneath the mower striking the operator or a bystander, often many feet away.	The Commission issued a final standard on hazards associated with blade contact. The labeling provisions of this standard go into effect in FY 1980, and the other major requirements in FY 1982.	Issue certification rule, enforce the labeling provisions of blade contact standards and begin to address thrown object hazards and hazards associated with riding lawn mowers.
Benzene. Benzene is an ingredient in many consumer products such as paint strippers and rubber cement. It is a suspected carcinogen which may cause leukemia, other blood disorders and genetic effects.	The Commission considered a ban on benzene in consumer products, but deferred final action pending a Supreme Court decision on OSHA's efforts to reduce occupational exposure. However, benzene is no longer added intentionally to consumer products, and its presence as a contaminant has been markedly reduced.	The staff is conducting a study of consumer exposure levels based on the use of certain products. In addition, the staff is preparing a general order requiring manufacturers to inform the Commission if they use benzene in the products. To acertain if manufacturers are voluntarily complying with removal of benzene from products, the staff is also testing certain products to determine benzene contamination. The Commission will decide whether or not to issue a rule when these data are analyzed.
Small Parts in Children's Products. Small parts which can break off or be detached from products designed for children were involved in an estimated 7,246 injuries treated in hospital emergency rooms in 1976.	CPSC issued a final rule restricting the use of small parts in toys and other children's products intended for children under 3 years of age. The rule goes into effect January 1, 1980.	The Commission will begin enforcement of this rule.
Public Playground Equipment. Many children sustained fractures and other injuries from playground equipment. Approximately 93,000 such injuries occur each year.	An extensive research effort on the feasibility of developing safety requirements for public playground equipment was completed by the National Bureau of Standards. The Commission is seeking public comment on the technical reports.	The Commission plans to publish a playground safety handbook based on the NBS reports in late FY 1980. This handbook will be complemented with information and education materials and safety campaigns.

* Priority Projects are determined by the Commissioners each year as part of their operating plan decisions. This list provides guidance to the staff on which activities the Commission believes to be most important in that operating year.

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Project	FY 1979 Status	FY 1980 Activities
Miniature Christmas Tree Lights. Poorly made miniature Christmas tree lights can cause fires or electric shock.	Action on a proposed mandatory standard for these lights was deferred until 1981 while the Commission monitors the effectiveness of voluntary industry efforts. To date progress on the voluntary standards efforts appears satisfactory.	The Commission will continue to monitor compliance with the voluntary standard. A field survey is being planned and fire data is being analyzed. Further action will will depend on the results of this review.
Carpet and Rug Sampling Plan.	The staff developed draft revised sampling procedures intended to improve conformance and reduce the burden of testing on the industry. Acquisition of information necessary to determine a legal basis for proposing sampling plan amendments has been completed. This information is now under review to determine whether it will support the statuatory required findings of fact.	
Flammability Testing under the Federal Hazardous Substances Act.	A revised test method, called the "closed cup," is being considered to bring FHSA testing into line with testing of similar products under other statutes. An analysis of this method was completed.	Based on Commission decisions, revised test methods may be proposed and finalized.
Carcinogen Policy.	CPSC has withdrawn the proposed interim policy because of an adverse court ruling. However, the Interagency Regulatory Liaison Group, of which CPSC is a member, has issued a risk assessment document which is in many respects similar.	The Commission continues to cooperate with other agencies in the assessment and control of hazardous chemicals.
Children's Sleepwear. The Commission requires that children's sleepwear be flame-resistant. However, some clarification of what garments are included was needed.	A study of the options for a revised sleepwear enforcement policy, including a clarification and definition of the types of garments covered was presented to the Commission. A draft policy statement and approved by the Commission.	A Federal Register Notice proposing a clarification of the definitions for children's sleepwear was published early in FY 1980. After review of comments, the final clarification will be published.

Project	FY 1979 Status	FY 1980 Activities
Skateboards. During 1977 over 140,000 injuries resulting from skateboards were treated in hospital emergency rooms.	The Commission concluded that a mandatory banning regulation was not necessary. Materials were developed for a full scale informational program to be launched in early FY 1980. Meanwhile, CPSC continued to monitor skateboard injuries through its hospital surveillance system. Consumers were kept apprised through information efforts aimed at representatives of industry, consumer groups and community service organizations.	The Commission plans to continue its information and education efforts, and will also work with voluntary standards groups.
Energy Conservation Devices. Rising energy costs will cause increased use of these devices which can present hazards from fires or toxic fumes.	CPSC completed research projects on possible risks from various types of energy conservation devices such as flue dampers for furnaces and water heaters, and controls for washers and dryers. Results were made available to the public, the industry, voluntary standard committees, and the Department of Energy. With the encouragement and cooperation of CPSC, three voluntary standards for vent dampers were published, facilitating the marketing of these devices to the public. CPSC is engaged in a cooperative effort with DOE to develop energy performance standards.	CPSC will continue to work with voluntary standards groups and other agencies to improve product design and promote safe use of energy conservation devices. The Commission may also consider the use of mandatory standards and activities under Section 15 if necessary to protect the public.
Smoke Detectors. An increasing number of jurisdictions now require smoke detectors. In some cases, these detectors have been shown to be defective.	Research efforts to review the adequacy of voluntary standards and to survey the effectiveness of smoke detectors in actual use were begun.	The staff has completed a technical evaluation of the voluntary standards used by the industry to certify smoke detectors. Results of the field survey are expected later in FY 1980. The Commission will determine if regulatory action is appropriate, and will work with federal, state and local agencies to inform consumers about smoke detectors.

Project	FY 1979 Status	FY 1980 Activities
Architectural Glazing. In 1977, approximately 62,000 people were treated for injuries associated with glass doors and panels.	The architectural glazing standard was enforced through inspections, sample collections, and testing. The Commission also encouraged state and local building code officials to adopt the standard. CPSC proposed revoking provisions of the standard relating to glazed panels and weathering.	The Commission plans to finalize the amendments proposed to the standard in 1979, and to continue enforcement of the remaining provisions. The Commission will also consider withdrawing the proposed certification rule.
Toys. Sharp points and edges on toys intended for children under 8 years old were responsible for nearly 68,000 injuries in 1977. CPSC issued standards to address these risks.	An enforcement program for the sharp points and edges standards was begun in July of 1979. This program covered approximately 70 manufacturers and importers. Most firms have taken measures to eliminate sharp points and edges from their products.	The Commission plans continued enforcement of these regulations.
Substantial Product Hazards. Under the terms of Section 15(b) of the Consumer Product Safety Act of 1973, businesses are required to notify CPSC when they discover that their products do not comply with mandatory safety rules or contain defects that may present a substantial risk of injury or death to consumers.	The new rules clarifying reporting requirements resulted in an increase in the number of product defect files opened. These involved over 53 million products. Examples of products reported include coffee percolators, hairdryers, toys, infant exercisers, energy saving devices and duplex electrical receptacles.	Emphasis on Section 15 will continue, see page 75.

8. Projects Selected for Priority Attention - FY 1980 (Items added to the Priority List in 1980 are denoted by * all other items were carried forward from the FY 1979 Priority List.)

Aluminum Wiring. Electrical wiring made from aluminum was installed in approximately 1.5 million American homes built between 1965 and 1973. CPSC is convinced that aluminum wiring can cause a variety of potential fire hazards, including sockets and plug outlets which can overheat and ignite nearby combustible materials such as drapery or furniture.	On January 31, 1979, the U. S. Court of Appeals for the District of Columbia Circuit ruled that the Commission has jurisdiction over aluminum wiring systems only if it can demonstrate that such a system is customarily sold or otherwise distributed to consumers as distinct articles of commerce. The case is currently on remand to the U. S. District Court for a determination of whether the	The Commission is in active discovery on the jurisdictional issue. The Commission has filed an amended complaint in the U. S. District Court, alleging that the components of old technology aluminum wired systems are, in and of themselves, imminently hazardous consumer products; and an amended motion for temporary relief with updated evidence on the hazard including several major fire

Project	FY 1979 Status	FY 1980 Activities
	Commission has evidence sufficient to meet this test. Meanwhile, the results of a national survey comparing the frequency and severity of overheating in aluminum wiring systems with that in copper wired systems have been received. These results confirm the existence of a widespread, serious and imminent danger to consumers whose homes contain aluminum wired branch circuits. In addition, in-depth investigation of fire incidents, and expert analysis and experimentation to verify the failure mechanism which gives rise to the hazard, has continued, as has a program of information dissemination to the public.	incidents and the results of the national survey.
Cellulose Insulation. Cellulose insulation can present flammability and corrosion hazards if not properly treated. In addition, if improperly installed around recessed light fixtures or other heat sources, cellulose home insulation can catch fire.	In response to a Congressional mandate, CPSC issued and enforced an interim standard for cellulose insulation based on GSA requirements. Effective October 16, 1979 GSA issued revised requirements which were adopted by CPSC in an amended standard. A revised enforcement program was prepared ensure compliance with the new standard. Intensive information campaigns have been aimed at industry and consumers. We have also promulgated a labeling rule, under Section 27(e) of the CPSA, that will require insulation manufacturers to comply with certain labeling requirements regarding installation of cellulose insulation around heat sources.	We will be enforcing the standard and labeling rules with a program of over 400 inspections and several hundred sample collections. We will also conduct joint research with the Department of Energy on the lifespan and effectiveness of boric acid as a flame retardant and on the impact of insulation on household wiring.
Unvented Gas Fired Space Heaters. At least 70 deaths a year have been attributed to unvented gas-fired space heaters commonly used in American homes.	The Commission withdrew a proposed ban on unvented space heaters when the Commission concluded that it would be feasible to develop a standard using a simple and inexpensive device to shut the heater off if the oxygen level in the room fell.	A draft standard was presented to the Commission and approved. The standard will be proposed and a final rule is anticipated in the last half of FY 1980.

Project	FY 1979 Status	FY 1980 Activities
* Coal and Wood Burning Stoves. As Americans seek less costly alternatives to heating their homes with oil, gas, and electricity these stoves have become increasingly popular. But they may present a fire hazard if improperly installed by the homeowner.	The Commission granted a petition requesting mandatory labeling on proper installation.	The Commission may propose and finalize a rule requiring mandatory labeling of coal and wood burning stoves, to explain proper installation and maintenance procedures.
Upholstered Furniture. Most fires in upholstered furniture, (an estimated 33,000 every year) are started accidentally by smoldering cigarettes. We estimate that 500 persons are killed and an additional 1,700 are seriously injured in these fires.	The Commission staff completed work on a draft mandatory standard that would improve furniture resistance to cigarette ignition. The Commission withheld a decision to propose a standard pending an evaluation of an industry voluntary program.	The voluntary program has shown considerable promise of resolving a major portion of the upholstered furniture cigarette ignition problem. The Commission voted to monitor the voluntary program for one year. At the end of that time, they will assess the need for mandatory action.
* Baby Cribs. Although the Commission's crib regulations greatly improved the safety of cribs, hazards still remain.		The Commission is preparing an amendment to its safety standard for baby cribs. This amendment is aimed at further reducing the incidence of children's heads and necks becoming entrapped within the structure of the cribs.
Communication Antennas. CB and TV antennas lead all other consumer products in causing deaths by electrocution; more than 200 people have been killed annually in recent years, when these antennas contacted over head power lines, most commonly as the victim was installing or removing an antenna.	The Commission issued a labeling rule to warn of the danger of electrocution, and initiated the development of a mandatory standard for omnidirectional CB antennas.	In-house development of a mandatory standard for omnidirectional CB antennas will continue and may be extended to include directional CB antennas as well.

Project	FY 1979 Status	FY 1980 Activities
Projectile Toys. An estimated 750 children under 15 years of age were treated in hospitals in 1978 for injuries related to toys which propel objects (such as dart guns). Many of these injuries involved eye damage.	CPSC's study at the National Bureau of Standards on possible hazards was completed and the staff began analyzing the data, conducting product testing, and developing possible remedies.	Additional work has been authorized at NBS to address certain aspects of of eye injury potential which had not been adequately covered. A report is planned to the Commission outlining regulatory options.
Plastics Flammability. The use of plastic materials in consumer products has grown dramatically in recent years.		The Commission will begin research into the combustion and toxic effects of selected plastic consumer products.
* Tap Water Scalds. An estimated 2,600 burns and serious scalds are caused each year by accidental exposure to excessively hot tap water. The Commission has been informed of at least 160 deaths due to such water burns since 1973.	Work with voluntary standards groups led to cautionary labeling and lower factory pre-set temperatures for electric water heaters. The Commission also sought public comment on the issue of appropriate temperature settings.	CPSC will continue to support voluntary efforts to develop requirements for warning labels on the heaters, and to lower the factory pre-set temperatures on hot water heaters. The Commission will also consider the need for mandatory requirements.
Formaldehyde Toxicity. Respiratory problems, headaches, and eye and skin irritation may be caused by formaldehyde that may be released from many consumer products such as urea-formaldehyde foam insualtion.	CPSC engaged the National Academy of Sciences to research possible hazards from formaldehyde released from various consumer products. The report is due in early FY 1980. We also worked with the Department of Energy and various state governments, particularly on urea-formaldehyde insulation.	The Commission will evaluate the acute and chronic toxicity of formaldehyde, and consider appropriate action for specific products. Urea-formaldehyde foam insulation will receive priority attention.
* Benzidene Dyes. Research has indicated that certain benzidene based dyes produce cancer in laboratory animals.		CPSC will evaluate toxicity data, assess bioavailability, determine exposure and develop control options for certain types of benzidine dyes as well as consider a reporting rule for certain dyes.

Project	FY 1979 Status	FY 1980 Activities
Asbestos. Asbestos is a known carcinogen and is found in a wide variety of consumer products.	In addition to taking prompt action to remove hairdryers containing asbestos from the market, the Commission collected information on other uses of asbestos through a marketplace survey.	The Commission has developed in coordination with EPA, an Advance Notice of Proposed Rulemaking to gather information on consumer products containing asbestos. Asbestos related activity will be part of our priority project on chronic hazards.
Chain Saws. In 1977 alone, an estimated 40,000 people were treated in hospital emergency rooms for chain saw injuries.	CPSC continued to cooperate in the development of a voluntary standard for chain saws. Quarterly reports were made to the Commissioners.	An 18 month cooperative effort with the Chain Saw Manufacturers Association concluded December 31, 1979. CPSC is actively involved in evaluating the results of the process to determine what action is required.

D. Priority Programs to Improve Regulatory Processes - FY 1980

For the first time, the Commission has selected additional programs to improve CPSC regulatory processes. While the Commission believes a product-by-product approach to safety is essential in protecting consumers from unreasonable risk of injury, the Commission also believes it must evaluate mechanisms for increasing the overall impact of CPSC on product safety.

Strengthening the chronic hazards program to increase the Commission's ability to deal with substances that may cause long-term chronic injury or illness, especially cancer.

Considering voluntary standards as an alternative or supplement to mandatory regulation.

Increasing the use of Section 15 of the Consumer Product Safety Act (CPSA) to remove substantially hazardous products from the marketplace quickly.

Exploring ways in which the effectiveness of product recalls might be improved, to ensure that consumers receive adequate notice of and protection from substantially hazardous products.

Surveying the Commission's basic injury data needs and exploring new methods and sources of data collection.

Improving the Commission's outreach to minorities, low income consumers, the elderly, and other special populations and more clearly explain our role and impact to the general public.

Expanding the use of the Commission hotline and consumer complaints to help identify emerging hazards.

Promoting greater cooperation with state and local agencies in areas of mutual concern such as smoke detectors, burn prevention, and amusement rides.

Reviewing existing Commission product safety standards, bans, and other regulations to ensure that they are still serving important public safety goals.

Chairman King

Title and Grade	79	80	81
Level III Chairman	1	1	1
GS-16 Executive Legal Assistant	1	1	1
GS-15 Attorney-Advisor	1	2	2
GS-14 Attorney-Advisor	1	0	0
GS-13 and below	3	3	3
Total FTP	7	7	7

Commissioner Pittle

Title and Grade	79	80	81
Level IV Commissioner	1	1	1
GS-15 Special Assistant	1	1	1
GS-15 Attorney-Advisor	1	1	1
GS-13 and below	2	2	2
Total FTP	5	5	5

Commissioner Statler

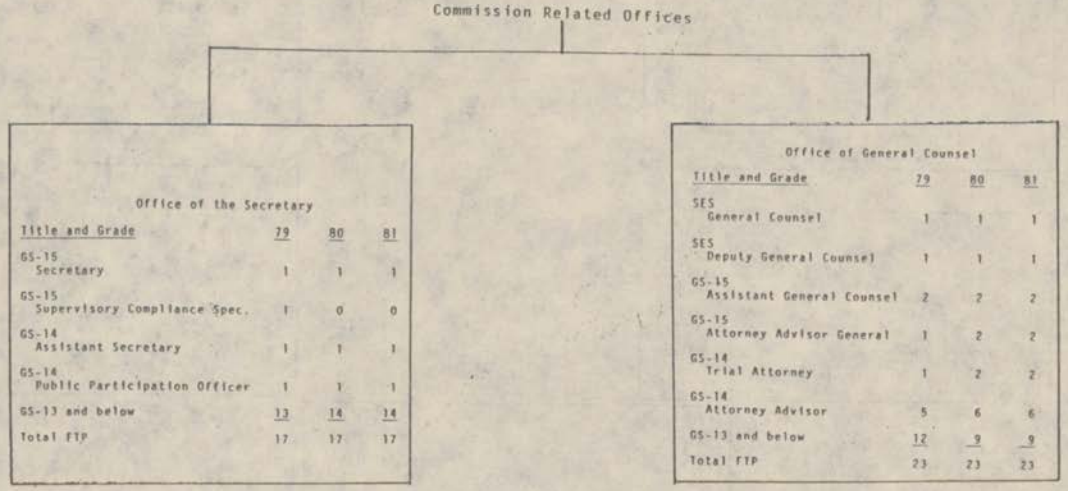
Title and Grade	79	80	81
Level IV Commissioner	1	1	1
GS-15 Special Assistant	2	2	0
GS-13 and below	2	2	4
Total FTP	5	5	5

Commissioner Sloan

Title and Grade	79	80	81
Level IV Commissioner	1	1	1
GS-15 Special Assistant	1	1	1
GS-15 Attorney-Advisor	1	1	1
GS-13 and below	2	2	2
Total FTP	5	5	5

Commissioner Zagoria

Title and Grade	79	80	81
Level IV Commissioner	1	1	1
GS-15 Special Assistant	1	1	1
GS-14 Special Assistant	1	1	1
GS-13 and below	1	1	1
Total FTP	4	4	4



Office of the Secretary

Title and Grade	79	80	81
GS-15 Secretary	1	1	1
GS-15 Supervisory Compliance Spec.	1	0	0
GS-14 Assistant Secretary	1	1	1
GS-14 Public Participation Officer	1	1	1
GS-13 and below	13	14	14
Total FTP	17	17	17

Office of General Counsel

Title and Grade	79	80	81
SES General Counsel	1	1	1
SES Deputy General Counsel	1	1	1
GS-15 Assistant General Counsel	2	2	2
GS-15 Attorney Advisor General	1	2	2
GS-14 Trial Attorney	1	2	2
GS-14 Attorney Advisor	5	6	6
GS-13 and below	12	9	9
Total FTP	23	23	23

Commission Related Offices

Office of Congressional Relations

Title and Grade	79	80	81
GS-15 Director	1	1	1
GS-15 International Economist	1	1	1
GS-13 and below	4	4	4
Total FTP	6	6	6

Office of Media Relations

Title and Grade	79	80	81
GS-15 Director	1	1	1
GS-14 Deputy Director	1	1	1
GS-13 and below	3	3	3
Total FTP	5	5	5

Office of Internal Audit

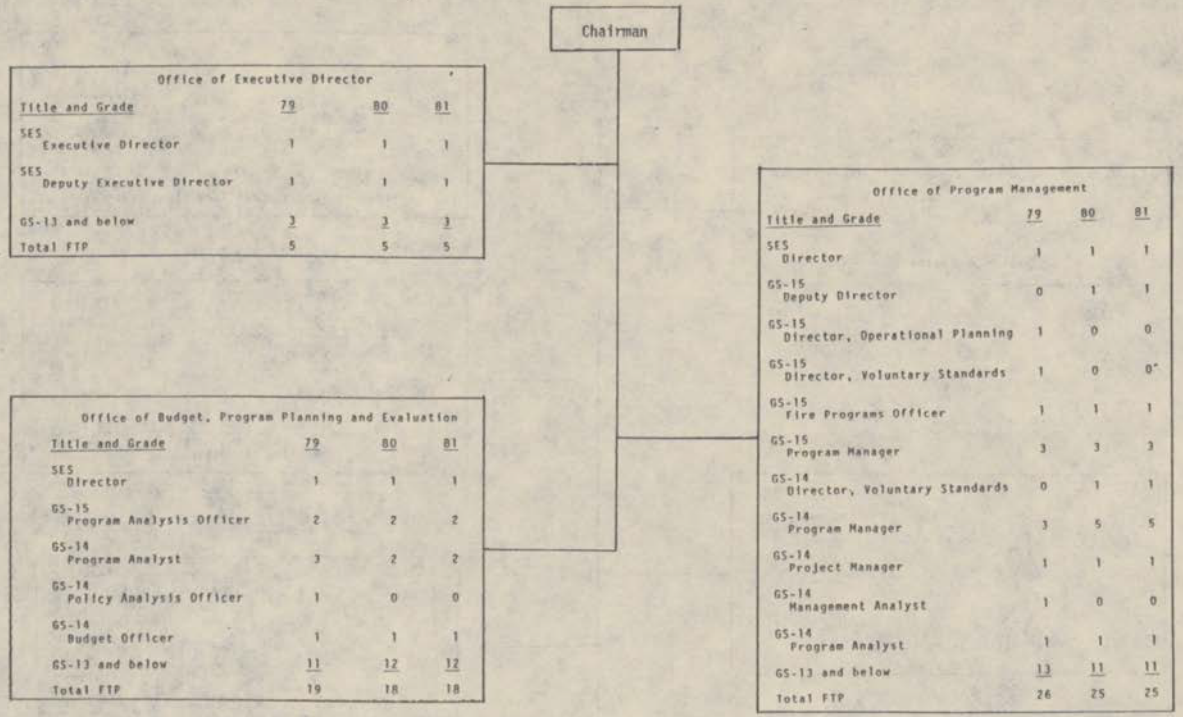
Title and Grade	79	80	81
GS-15 Director	1	1	1
GS-14 Auditor	2	2	2
GS-13 and below	2	2	2
Total FTP	5	5	5

Administrative Law Judge

Title and Grade	79	80	81
GS-16 Administrative Law Judge	1	1	1
GS-13 and below	1	1	1
Total FTP	2	2	2

Office of Equal Employment and Minority Enterprise

Title and Grade	79	80	81
GS-15 Director	1	1	1
GS-14 EEO Specialist	1	1	1
GS-13 and below	2	2	2
Total FTP	4	4	4



Office of Executive Director

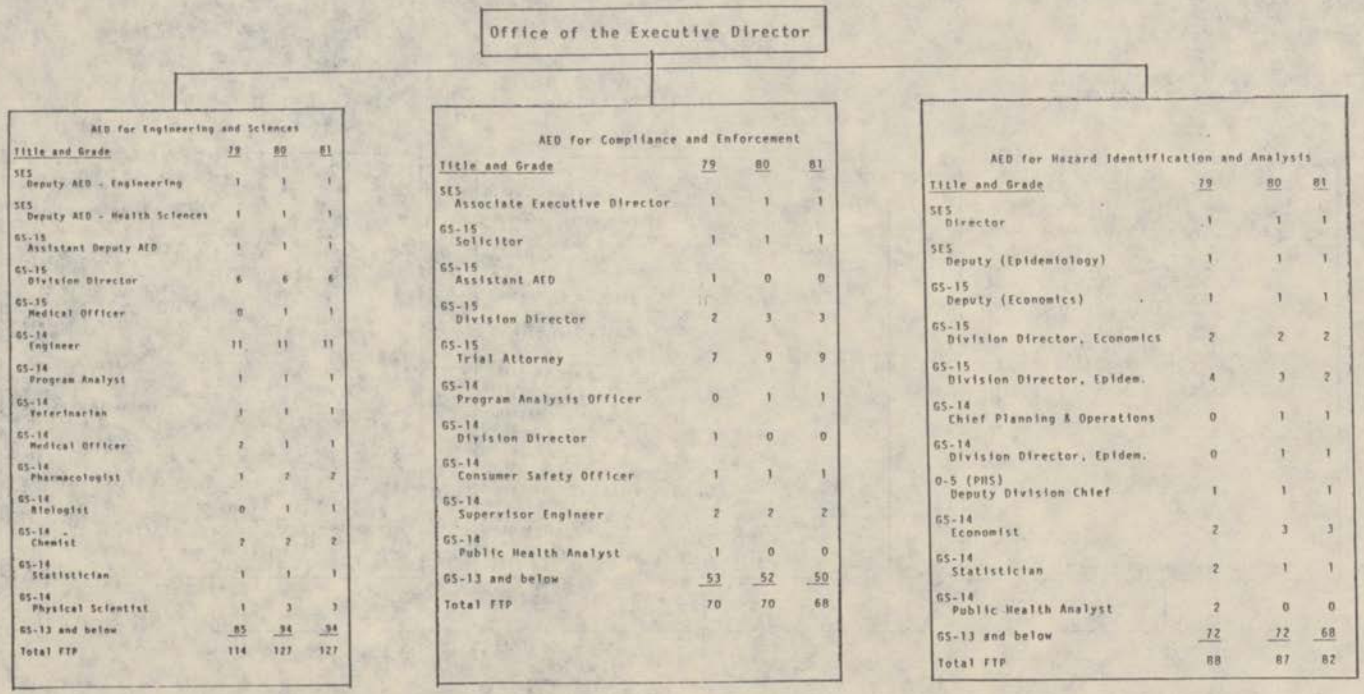
Title and Grade	79	80	81
SES Executive Director	1	1	1
SES Deputy Executive Director	1	1	1
GS-13 and below	3	3	3
Total FTP	5	5	5

Office of Budget, Program Planning and Evaluation

Title and Grade	79	80	81
SES Director	1	1	1
GS-15 Program Analysis Officer	2	2	2
GS-14 Program Analyst	3	2	2
GS-14 Policy Analysis Officer	1	0	0
GS-14 Budget Officer	1	1	1
GS-13 and below	11	12	12
Total FTP	19	18	18

Office of Program Management

Title and Grade	79	80	81
SES Director	1	1	1
GS-15 Deputy Director	0	1	1
GS-15 Director, Operational Planning	1	0	0
GS-15 Director, Voluntary Standards	1	0	0
GS-15 Fire Programs Officer	1	1	1
GS-15 Program Manager	3	3	3
GS-14 Director, Voluntary Standards	0	1	1
GS-14 Program Manager	3	5	5
GS-14 Project Manager	1	1	1
GS-14 Management Analyst	1	0	0
GS-14 Program Analyst	1	1	1
GS-13 and below	13	11	11
Total FTP	26	25	25



AED for Engineering and Sciences

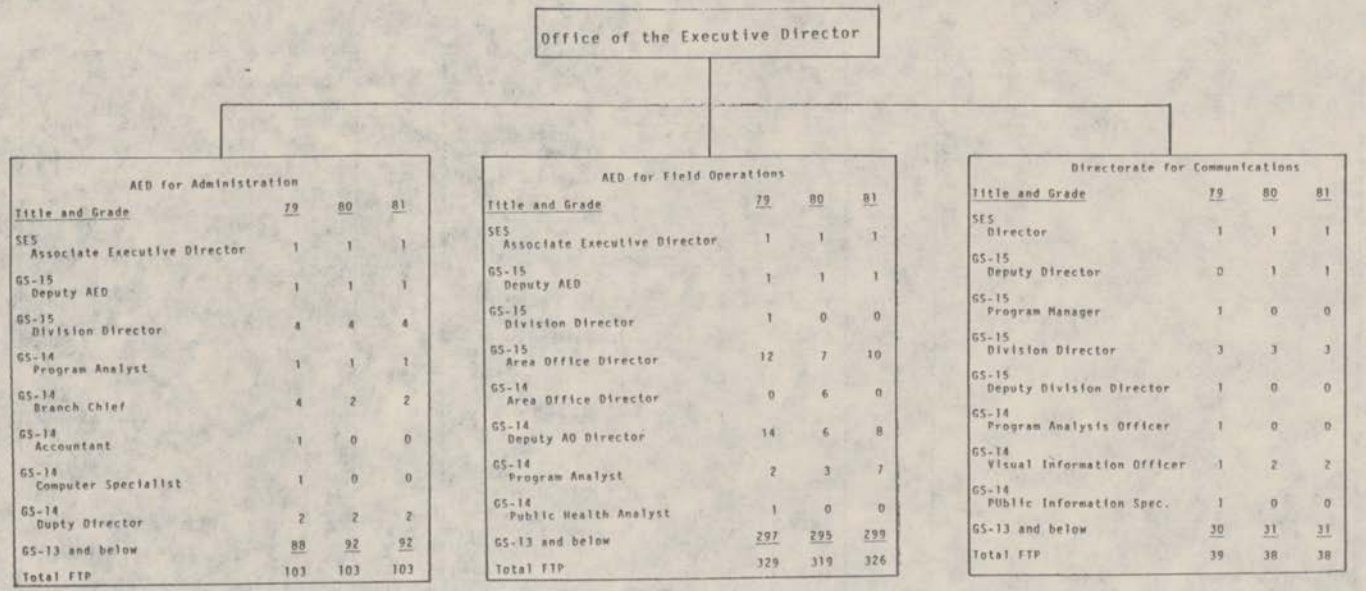
Title and Grade	79	80	81
SES Deputy AED - Engineering	1	1	1
SES Deputy AED - Health Sciences	1	1	1
GS-15 Assistant Deputy AED	1	1	1
GS-15 Division Director	6	6	6
GS-15 Medical Officer	0	1	1
GS-14 Engineer	11	11	11
GS-14 Program Analyst	1	1	1
GS-14 Veterinarian	1	1	1
GS-14 Medical Officer	2	1	1
GS-14 Pharmacologist	1	2	2
GS-14 Biologist	0	1	1
GS-14 Chemist	2	2	2
GS-14 Statistician	1	1	1
GS-14 Physical Scientist	1	3	3
GS-13 and below	85	94	94
Total FTP	114	127	127

AED for Compliance and Enforcement

Title and Grade	79	80	81
SES Associate Executive Director	1	1	1
GS-15 Solicitor	1	1	1
GS-15 Assistant AED	1	0	0
GS-15 Division Director	2	3	3
GS-15 Trial Attorney	7	9	9
GS-14 Program Analysis Officer	0	1	1
GS-14 Division Director	1	0	0
GS-14 Consumer Safety Officer	1	1	1
GS-14 Supervisor Engineer	2	2	2
GS-14 Public Health Analyst	1	0	0
GS-13 and below	53	52	50
Total FTP	70	70	68

AED for Hazard Identification and Analysis

Title and Grade	79	80	81
SES Director	1	1	1
SES Deputy (Epidemiology)	1	1	1
GS-15 Deputy (Economics)	1	1	1
GS-15 Division Director, Economics	2	2	2
GS-15 Division Director, Epidem.	4	3	2
GS-14 Chief Planning & Operations	0	1	1
GS-14 Division Director, Epidem.	0	1	1
O-5 (PHS) Deputy Division Chief	1	1	1
GS-14 Economist	2	3	3
GS-14 Statistician	2	1	1
GS-14 Public Health Analyst	2	0	0
GS-13 and below	72	72	68
Total FTP	88	87	82



AED for Administration

Title and Grade	79	80	81
SES Associate Executive Director	1	1	1
GS-15 Deputy AED	1	1	1
GS-15 Division Director	4	4	4
GS-14 Program Analyst	1	1	1
GS-14 Branch Chief	4	2	2
GS-14 Accountant	1	0	0
GS-14 Computer Specialist	1	0	0
GS-14 Dupty Director	2	2	2
GS-13 and below	88	92	92
Total FTP	103	103	103

AED for Field Operations

Title and Grade	79	80	81
SES Associate Executive Director	1	1	1
GS-15 Deputy AED	1	1	1
GS-15 Division Director	1	0	0
GS-15 Area Office Director	12	7	10
GS-14 Area Office Director	0	6	0
GS-14 Deputy AO Director	14	6	8
GS-14 Program Analyst	2	3	7
GS-14 Public Health Analyst	1	0	0
GS-13 and below	297	295	299
Total FTP	329	319	326

Directorate for Communications

Title and Grade	79	80	81
SES Director	1	1	1
GS-15 Deputy Director	0	1	1
GS-15 Program Manager	1	0	0
GS-15 Division Director	3	3	3
GS-15 Deputy Division Director	1	0	0
GS-14 Program Analysis Officer	1	0	0
GS-14 Visual Information Officer	1	2	2
GS-14 Public Information Spec.	1	0	0
GS-13 and below	30	31	31
Total FTP	39	38	38

TUESDAY, FEBRUARY 5, 1980.

NATIONAL CONSUMER COOPERATIVE BANK

WITNESSES

LAWRENCE CONNELL, CHAIRMAN, BOARD OF DIRECTORS
JOHN P. COMERFORD, EXECUTIVE VICE PRESIDENT
ROBERT LIGHTFOOT, ACTING BUDGET OFFICER

	1979	1980	1981	Increase
Appropriation:				
Salaries and expenses	$1,500,000	$7,950,000	[1] $10,450,000	+$2,500,000
Self-help Development	1,000,000	17,000,000	48,000,000	+31,000,000
Investment in National Consumer Cooperative Bank (Department of Treasury)	1,000,000	49,050,000	116,000,000	+66,950,000
Total	3,500,000	74,000,000	174,450,000	+100,450,000
Permanent positions	—	166	221	+55
Average employment	—	103	194	+91

[1] Excludes $2,000,000 anticipated from interest income.

Mr. BOLAND. The Committee will come to order. I would like to welcome the National Consumer Cooperative Bank—the Chairman, Mr. Lawrence Connell, the Executive Vice President, Mr. John P. Comerford, and the Acting Budget Officer, Mr. Robert Lightfoot. Mr. Comerford, how long have you been aboard?

Mr. COMERFORD. I came aboard officially September 26, 1979, Mr. Chairman, having been on the Task Force for the last year-and-a-half.

Mr. BOLAND. We will place the biographical sketch of Mr. Comerford in the record at this point.

[The biographical sketch follows:]

JOHN P. COMERFORD, EXECUTIVE VICE PRESIDENT

At the first meeting of the Board of Directors of the National Consumer Cooperative Bank, John P. Comerford, current Executive Director of the Bank's transitional staff, was elected by the Board to serve as Acting President of the Bank.

Prior to assuming his responsibilities at the Bank, Mr. Comerford served as a Special Advisor to the U.S. Department of Housing and Urban Development.

The National Consumer Cooperative Bank Act (P.L. 95-351) established the Bank as a mixed-ownership corporation. Its purpose is to provide financial and technical services to not-for-profit cooperatives, and includes special financial and technical services for low-income cooperatives and cooperatives designed to serve the needs of low-income members.

Mr. Comerford's HUD responsibilities have included Chairmanship of a subcabinet level ad-hoc committee to develop a neighborhood policy, coordination of HUD rural policy initiatives and the implementation of the Coop Bank Act. Previously, Mr. Comerford served as the Associate Director of the White House Conference on Balanced National Growth and Economic Development, a conference called to examine and make recommendations on economic and community development realities in the late 20th Century. To a great extent, many of President Carter's

urban and rural initiatives were a direct out-growth of the conference process of involving leading Americans.

Mr. Comerford has also served as an Assistant to the Secretary of the U.S. Department of Commerce, where he coordinated Economic Development and represented the Secretary with various minority groups, during the transition period.

Prior to coming to Washington in early 1977, he was the Assistant Director of Economic Development and Director of Real Estate Development for the City of Boston, and for two years prior to this, he was Administrator of the George Robert White Fund—a municipal foundation financing capital development projects—in Boston.

Mr. Comerford also managed the financial assets of the Fund. He has been both a licensed securities broker and a licensed real estate broker, and has completed his graduate work in Public Administration from Northeastern University, as well as courses toward a Doctorate in Business Administration from George Washington University, and has attended Harvard University Graduate School of Business, Boston University and the University of Massachusetts.

He makes his home in Fairfax, Virginia, and claims Boston, Massachusetts as his permanent residence.

Mr. BOLAND. You indicate that for 1981 salaries and expenses you are looking for $10,450,000, and to that you add $2 million in anticipated interest income. So the total amount for administration will be $12,450,000, as I understand it, but only $10,450,000 of appropriated funds.

Mr. CONNELL. That is correct.

Mr. BOLAND. That is an increase of $2,500,000 over the 1980 request for salaries and expenses. On the Self-Help Development Fund, you are requesting $48 million for 1981, that is an increase of $31 million over 1980, wherein we provided $17 million.

On the investment in the National Consumer Cooperative Bank, you are requesting $116 million, and last year it was $49,050,000, that is an increase of $66,950,000. The total request for fiscal year 1981 is $174,450,000, an increase of $100,450,000 over 1980.

You have 166 permanent positions in 1980. In 1981 you are requesting 221, an increase of 55.

You don't have a Director yet for the Office of Self-Help Development and Technical Assistance?

Mr. CONNELL. No. We understand it is in process and we are anxiously awaiting, looking forward to a person being nominated and confirmed by the Senate.

Mr. BOLAND. Is there a specific individual now being considered?

Mr. CONNELL. I don't know at this point, Mr. Chairman.

Mr. BOLAND. You don't have any idea when the nomination for the Director of the Office of Self-Help Development and Technical Assistance will be sent to the Senate?

Mr. CONNELL. No. I don't, Mr. Chairman. We understand it is in process, though.

Mr. BOLAND. Do you have any idea why it has taken so long?

Mr. CONNELL. No. I don't, sir.

BANK LOCATION

Mr. BOLAND. Where is the bank located in Washington?

Mr. CONNELL. The Bank has three locations in Washington. There is a group at 1375 K Street, a group in the Washington Building at 15th and Pennsylvania, and a group at 711 14th Street.

We are expecting to move into a facility at 2001 S Street, NW and will occupy about 36,000 square feet. Consolidation should be completed within the next eight months.

BANK PRESIDENT

Mr. BOLAND. As I understand it, the President of the Bank, Carol S. Greenwald, who is also the Chief Executive Officer of the Bank, took over on February 1st.

Mr. CONNELL. That is correct.

Mr. BOLAND. She is a former Commissioner of Banking from the State of Massachusetts, and we are delighted to have her. We can understand her absence. She has appeared before many Legislative Committees, not here, but back in her home State of Massachusetts. So she doesn't need anyone to take her by the hand, I am sure.

I know you have a prepared statement. May we have it for the record at this time.

GENERAL STATEMENT

Mr. CONNELL. Thank you, Mr. Chairman.

Mr. Chairman, the National Consumer Cooperative Bank Act was signed into law by the President on August 20, 1978. The Act established the Bank to make direct loans at market rates to credit-worthy cooperatives. It also created an Office of Self-Help Development and Technical Assistance, which will extend capital advances to new and developing cooperatives and provide management and technical assistance to cooperatives with special needs. Cooperatives and projects serving low-income persons will receive priority from the Bank and the Office of Self-Help Development.

As you know, the Board of Directors was confirmed by the Senate on September 21, 1979, in the last week of the fiscal year. Rather than commit large amounts of appropriated funds at that time, the Board restricted expenditures to those areas which demanded immediate attention. The result of that action was a return to the Treasury of more than $1.3 million of the $1.5 million fiscal year 1979 appropriation for administrative expenses.

Since September 1979, the Board has been working with staff to complete the policies of the Bank, sponsored a series of public meetings to get input from cooperative members and other interested parties, appointed a permanent President of the Bank and undertaken a nationwide survey of cooperatives to determine demand for the Bank's services.

FUNDING REQUIREMENTS

We request an appropriation of $116 million for additional capitalization in fiscal year 1981. These funds will be used by the Treasury to purchase Class A stock from the Bank.

We also request an appropriation of $48 million for additional capitalization of the Self-Help Development Fund in fiscal year 1981.

The additional capitalization is necessary to meet anticipated demand for both Bank and Self-Help Fund loans. The demand is

expected from existing cooperatives, and from new cooperatives emerging to provide goods and services in such fields as housing, food, energy, and health care. A market survey currently being compiled should provide more accurate data on cooperative participation.

ADMINISTRATIVE EXPENSES

We are requesting $10.45 million for administrative expenses of the Bank and the Office of Self-Help Development. We anticipate that $2 million from interest income will be used in fiscal year 1981 to augment this appropriation to cover total administrative expenses amounting to $12.45 million. This is a first step towards self-sufficiency and independence.

Fiscal Year 1981 will be the first full year of operations for the National Consumer Cooperative Bank and the Office of Self-Help Development. As part of our effort to reach out to cooperatives with counseling and banking services, we anticipate opening two regional offices to facilitate this program.

At meetings on the Bank's proposed policies, requests for regional offices were high on the list of suggestions made by those who testified.

The Act also provides for a loan guarantee program, and we are requesting authorization in fiscal year 1981, to guarantee up to $5 million in loan principal to implement this important financial activity of the Bank.

We believe that this initial modest guarantee program will form the basis for greater participation by the banking community in the extension of loans to cooperatives.

I will be happy to answer any questions the subcommittee might have.

BANK OPENING

Mr. BOLAND. Thank you very much for your statement. Last year there was some cautioning here by the Congress, both the Committee on this side and also the Committee on the Senate side, with respect to operations. We indicated that there ought to be caution taken in setting it up and you followed that particular advice, as I understand it.

We felt it would be better, perhaps, not to start up in haste so we could repent in leisure.

I don't think having your schedule slip has been necessarily bad. There is a concern about the current schedule, though. As I understand, the Bank plans to open for business sometime in March. Is that correct?

Mr. CONNELL. That is correct.

Mr. BOLAND. And approve the first loan shortly thereafter?

Mr. CONNELL. That was the plan developed by the Bank Board of Directors some six months ago. I would state that we expect the Bank to be operational in the sense that the regulations and the policies will have been published and we will have public comment and probably be able to produce a final regulation and policy.

I would have to admit, and would quite readily admit, that by that time we might not have adequate lending staff to actually

make loans, and it may be some month or two later before we are ready to go ahead.

Mr. BOLAND. That is understandable.

BOARD OF DIRECTORS

What about the Board of Directors? As I understand it the membership of the Board of Directors has been increased from 13 to 15. Why?

Mr. CONNELL. That is correct, Mr. Chairman.

Mr. BOLAND. You can list for the record the members of the Board and who serves, indicating the particular individuals serving on it from the various agencies.

Mr. CONNELL. Fine, Mr. Chairman. The Board of Directors is comprised of 15 members by statute, 13 of whom have been appointed, nominated and confirmed by the Senate, and the other two positions are currently unfilled.

The purpose of the additional positions, I understand, is to facilitate a small business member from the private sector, and that required going from 13 to 14, and to maintain the balance between the public and government sector, an additional seat was opened.

[The list follows:]

BOARD OF DIRECTORS

Roger C. Altman, Assistant Secretary of the Treasury for Capital Markets and Debt Management.

Msgr. Geno Baroni, Assistant Secretary of the Department of Housing and Urban Development for Neighborhoods, Voluntary Associations and Consumer Protection.

Sam Brown, Director, ACTION.

William Clement, Associate Administrator, Minority Small Businesses and Capital Ownership Development, Small Business Administration.

Lawrence Connell, Chairman, National Credit Union Administration (NCUA).

Carol Tucker Foreman, Assistant Secretary of Agriculture for Food and Consumer Services.

Grace Olivarez, Director, Community Services Administration.

Ronald Grzywinski, President, Illinois Neighborhood Development Corporation and Chairman, Executive Committee, the South Shore National Bank of Chicago.

Joseph L. Hansknecht, Jr., Director of Public Affairs, League of Insurance Companies and the Michigan Credit Union League.

Francis Levenson, Director of Urban Housing and Vice President, New York Bank for Savings.

Rev. A. J. McKnight, CSSP, President, Southern Cooperative Development Fund, Layfayette, La.

Juan Patlan, Executive Director, Mexican-American Unity Council, San Antonio, Texas.

Derek Norcross Shearer is a consultant to the Center for Economic Studies, Palo Alto, CA; a member of the board of the New School for Democratic Management; and on the Steering Committee of the National Conference on Alternative State and Local Public Policy.

Mr. BOLAND. What is the balance between the government and the general public?

Mr. CONNELL. The current balance in terms of actual people on the Board is 7 from the government, 6 from the public, it will go to 8 and 7 when the new members come in.

Mr. Boland. Last year, the Subcommittee asked a series of questions about the bank's policies which, for the most part, went unanswered, and that was understandable. On December 28, 1979, the Bank's proposed policies on a number of issues was released. I would like to ask you for comments on several issues.

INTEREST RATE POLICY

What is the loan interest rate policy for both the Bank's loans and the Self-Help Development loans? What do you think the percentage rate might be?

Mr. CONNELL. Under the statute, the Bank must lend at market rates. The Self-Help Development Fund may provide concessionary rates and the policies contemplate that those rates be below the market rates. That would have to be administered in a very flexible fashion on both sides in terms of what the market for a particular type loan might be in the case of the Bank side, and the particular circumstance on the Self-Help side. In terms of actual numbers, today the prime rate is somewhere around 15¼ percent. I would say it would be on the low side of a commercial type loan for a cooperative.

On the other hand, a real estate loan may be less than 15¼ percent today for real estate type loans. So what the Bank plans to do is at this point initiate probably a national type rate according to the cost-effective loan of the bank. And in terms of the Self-Help Development Fund, we expect those to be lower rate loans, again depending on the nature of the credit.

NUMBER OF COOPERATIVES

Mr. BOLAND. I remember last year you indicated, or somebody indicated, Mr. Friedman, I guess, when we had the hearings with the Treasury, that there were some 2,500 housing cooperatives, 3,800 food cooperatives, about 1,700 day care cooperatives, and a number of other cooperatives, energy cooperatives, warehousing cooperatives, et cetera.

Mr. CONNELL. Food warehousing.

Mr. BOLAND. And some others. What would you think the total number—I understand it would be difficult to give us a correct number, but what would you think the total number of cooperatives might be?

Mr. CONNELL. At this point we have a mailing list and mailed out these policies to some 20,000 people on the mailing list, but a number of those were community organizations. I don't think we have a breakdown among the types, but we are finding in the hearings that many organizations that were interested in the Bank only found out they were cooperatives after talking to us. They didn't realize they were cooperatives, particularly the worker-owned type businesses.

Mr. COMERFORD. We feel there are somewhere in the vicinity of 10,000 consumer cooperatives in this country, a large number of low-income producer cooperatives. They may be also borrowing from a bank.

LOAN DEFAULT RATE

Mr. BOLAND. Is there room for the National Credit Union? You must have 17,000 credit unions don't you? Do you anticipate any default rate?

Mr. CONNELL. Yes. The default rate is anticipated to be greater than a bank.

Mr. BOLAND. That is for both, the Bank loans and Self-Help Development Loans?

Mr. CONNELL. That is correct, greater than the bank rate, greater than the farm credit system, possibly less than the Small Business Administration. I think it is 1.7 percent, but it could go as high as 2 percent, depending on the nature of the collateral. We are hoping probably between the bank rate and the SBA rate.

Mr. BOLAND. How did you arrive at that figure for default? I can understand where it might be greater than other loans, but how did you arrive at that?

Mr. CONNELL. Essentially we took the experience of the farm credit system, the banking system, the Small Business Administration, and looked at the nature of the loans we would be making. We will be making a lot of Self-Help start-up loans, but some of them may not be as heavily collateralized as SBA loans. I personally would hope that we had a default rate lower than the SBA.

Mr. BOLAND. I wouldn't think they would be as heavily collaterized as the SBA loans.

LOCATION OF EXISTING COOPERATIVES

Is there any policy with respect to the geographic distribution of the loans?

Mr. CONNELL. No specific policy. I think it probably shows up in the aspect of regional offices. There are certain areas with a fair amount of cooperative activity—I would say the Berkeley area, the San Francisco Bay area, Minneapolis, and Portland area. We expect, I would say, the initial volume to come from the areas where cooperatives are now active.

Mr. BOLAND. I would think the distribution would be in places where there are the most cooperatives.

Last year we asked—were you here last year, John?

Mr. COMERFORD. Yes.

LOW-INCOME DEFINITION

Mr. BOLAND. We asked Mr. Friedman what is the definition of low-income. The authorizing legislation states that 35 percent of the loans are to benefit low-income people. How do you define low-income people?

Mr. CONNELL. We have been addressing that in the proposed policies. The Board put out the comment, a definition of 50 percent of the median income and an SMSA, roughly speaking. That differs from the HUD definition of 80 percent. Through the hearings the last several weeks we had a great deal of comment on that subject and the two hearings that I happened to attend, the recommendations were weighted in favor of moving it from 50 percent to 80 percent, partially for consistency and partially because the feeling was the Bank would be able to reach more people.

Mr. BOLAND. Possibly to avoid greater defaults?

Mr. CONNELL. Certainly.

Mr. COMERFORD. I might add we are in the process now of looking at that.

In the city of Boston only one census tract out of 117 qualified at 50 percent, where when you go up to 80 percent, I believe it goes to something like 18 or 19 census tracts.

DISTRIBUTION OF LOANS

Mr. BOLAND. Do you have any priority between the different types of cooperative loans? For instance, the cooperative for food, housing, energy, health care, et cetera—what about that?

Mr. CONNELL. Yes, we have done some preliminary estimation on that particular subject and it has been based upon partially the survey that we conducted the last couple of months, which isn't complete yet, but we are able to get some sort of a reading on it and partially from our credit staff, talking to people in the cooperative area, and what they estimate for fiscal year 1981, I would say this is based upon the best estimate, about 49 housing loans, with a total obligation of $26 million, food and consumer loans, 372, at $72,570,000; consumer services, which would be other types such as optical or health care, automobile repair, 93 at $18 million; and producer cooperatives, 111, at $9,200,000.

STATUS OF EMPLOYEES

Mr. BOLAND. What about personnel in the National Consumer Cooperative Bank, and Self-Help Development Fund employees? These are not Federal employees? You only have two Federal employees?

Mr. CONNELL. That is correct.

Mr. BOLAND. The President and whom? Are you a Federal employee?

Mr. COMERFORD. No.

Mr. BOLAND. Would you like to be?

Mr. COMERFORD. No, sir.

Mr. CONNELL. We have two Federal employees under the statute. The Director of the Office of Self-Help and the President of the Bank itself, and they are classified as such only because their salaries are limited by the Act.

The others are non-government employees. In fact, I looked at the galleys, I wondered why the zeroes went across there.

Mr. BOLAND. If the salaries were not limited by the Act, would they be higher?

Mr. CONNELL. I would say yes, they would be higher today, to be able to get a President. As you know, the Federal salaries have had a limitation for some time.

EMPLOYEE BENEFITS

Mr. BOLAND. Let me ask you: Since the law affects Federal employees, what is the policy on personnel benefits such as health insurance, retirement bonuses, sick leave, annual leave, etc.? How does that differ from the Federal employee benefits? If that requires a long answer, you can detail it for the record.

Mr. CONNELL. I think we can detail it later for the record. At this point we don't have a retirement policy. It is one of the first items of order of the Board. We thought it wasn't proper to establish that

unless the President headed it and the Director of the Office of Self-Help had some say in it. We are paying 100 percent of them at this point in this interim period. In terms of leave we do have I would say a leave policy somewhat like the government and also that leave policy is included in the fringe benefit cost in our budget submission. As soon as the officers are aboard, it will have to be tailored according to the mix of people. Very often under these circumstances you find it turns out to be a young staff by circumstance. They may not be interested in a standard Government-type pension plan, the Neighborhood Reinvestment Corporation, for instance, and they change over a period of time.

[The information follows:]

PERSONNEL BENEFIT POLICY

At the present time the Bank has no retirement plan; however, this issue is to be addressed in the near future.

Employee insurance, which is paid entirely by the Bank at this time, includes health, life, disability, and workers' compensation.

Of course, the Bank contributes to FICA and Unemployment Insurance, as required by law.

The Bank's leave policy is somewhat different from the leave policy for Federal employees, in that the Bank makes no distinction between annual leave and sick leave. Employees' earn 4 hours of leave for every 40 hours that they are on pay status. The Bank accounts for the expenses of employees' leave as an employee benefit.

Mr. BOLAND. Mr. Young?

ROLE OF COOPERATIVES

Mr. YOUNG. Thank you very much, Mr. Chairman. I read someplace recently where one of the great advocates of this cooperative has suggested this was the first step toward a new social order. Did you read that?

Mr. CONNELL. Yes. I was quite disappointed in seeing that article because I think it reflects a misunderstanding. I would like to refer to the cooperative movement as grass roots capitalism and economic democracy. The way it differs from socialism fundamentally is it is owned by the members, the private citizens, not government. As a matter of fact, I find cooperators quite feisty in terms of government interference and government support.

Probably the greatest indicia of that with this Bank is it will spin off and separate from government once the development aspect is completed. So I regard it as grass roots capitalism.

Mr. YOUNG. So you don't think there is any danger that this is bringing about some new social order?

Mr. CONNELL. No.

Mr. YOUNG. I keep thinking of the World Bank. They keep talking about the new international economic order for the world and they say the same thing, that once they've got our money, they are going to take care of things themselves, which they do with taxpayers' money. I wanted to find out if you anticipated that a similar thing would happen here in the United States with this kind of a bank?

Mr. CONNELL. It is designed more along the lines of the farm credit system than the World Bank, and again, one of the items in the budget that I think would reflect that is you have an Educa-

tional fund line, and that is designed to institutionalize the technical assistance in the education area in the Bank, as we look forward to separating it from government appropriations. So again rather than depending upon government, we look forward to the day when it will be separated and be a privately-owned system like the farm credit system.

Mr. YOUNG. You are familiar with the article I am talking about?

Mr. CONNELL. That is right. A syndicated columnist.

Mr. YOUNG. Ralph Nader, in a speech that he made on January 4, before the Public Interest Conference, said this: "The Consumer Cooperative Bank is about to open its doors. The cooperatives receiving loans from the Bank will be politically active in addition to providing goods and services." Do you agree with that?

Mr. CONNELL. I would say that all businesses today are politically active, as I see the role of political action and political action funds today. I suppose any person in a particular area of business is interested in protecting their interests, I don't believe cooperatives are any more so than any other segment. It is a constitutional right.

Mr. YOUNG. I wonder why Ralph Nader would make such a point out of this, if that is all it is going to be.

Mr. CONNELL. I don't know the circumstances behind that.

Mr. YOUNG. Have you discussed this with Mr. Nader?

Mr. CONNELL. No.

Mr. YOUNG. Do you know Mr. Nader?

Mr. CONNELL. Absolutely not. That is probably the first thing you want to avoid is that type of thing.

Mr. YOUNG. I might not agree with Ralph Nader in a lot of instances, he usually has something to back up what it is that he is talking about, and I just wondered if he had anything that you might have said or somebody else involved might have said that would lead him to believe that this is going to create a base for a new political activity in the country.

Mr. CONNELL. Absolutely not. I would expect if anything it will be quite a diverse group.

Mr. YOUNG. What would be your attitude if all of a sudden you saw these funds being loaned to organizations that in fact were political, number one, and were a cooperative, number two? What would be your reaction?

Mr. CONNELL. I would say first of all we would not permit that to happen, that we have policies that require these to be genuine cooperatives. We look to the benefit of the membership of the service, not some extraneous function, and there is great concern about what I would call sham cooperatives being created for the sake of taking the money from the Bank and we will be resisting that very rigorously, as far as I am concerned.

Mr. YOUNG. Mr. Chairman, the rest of my questions I can submit in writing in the interests of time.

[The questions and answers follow:]

QUESTIONS SUBMITTED BY CONGRESSMAN YOUNG

Question. In the justification material there is mention of the possibility that funds may be provided for small scale energy production and distribution. I would

be most interested in the opinions you have on the role of this Bank in encouraging increased domestic production of energy? Gasohol? Solar heating?

Answer. The Bank may develop programs of financial and technical assistance to encourage innovative energy action at the local level. Specifically, the Bank can play a leading role in the financing of new and existing cooperatives to:

Develop alternative energy industries at the local level.

Develop renewable energy resources at the local level.

Reduce costs to consumers of conventional fuels through cooperative mechanisms.

Manufacture and install weatherization and insulation materials.

Produce energy-related educational materials.

In addition, the Bank can encourage existing cooperatives to expand current level of services to better meet the energy needs in communities. Expansions may emphasize energy forms such as gasohol, and improvements in home heating through the support of cooperative efforts to develop technologies in solar heating.

The bank can also initiate community-based research projects to promote increased domestic energy production and support cooperative community efforts to develop innovative forms of appropriate technology.

Question. It seems to me that this Cooperative Bank may be a useful tool in promoting energy conservation. Have you taken a look at this possibility and what are your views on the subject?

Answer. Energy conservation constitutes an initial and essential step in increasing the supply of domestic energy resources. The Bank can potentially become a leading advocate in the promotion of energy conservation by adopting policies requiring loan applicants to adopt energy conservation policies prior to loan approval.

The Bank can also sponsor cooperative education and awareness projects on energy conservation as a part of its education and outreach efforts. In addition the Bank, through the Office of Technical Assistance, can give financial and technical guidance to groups seeking to promote and practice energy conservation at the community level.

The Bank itself may gather and disseminate energy conservation information through the Information Program that will be implemented by the Office of Technical Assistance.

We hope that the Bank may become a model of agency energy conservation by instituting for itself a rigorous program of energy use and conservation in its operations.

Question. What kinds of endeavors can the NCCB support that will assist senior citizens and particularly those elder folks who are living on a fixed income and are being severely hurt by inflation?

Answer. People living on fixed incomes, particularly senior citizens are disproportinately hurt by the effects of inflation in the necessities of life. Senior citizens have little or no means of raising their incomes; many have, however, used their hard earned skills to lessen the effect of inflation by forming cooperatives in the following ways:

Senior citizens in Detroit have been able to build comfortable apartment-like housing cooperatives whose unit cost is within the reach of those living on Social Security.

The Cambridge Food Cooperative (Massachusetts) sponsors and maintains a senior citizen staffed van that sells food at wholesale cost at senior citizen housing projects several times a week.

Health care cooperatives serving all age groups in Washington state, the mid-west and Washington, D.C. have significantly brought down the cost of medical care for the elderly.

These examples represent a few of the lower priced services seniors can gain by using cooperatives. Pharmaceuticals, optical care and dental services are some of the areas cooperatives are currently developing that will affect senior citizens.

In addition to badly needed savings, seniors' involvement with running cooperatives puts to use their lifetime working experience and often provides meaningful companionship with a variety of age groups.

Question. You are proposing to establish two regional offices in FY 1981. Have you determined where these regional offices will be located?

Answer. The two regional offices proposed for FY 1981 will allow both the Bank and the Office to provide loans and technical assistance to cooperatives in the most efficient way and at the lowest cost feasible. No particular sites or regions have been selected at this time. There are several factors that will be considered such as the location of existing cooperatives and the areas where cooperatives may poten-

tially grow. Location will have a significant impact on travel costs and will have an important effect upon the quality of services provided to cooperatives.

Question. According to the justification material, you are proposing a staff of 221 positions with 86 positions receiving salaries of $25,000 or more. For the entire 221 positions, the average salary is $26,000. For a brand new agency doesn't this seem to be excessively high? What is the justification for an average salary of $26,000.

Answer. It is important that the Bank attract highly qualified professionals during the organizational period in order to establish the Bank on a firm footing.

During the next two years, the Bank will employ a high percentage of senior level employees, who will be involved with establishing Bank policies and developing Bank procedures.

Once the Bank is fully operational, its staffing requirements will continue to maintain a high professional-to-clerical ratio, with professionals responsible for the delivery of the Bank's services (including loan servicing and technical assistance), rather than the processing of paperwork.

In order to attract qualified people to fill these positions, the Bank must offer salaries that are competitive with the banking profession as a whole. Research has shown that junior to mid-level loan officers earn in the $30,000 range, with senior loan officers earning in excess of $50,000. These salary levels are indicative of other professional banking positions as well.

In addition, at present, the Bank offers no pension or retirement benefits which are routinely offered by other employers in this labor market.

Question. What is the policy of the Bank towards government liability for bad loans to particular cooperatives?

Answer. Although government funds appropriated for the purpose of the Act may be at risk, NCCB Counsel is of the opinion that the U.S. Government has no liability for any loans made by the Bank to particular cooperatives.

Question. Is there any type of limitation on the number of loans a particular cooperative can receive from the Bank? As an example, if a cooperative were to receive a loan from the Bank and then at a later date contemplated closing down because it is unable to stand on its own financially, would it be the policy of the Bank to issue new loans in an effort to bail out this particular cooperative?

Answer. There is no specific limitation on the number of loans to any one cooperative. However, the proposed policies limit the extent of credit outstanding to any one borrower to not more than 5% of the Bank's total capital, or 1% of the Bank's total liabilities, whichever is greater.

In addition, the Proposed Policies require that loan actions be based on the applicant establishing evidence of sound organizational structure, sound financial position and reasonable assurance of full repayment. Adherence to these policies would ensure that the Bank not make bad loans to failing co-ops in an effort to bail them out.

Question. Am I right in assuming that you will receive more loan applications than you will be able to fund? Assuming that the economic data is roughly the same for competing cooperatives for these funds, what criteria will be used to determine which cooperative will receive the loan?

Answer. You are correct in assuming that the Bank will receive more loan applications than it will be able to fund. Should similar cooperatives satisfy the economic criteria for a loan, then the lending staff and Board will consider other factors. Such selection factors may include:

The cooperative's ability to provide the goods and services.

The quality of the goods and services provided.

Level of membership participation in management and operations.

Relative number of jobs created by the cooperative.

Relevance and importance of the goods and services in relation to the needs of the community to be served.

The final evaluation of the loan application in competition with others will depend on the cooperative's relative rating with regard to the factors stated above.

Question. If the Bank wanted to make loans to particular cooperatives for purely political purposes, what is there to prevent this from happening? As an example, if you wanted to flood the State of New Hampshire with Federal dollars, or if you wanted to lend to particular cooperatives which are politically active in supporting candidates of your liking, what is there to stop or prevent Bank officials from pursuing this course?

Answer. There are numerous safeguards which insure that the Bank cannot make loans for purely political purposes. Section 105 of P.L. 95-351 outlines a broad series of eligibility requirements for cooperatives under the Act.

The proposed Bank policies require that "to be eligible for assistance a cooperative must: (1) be operated on a non-profit, cooperative basis, and must furnish goods, services or facilities primarily for the benefit of its members or voting stockholders as consumers; or (2) be a legally chartered entity entirely owned and controlled by such cooperatives."

In addition an eligible cooperative must have a sound organizational structure, reasonable assurance of full repayment, reasonable expectation of demand, and collateral security in order to obtain a loan from the Bank.

These procedures insure that the final decision on loans will be made on sound business principles and for no other reason.

Question. One of the concerns expressed about this Bank is the potential for damaging many small businesses in local communities where the Bank decides it wants to bring in a cooperative. How do you address this concern in your decision making process? When the government promotes the development of cooperatives in local communities, do you consider this harmful to small businessmen in the same local community? Why or why not?

Answer. The Bank does not decide where a cooperative should be formed. The very nature of a cooperative dictates that its success depends on the commitment and active participation of its members.

The Bank's proposed policies state that "[t]he applicant cooperative's impact on small business in its trade area will be evaluated by an on-site written assessment and will be taken into consideration by the loan committee in making any loan commitment."

This evaluation may include such criteria as price, quality, and availability.

To the extent that co-op development stimulates economic activity within a neighborhood or a local community, that development will have a beneficial impact on local small businesses. Co-ops contribute to community economic development in two ways: on the demand side by making purchases from other small businesses; and on the supply side by keeping local dollars within a community.

In addition, a representative of small business will always have a seat on the Bank's board of directors to assure that the interests of small business are considered in the Bank's decision making process.

Mr. BOLAND. Mr. Stokes.

Mr. STOKES. Thank you, Mr. Chairman.

PUBLIC MEETINGS

Mr. Connell, you mentioned the series of public meetings that the Bank has recently held. Of course, I am glad that one of those public hearings was held in Cleveland, Ohio, my congressional district. I was very impressed with the community response. But, I would like for you to comment on what the public hearings are about.

Mr. CONNELL. Mr. Congressman, the purpose of the public hearings is to give the citizenry an opportunity to comment on the policies and regulations of the Bank, particularly with respect to the lending and Self-Help development offices.

The Board of Directors believes that citizen participation is critical in this process and made the effort to go around the country to hold these hearings so that the people that are interested in cooperatives or manage cooperatives needn't come to Washington and they tried to reach out to the people.

These comments are now being analyzed and then will be reflected in the final policies of the Bank. This reflects the openness in government concept of the Bank.

PUBLIC COMMENTS

Mr. STOKES. It would be helpful I think for our record if you would summarize some of the comments that the Bank did receive at these public hearings.

Mr. CONNELL. We would be pleased to do that.

[The information follows:]

The National Consumer Cooperative Bank conducted a nationwide series of fourteen public meetings over the past three weeks to obtain comment on the Bank's proposed policies. The meetings were held in Portland, Oregon; Los Angeles, California; Oakland, California; San Antonio, Texas; Lafayette, Louisiana; Denver, Colorado; Atlanta, Georgia; Kansas City, Missouri; Chicago, Illinois; Detroit, Michigan; New York, New York; Cleveland, Ohio; White River Junction, Vermont; and Washington, D.C. Close to 1,500 people, representing cooperatives, community and neighborhood groups, state and local governments, consumer organizations, church, labor, and low-income representatives, attended the public meetings, and the response was overwhelmingly enthusiastic. The Bank's constituency was very appreciative of being included in the development of the Bank policies and most complimentary of the public participation process.

An extensive direct outreach campaign to notify our constituents about the meetings and to solicit comments on our policies was undertaken. This outreach included: direct mailing of policies to 10,000 names on our mailing list; a letter announcing the meetings and availability of policies to another 25,000 consumer and neighborhood groups, cooperatives, public interest organizations, state and local governments, church, labor, and low-income organizations etc.; newsletters, newspapers, radio, and television; translation of the policies into Spanish, with specific outreach to the Hispanic community, and the Black community.

The key questions which surfaced included: Who qualifies for assistance; how much money will be available; what definition of low-income is appropriate; where priority should be given for technical assistance; how technical assistance will be delivered; and where regional offices will be located.

Public comment on the proposed policies will be accepted through February 25, with final policies adopted in late March. Just as soon as the data is tabulated, copies of the results will be made available to the Subcommittee.

Mr. STOKES. Do you anticipate that the solicited comments will be incorporated into the Bank's policies?

Mr. CONNELL. Yes, I do. I believe that the proposed policies are considered only as proposed policies and that the Board will genuinely analyze the comments to the extent that they justify amended current policies and I can almost assure you that there will be some changes in that.

IMPLEMENTATION OF LOW-INCOME LOANS

Mr. STOKES. How will the Bank implement the 35 percent best efforts mandate? Will the Bank actually draft a plan to implement that congressional mandate?

Mr. CONNELL. In our proposal for loan volume we recognize that and I think that there are many areas in which we can meet that 35 percent best efforts requirement. In many cases there will be loans that will have, which might have a high risk factor but could have a government guarantee, such as housing cooperatives that could serve people in the low income category.

There should be opportunities for existing cooperatives to provide facilities in low income neighborhoods and provide the technical support and administrative support to say a supermarket or something of that sort.

I think I was most struck when in Oakland we visited a neighborhood, a low income neighborhood and Oakland is the headquarters of Safeway; world headquarters. There were no supermarkets and the people had to travel three, four or five miles, retired people, people in wheelchairs, single parents who have to take a bus for an hour to get to the supermarket and a cab home for $5 or

$6, the very people who couldn't afford it. It showed us Food Redlining for the first time graphically, and I think it touched us.

STARTING NEW COOPERATIVES

Mr. STOKES. That comment that you just made reminds me of a comment made by one of the persons testifying at the Co-op Bank hearing in Cleveland. He wanted to know how to get a co-op started. Money is needed just to start. Will the Bank be able to provide start-up assistance?

Mr. CONNELL. Yes, I think that is going to be one of the very important roles and getting a cooperative started will be a very extensive effort. I would expect it would take 18 months to two years to start a cooperative, to get the group together, to understand what is needed. The planning process is rather long but if it isn't I think we will face failure.

I think probably one of the better models is the Neighborhood Reinvestment Corporation and its establishment of these neighborhood programs of going slow and carefully, spending the time and the money in the technical assistance area and the seed capital from the Self-Help Development Fund and patience. We should be able to make a contribution, considering the unique nature of cooperatives.

The credit analyst must tell the loan officer what the facts are financially, but the loan officer is then sympathetic in terms of cooperative concepts. And then the Self-Help Development Office is available to provide strengthening where the weaknesses in the normal credit criteria will be present. The capitalization loan at a preferred rate, from the Self-Help Development Fund would lower the cost of debt service, and technical assistance to bring up the bookkeeping and that type of order.

Putting this package together will be the challenge that we are going to face in the emerging and low-income cooperative area.

Mr. STOKES. It sounds very exciting. I have other questions which I can submit for the record.

Mr. BOLAND. Thank you.

[The questions and answers follow:]

Question. How will the Bank verify that a "low-income" cooperative does, in fact, serve a low-income community?

Answer. The proposed policies of the Bank state that a low-income cooperative must either be located in a SMSA or subsection where the median income satisfies the definition of low-income individuals, or is patronized by low-income persons. Certification of low-income status is the responsibility of the applicant and the Bank reserves the right to audit the representations of a low-income cooperative. The Bank can verify the status of the cooperative through local and other sources, as well as statistical indicators such as data from the Bureau of Census and the Bureau of Labor Statistics. In addition, the Bank can conduct membership and neighborhood surveys to confirm the status of the low-income cooperative.

Question. Experience with low-income cooperatives suggests that these coops face four principal problems in the early stages of development:

(a) Inadequate capital resulting from the inability of members to make substantial equity contributions,

(b) Lack of access to working capital,

(c) Inadequate organization and project planning resulting from an inability to afford front-end costs, and

(d) A need for on-going management assistance.

How will the Bank address each of these problems? Please include specific examples, if possible.

Answer. The Bank's policies allow for a range of capitalization programs to meet the capital needs of low-income cooperatives. These programs include advances for start-up costs, refinancing of loans from other lenders, and deferred interest payment loans.

In addition, the Bank will collaborate with government and private sector funding programs to make available third party favorable term capitalization loans and equity grants to eligible cooperatives.

The Small Business Administration, the Community Services Administration, ACTION and the Department of Commerce are some of the agencies that may collaborate in these efforts. In the private sector, agencies such as the Industrial Cooperative Association, the Ford Foundation, the Campaign for Human Development and the Opportunity Funding Corporation would be approached to participate in augmenting the capital positions of low-income cooperatives.

The Office of Self-Help Development will also help to identify the appropriate technical resources at the regional and local levels, to ensure that the technical assistance is provided in a timely and effective manner. Technical assistance will be provided in a variety of ways, but emphasis will be placed on direct on-site assistance, involving training and individual help provided by expert advisors, to train and assist the board members of the cooperative.

The Technical Assistance staff will also enter into agreements with local, established cooperatives to assist emerging cooperatives. In addition, the Technical Assistance staff will contract with regional and national cooperatives, federations of cooperatives and associations to provide specialized assistance. Included in this type of organizations are the Federation of Southern Cooperatives, the New England Federation of Cooperatives and the Cooperative League of the U.S.A.

Mr. BOLAND. Mr. Traxler.

Mr. TRAXLER. Nothing, thank you, Mr. Chairman.

Mr. BOLAND. Mrs. Boggs.

ESTABLISHMENT OF CO-OP BANK

Mrs. BOGGS. Thank you, Mr. Chairman. I would like to compliment the staff who have been aboard and the expeditious way in which they have really put together the Bank and assisted the new board members.

You now have a president of the Bank. I know that it must present difficulties to wait for the head of the Self-Help department, but I really think that it is remarkable that you have been able to prepare a comprehensive budget, to prepare regulations and to hold an extensive series of public meetings to have comments on those regulations.

I do wish to compliment you on that score.

Mr. Chairman, I would like to tell you that the vice chairman of the board is Father McKnight from Louisiana. One of the meetings was held in Lafayette, Louisiana. Father McKnight was probably the initiator of the very phrase "Southern Cooperative Movement" in the country.

And I know, as you do, about Mrs. Greenwald. She is eminently qualified.

AFFIRMATIVE ACTION PROGRAM

I was so pleased with her selection. She is a delightful addition to our national scene. I know that she has an impressive record in affirmative action and hiring practices and in equal opportunity and equal credit concerns. I suppose I should pose these questions to her—but what kinds of affirmative action plans does she have in mind for use at the bank?

Mr. CONNELL. In terms of affirmative action employment, the board is very much concerned that we maintain a proper policy and we have an interim personnel policy that addresses that, but I think more important is our present mix of employees and we have a mix that reflects I think a much higher proportion of minorities and women in professional positions than certainly any other bank I know of in the country.

We do have that record for you. We have some 50 employees, 50 percent minority and women in the professional category, so we feel that that is putting our money where our mouth is right now, I guess is the best way to put it and the same will hold in the lending area in terms of discrimination and affirmative action.

Mrs. BOGGS. Thank you.

Thank you, Mr. Chairman.

Mr. BOLAND. Mr. Sabo?

Mr. SABO. No questions.

Mr. BOLAND. Mr. Coughlin?

Mr. COUGHLIN. Thank you, Mr. Chairman. If I might, may I yield to my two colleagues here and see if they have questions which they would like to ask.

Mr. YOUNG. I had already asked several questions and I submitted a list of written questions, but I want to go back to the subject we started on.

Let me lay my cards out on the table about political involvement on this Cooperative Bank. The one reason that I am concerned is the fact that Ralph Nader made the statement. That is one concern. Where he was when he made the statement, and what they were talking about at the time was how to get money for their political activism is another reason I am concerned about his statement.

BOARD MEMBERS

But my friend, Sam Brown, is on the board; correct?

Mr. CONNELL. That is correct.

Mr. YOUNG. My friend Sam Brown has made it very clear that he has no reason in his own conscience not to use a political office that he holds or funds that he controls for political activist purposes. I disagree with that. If people in this co-op want to be involved politically, that is their business, but I don't think anybody, because of their position in government, should take such an attitude and I don't think any funds that are being provided by taxpayers ought to be used for those political purposes.

I asked my questions, you gave me what I thought were reasonable answers. I felt obligated to tell you why I am concerned about this and I have no reason to doubt your sincerity in the responses that you made to my political questions, but my question is if you and I agree that this is not to be used for political purposes, would you have any objection to writing language into this bill or the report that goes along with the bill, stating what you and I both agree on—that there should not be any political use of these funds?

Mr. CONNELL. I would have no objection to that. I would have no objection to language which restricts cooperatives in the same way as other businesses.

Mr. YOUNG. Thank you very much.
Mr. BOLAND. Mr. McDade?
Mr. MCDADE. No, thank you.
Mr. BOLAND. Mr. Coughlin?
Mr. COUGHLIN. Thank you, Mr. Chairman.

DEMAND FOR BANK SERVICES

In your statement you mentioned a nationwide survey of cooperatives to determine the demand for bank services. Wasn't this done before the bank was constituted?

Mr. CONNELL. No, not in what I would call any professional sense, and this is one of my main concerns, that before we start setting down hard policies in the credit area that we first of all find out where the market is, where the regional offices are in the field, put them where they will be self-sustaining.

So we conducted this survey and it is almost complete and it will give us a pretty good breakdown of where the existing cooperatives are and what their interests are. We will then follow that up with personal visits to those that are likely candidates to begin to generate the proper business.

Mr. COUGHLIN. Last year when they were here, the Department of Housing and Urban Development and Treasury officials could not estimate the current and future demands nor determine how many new co-ops would be started because of the Bank.

DEMAND FOR LOANS

Do you have any idea how many new co-ops they are talking about, what the demand is?

Mr. CONNELL. I couldn't specifically state what the new demands are, but we have in actual conversations with the 25 largest cooperatives learned there is a substantial volume of immediate interest.

Mr. COUGHLIN. About what ball park volume are you talking?

Mr. CONNELL. Our initial survey indicates an immediate demand of some $63 million. We project total demand in fiscal year 1981 of $125 million. We have a compilation of less than that for fiscal year 1980, but we do not expect all the loans to be granted for the remainder of the year anyway.

So we think we have enough demand out there and the reason I would be cautious on us actually making all those loans is that you have to see their financial statement first. I would rather have us make good loans than volume.

FUTURE FUNDING REQUIREMENTS

Mr. COUGHLIN. Do you have any projection of the yearly funding requirements to be supplied by the Federal government until all the Class A stock has been redeemed?

Mr. CONNELL. We don't have any hard figures beyond 1981 at this point. We have some preliminary figures on, say, another two years, I believe, that we could supply the Committee.

They are conjectural at this point. I mentioned earlier that one of the line items we put in the budget this year was an educational fund and the purpose of the educational fund is to more or less

replace the Self-Help Development Technical Assistance appropriations over a period of time and institutionalize that function so that the bank never forgets its role as a developer of cooperatives.

But I would expect that in not too many years that we will be self-sufficient. I believe another three years is what was estimated. Quite frankly, if we pulled down $300 million——

REDEEMING CLASS A STOCK

Mr. COUGHLIN. Will the Class A stock be redeemed in another two years?

Mr. CONNELL. No. If the Class A stock were drawn down from Treasury, we would be able to sustain that income I would think; pretty close to it. Much of it will depend on the loan volume. I believe we remain under appropriation until the Class A stock was redeemed.

So if you are looking to the date when we are out and free, it will depend really on how fast the co-ops buy the stock.

Mr. COUGHLIN. Do you have any feeling for when that would be?

Mr. CONNELL. The Farm Credit System took 35 years, but they were well along the way when the depression hit, then the government pumped in another $185 million to save the farm owners during the depression. This then delayed it. We would hope that that wouldn't happen this time and that we could revert to private ownership as soon as possible.

That is really what I am interested in, is turning it over and developing a market interest in cooperatives so it goes as soon as possible. I really couldn't give you an exact date.

OFFICE OF SELF-HELP DEVELOPMENT

Mr. COUGHLIN. Would the Office of Self-Help Development and Technical Assistance be funded by the government or is that independent?

Mr. CONNELL. That is why we put in that educational fund, looking to the day when the bank was completely independent, that the Office of Self-Help—and this is traditional in co-ops—set aside a certain portion of their money for education. In following that concept—this quite frankly is my thought—was that they institutionalize this Self-Help Development office so it isn't forgotten once the bank goes free.

The alternative, of course, would be a government agency.

Mr. COUGHLIN. The bank is supposed to make sound loans at market rates and 30 percent of the total loans are joint loans between the bank and the Self-Help fund. Are the loans which are supported with the Self-Help funds sound?

SOUNDNESS OF SELF-HELP LOANS

Mr. CONNELL. Any credit by the bank must be sound. The Self-Help fund would be used to make the Banks loans sound. In other words, if a borrower didn't have the cash flow to service the debt of a bank loan, the amount of the bank loan would be reduced to the cooperative and the Self-Help Development Fund, which is a soft loan lender would provide the additional capital needed at a

concessionary rate which the borrower could afford. That is an example of the usage of the two.

Mr. COUGHLIN. Is there a limitation of the percentage of loans that are so——

Mr. CONNELL. No. In fact, the bank's best efforts, must be made to make at least 35 percent of the loans to cooperatives serving low income people.

Mr. COUGHLIN. So 35 percent of the loans have to be so limited?

Mr. CONNELL. It is a best efforts clause. The limitation is—there are two specific limitations. One, the housing co-ops are limited to 30 percent of the loan portfolio by 1983 and producer co-ops to 10 percent of the loan portfolio.

LOW-INCOME DEFINITION

Mr. COUGHLIN. What is the definition of low income?

Mr. CONNELL. Low income as proposed by our policies are 50 percent of the median income of a Standard Metropolitan Statistical Area. However, we have had considerable comment in the hearings that this be raised to 80 percent consistent with the HUD rates.

Mr. COUGHLIN. You have not yet raised it to 80 percent?

Mr. CONNELL. No. The policies are not considered final. They were proposed to obtain public input.

Mr. COUGHLIN. Eighty percent of median income, as we discussed in HUD, encompasses a substantial portion of the population.

Mr. CONNELL. Yes. Well, not a substantial—substantial portion, yes.

Mr. COUGHLIN. Forty percent?

Mr. CONNELL. Yes.

REGIONAL OFFICES

Mr. COUGHLIN. Where are the two regional offices going to be located?

Mr. CONNELL. That hasn't been determined yet. I guess as we went around the country every region wanted a regional office to be there and, whether the Southeast or the Far West, it will depend upon where the volume justifies something more than a representative residence.

In addition to the two regional offices, I would expect we will have loan representatives in residence around the country in some fashion or working out of their home or a very tiny office which wouldn't have a material impact on the budget.

I think it is very important that we have the loan officers or the bank representatives as close to the cooperatives as possible, because you can't make a loan or give assistance from Washington. You have to be on the scene.

STAFF REQUIREMENTS

Mr. COUGHLIN. How much growth do you anticipate in the staff?

Mr. CONNELL. The request in 1981 is to go from 166 people to 221.

Mr. COUGHLIN. What would you anticipate beyond that?

Mr. CONNELL. I have no idea at this point. I think I would rather see a little bit of experience before I come back and ask for more.

Mr. BOLAND. How large will the personnel be in the regional offices? I am wondering whether or not you are really diluting your efforts here by establishing a regional office. I can understand your answer of trying to put the regional office in the area where you have a larger number of co-ops. But aren't you diluting your resources here a bit?

Mr. CONNELL. It does take people from the Washington staff, but I think you can't run a bank as a mail order business from Washington. We estimate four people per office, a director, two specialists, and a clerk. I think we will have plenty of room in the numbers that we have to have people out in the field, provided that four holds up.

LOAN GUARANTEE PROGRAM

Mr. COUGHLIN. Just one final question. If the Bank should not receive the authorization of the $5 million loan guaranteed program for fiscal year 1981, what effect would that have on your operation?

Mr. CONNELL. We would not use the guarantee, of course. We are hoping to begin doing a little experimenting with using private sector money, encouraging private sector investment. Again, this is part of an effort to draw away from the government support and be self-sustaining so it would enable us, without an outlay of Federal moneys, to use some of the private sector funds.

Mr. BOLAND. May I just ask a question with reference to the loan guarantee? You are requesting $5 million for the Loan Guarantee Program. That is a demonstration program, isn't it?

Mr. CONNELL. That is correct.

Mr. BOLAND. Does that give you greater leverage? Why?

Mr. CONNELL. Because you don't have to actually put the money out. They promise to stand behind the loan, should it go into default. Most guarantee programs are able to leverage because you have a low rate of default and a higher leverage. There is a difference between this proposal and the traditional government-guaranteed program, that it wouldn't be the Federal government guaranteeing it, it would be the National Consumer Cooperative Bank on its ability to pay.

Mr. BOLAND. Will it be possible to guarantee loans until the Bank develops a track record on its operations?

Mr. CONNELL. Yes, it will be.

Mr. BOLAND. Mr. Sabo.

Mr. SABO. Thank you, Mr. Chairman.

SELF-HELP FUND CAPITAL ADVANCES

I am curious about the Self-Help Development Fund, where you have the capacity for making capital advances in certain co-ops and interest supplements to low-income co-ops. Have you formed any concrete proposal on how you expect that to work, particularly in the housing program?

Mr. CONNELL. Not specifically. It is designed to provide a policy with a lot of flexibility so that arrangements can be made to

facilitate the organization of a cooperative. There are so many ways you can do something like that. An interest supplement would help a group getting started in a cooperative for a short period of time in the first year or two, when their original expenses are high, before they actually get going.

I think the interest concession area, the lower than market rate interest area will probably be the more common, because the incentive to pay something every month is a very important discipline.

Mr. SABO. Is it assumed—I am just curious how it would work if you had a co-op, involving some low-income people, but not necessarily all. Would they be eligible for certain interest supplements or capital advances?

Mr. CONNELL. Yes. The statute speaks to a facility for serving low-income people. And I guess again the best example of that would be a branch of a co-op market that is located in a median income area, establishing a branch in a low-income area.

HOUSING COOPERATIVES

Mr. SABO. I am not thinking—again I am primarily concerned about housing co-ops.

Mr. CONNELL. Mixed income housing in particular is an important area. In fact, the hearings brought out the comment that many housing cooperatives don't want to be all low-income. They feel it is healthy in an area to have a mix of people. We saw this in Berkeley, where you have a mix of people of all ages, races, all kinds of groups. It makes for a neighborhood as opposed to a complete housing for the elderly group, or a complete area where everybody is on some sort of assistance.

Mr. SABO. Would it be possible, then, to have the interest supplement for some of the members of the co-op?

Mr. CONNELL. Yes. It would be structured with different types of notes and arrangements.

The combinations are almost limitless when you consider the imagination of people as they begin to work in this financial area. Yes, it could be.

Mr. SABO. Thank you.

DEFERRED OBLIGATIONS

Mr. BOLAND. This will be on page 9. The justifications were not numbered, so I am numbering them. Page 9 has to do with the financing of the National Consumer Cooperative Bank. Item 24.40 under program and financing, you have an unobligated balance at the end of the year for the Bank of $11,547,000 and on page 18, under the Self Help Development and Technical Assistance, you have an unobligated balance at the end of the fiscal year of $500,000. Why should the Congress appropriate these sums in 1981 that will not be used?

Mr. CONNELL. The Act specifically states that unobligated money can be carried over during this period. There is a proviso for that and I believe it probably recognizes there is a start-up operation and a basic capitalization intended. This is Section 104(a), the last line states, the last sentence, any amounts so authorized but not appropriated, not utilized to purchase such stock of the bank in

any such fiscal year as authorized to be appropriated or reappropriated may be so used in subsequent fiscal years. That would take care of the Bank side. I presume the same logic is followed with the Office of Self-Help.

Mr. BOLAND. We could appropriate these next year, anyhow.

Mr. CONNELL. It could be done that way. No, I believe there are other situations where the funds are not obligated, but we are well along the way in a loan transaction or a development transaction where there is pretty much a commitment there and we know the money is going to go out but because of the documentation process, it would take a little—it wouldn't quite trigger the obligation effort.

I think one of the benefits of committing the carryover is we don't have an end of the fiscal year rush to make loans and I think that is probably the worst thing we can do, is try to spend a lot of money at the end of the year.

Mr. COMERFORD. The Treasury doesn't advance money to us until we are ready to make those loans, it stays in the U. S. Treasury.

FUTURE FUNDING FOR THE BANK

Mr. BOLAND. If the Congress provides the entire $300 million over the five-year period, 1979 to 1983, as authorized, does the Board feel it would be able to continue without additional Federal appropriations?

Mr. CONNELL. I would say certainly in terms of the Bank itself, it should be able to. The Office of Self-Help Development and Technical Assistance is another matter altogether, because that is a development function that would be much more expensive to sustain than just the interest.

Mr. BOLAND. That is the next question.

FUTURE FUNDING FOR SELF-HELP DEVELOPMENT

What level of funding does the Board envision for the Self-Help Development Fund for the future—beyond fiscal year 1981? As you know, there has to be an authorization for the Self-Help Development Fund because it expires in 1981. What level of funding do you think would be required in the future?

Mr. CONNELL. I am afraid I cannot give a specific number but again go back to the concept that establishment of an education fund would mean less each year, and I would look towards the replacement of the appropriation over time with respect to the Self-Help Development Fund being replaced by reserve set-asides by the Bank from its earnings. I don't really have any figure.

Mr. COMERFORD. We have not formulated that.

Mr. BOLAND. The total amount requested for fiscal year 1981 for the Self-Help Development Fund will complete the total amount authorized by Public Law 95-351, to be appropriated to the Fund through 1981. Is that correct?

Mr. CONNELL. That is correct. I should note that the galleys did have a typo error there. I believe they spoke at 48.5 as the figure and the correct figure is 48, a total of 65.

Mr. COMERFORD. That would be above the authorization.

ESTIMATE FOR BANK SELF-SUFFICIENCY

Mr. BOLAND. With respect to salaries and expenses, last year it was stated that by 1981 the Bank might generate sufficient income from its lending to pay administrative expenses. That didn't happen, did it?

Mr. CONNELL. No, it didn't.

Mr. BOLAND. What is your current estimate as to when the Bank will be able to pay its own administrative expenses?

Mr. COMERFORD. I think by 1982, we will pay a substantial portion of the administrative expenses, if not all. We will reserve the right to go to the OMB and Congress next year.

PERSONNEL REQUIREMENTS

Mr. BOLAND. On page 287 of the hearings last year it was indicated that 166 employees would be sufficient. What happened to that estimate? It wasn't yours incidentally.

Mr. CONNELL. As far as I know that estimate is still firm for fiscal year 1980.

Mr. BOLAND. Is it not firm for 1981?

Mr. CONNELL. I believe the original three-year plan was 221 for 1981.

STATUS OF CURRENT EMPLOYEES

Mr. BOLAND. How many people are currently working for the Bank on a temporary basis?

Mr. COMERFORD. At this point 54.

Mr. BOLAND. Will most of these people eventually be employed on a permanent basis?

Mr. CONNELL. That will depend upon the President's choice for the people in the Bank.

FIRST QUARTER 1980 EXPENSES

Mr. BOLAND. How much money has been obligated for personnel services through the first quarter of fiscal year 1980?

Mr. CONNELL. Total expenditures in the first quarter were approximately $700,000 and—let's see.

Mr. BOLAND. This is for personnel services for the first quarter, how much has been obligated for fiscal year 1980?

Mr. CONNELL. $276,776.

Mr. BOLAND. How much has been obligated in total through December 31, 1979, for the first quarter?

Mr. CONNELL. $700,693.

PERSONNEL LAPSE RATE

Mr. BOLAND. On page 39, under Special Personal Services Payments, is the request for $4,513,000 for salaries. What lapse rate is assumed in that request? You may supply that for the record.

Mr. CONNELL. I would like to do that.

[The information follows:]

The breakdown of the Special Personal Service Payment for fiscal year 1981

[Dollars in thousands]

Temporary, part-time employees employees	$8
Board of Directors (public members) (20 days of meetings for each of 6 public Board members at $192.70 per meeting	23
Full-time, non-Federal employees (based on an average salary of $23,400 per year, excluding leave cost of $2,600)—	
Date and number of employees:	
October 1980, 164	319
November 1980, 170	331
December 1980, 172	335
January 1981, 180	351
February 1981, 189	368
March 1981, 192	374
April 1981, 195	380
May 1981, 200	390
June 1981, 205	400
July 1981, 205	400
August 1981, 209	407
September 1981, 219	427
Total full-time, non-Federal employees	4,482
Total	4,513

TRAVEL REQUIREMENTS

Mr. BOLAND. You are requesting $968,000 for travel in 1981, an increase of $212,000 over the 1980 level of $756,000. Why do you need $968,000 for travel in 1981? That averages out to nearly $4,400 per employee, and not all employees will be traveling. Why so high?

Mr. CONNELL. Mainly because of the nature of this type of Bank, where the people have to travel out and meet and work with the cooperatives. We are not built like the Federal Home Loan Bank System with 12 banks around the country and the Federal Reserve System. So it is going to be necessary to have a great deal of travel. That really was the offset for high rental expenses with regional offices.

Mr. COMERFORD. I am sure you know air travel has gone up astronomically.

In the last budget we expected a $300 cost for a three-day trip and that has almost doubled.

TRAVEL EXPENSE REDUCTION

Mr. BOLAND. I don't know if you are familiar with the continuing resolution which required a $500 million governmentwide cut in travel. Did you share in that travel reduction?

Mr. CONNELL. It is my understanding we did not.

Mr. BOLAND. Mr. Lightfoot says yes.

Mr. LIGHTFOOT. Yes. In 1980 we reduced our travel by some 16 percent.

SALARY LEVELS

Mr. BOLAND. Turn to Appendix G. After the permanent staff has been hired, I would like you to fill in the boxes with the numbers of people who are employed and where within the original chart.

Also, turn to page 27, Salaries and Expenses. I am intrigued by the salaries. For instance, you have 28 employees in the salary bracket of $30,000 to $39,000; you have 16 from $40,000 to $49,000. Who are these people? What are they doing?

Mr. CONNELL. Essentially the $40,000 to $50,000 would be an Executive Vice President, the Directors of the various Bank's offices, Assistant to the Executive Director possibly, the senior loan officers, that type of people. One of the things I looked through was the average salary, because it is something I know that is of interest to you. This type of institution is not a paper-moving, labor-intensive type operation. It is an operation of professionals, mostly, particularly in the early years, when you are bringing in the professionals to develop. So there is a low ratio of clericals to professionals. It is much different than other agencies. That accounts for, I think, the high average salary in the first year.

Then it goes down in the second year, you add on some more clericals. Essentially, it reflects the nature of it as being professional.

Mr. BOLAND. How much more difficult is this task of a loan officer for the Cooperative Bank than it would be for a loan officer in a regular bank?

Mr. CONNELL. More travel, much, much more travel.

Mr. BOLAND. Salary-wise?

Mr. CONNELL. Salary, I would expect a loan officer in a regular bank with a commensurate responsibility probably would be paid more, I would say without question.

Mr. BOLAND. You ought to know.

Mr. CONNELL. Right now, in terms of our own attempts to bring in people from time to time, we find it very difficult because the loan officer of any lending authority now is paid quite high.

Mr. COMERFORD. I recently had a couple of conversations with bankers in California, Security Pacific pays their mid- to junior-level loan officers at least $30,000 per year, their senior people earn well over $50,000.

Mr. BOLAND. On that basis, you are going to get people to fill these jobs?

Mr. CONNELL. It will require a lot more than the desire.

BREAKDOWN OF OTHER SERVICES

Mr. BOLAND. On page 40, under Object Classification 25.0, you are requesting $4,474,000 for Other Services in 1981. What will the $4,474,000 be used for? If you would like, you can provide for the record the breakdown of the request with a comparison to the $2,598,000 estimated to be obligated in 1980. Would you rather do it that way?

Mr. CONNELL. I think I would. In general categories it would be expenses for computer services, outside advisers, cost of delivering technical assistance, security guards, messenger service, and so on.

[The information follows:]

The fiscal year 1981 budget provides for "other services" of $4,474,000. The majority of these funds will be used to provide Technical Assistance. In addition to technical assistance advisors, there is an allocation for non-technical assistance advisors. Non-T.A. advisors funding is projected at $175,000 in 1981. In fiscal year

1981, we plan to draw on the expertise of 2,200 advisors at $75 a day, to continue the development of the Office's organization and programs.

[In thousands]

25.0 Other Services	Fiscal years 1980	1981
Computer services:		
Requirements and design analysis	$30	$38
Payroll service	7	9
Accounting	13	16
Loan servicing	15	18
Investments	7	9
Mailing lists	8	10
Total	80	100
Consulting services:		
Advisors [1]	165	175
Administration	30	7
Credit and lending	90	20
Cooperative relations	5	1
Finance	75	17
General Counsel	125	28
Personnel	10	2
Total	500	250
Technical Assistance [2]		
Organizational development/co-op education	281	577
Management/membership training	265	545
Requests for new membership techniques	124	254
Accounting/bookkeeping training	250	513
Feasibility studies for facilities expansion	290	595
Specialized services (e.g., legal services, appraisals, loan packaging)	249	511
Market survey/research	209	430
Inventory control	149	305
Purchasing procedures	139	285
Other	44	91
Total	2,000	4,106
Other [3]	18	18
Total	2,598	4,474

[1] Costs for non-travel expenses for advisors' assistance in implementing programs. Services will include providing direct site technical assistance and training to developing eligible cooperatives. Assistance will take various forms, but it is expected to focus on immediate needs and problems relating to feasibility/market studies, organizational and legal structures, non-member deposits (credit unions), membership development, design and funding of financial plans, etc. Advisors will also assist staff design its programs. These costs are estimated on an anticipated need for 2,059 advisor-days at $85 each day. Advisors will be contracted from among local cooperatives, community development corporations, credit union leagues and associations, and federated cooperatives.

[2] Based on preliminary results of the questionnaire mailed out to 10,000 co-ops and other interested parties.

[3] Other includes messenger service, security guards, advertising.

Mr. BOLAND. We appreciate your presence and I am delighted that you are the Chairman of the Board of Directors. I am sure that you will provide the needed oversight, which is essential.

Thank you very much. Thank you, gentlemen, your justification will be inserted in the record at this point. The Committee stands adjourned.

[The justification follows:]

National Consumer Cooperative Bank

Appendix E

Bank Fund and Self-Help Fund
Comparison of Capital Investment and Loans
(Dollars in thousands)

Bank Fund

	Capital Investment 1/	Loans: Obligations, net Number	Loans: Obligations, net Amount	Outlays
FY 1979	$ 1,000	-	-	-
FY 1980	49,050	210	$ 37,500 2/	$ 22,000
FY 1981	116,000	625	117,003 2/	100,000
Total	$ 166,050	835	$154,503	$ 122,000

Self-Help Funds

	Capital Investment	Loans: Obligations, net Number	Loans: Obligations, net Amount	Outlays
FY 1979	$ 1,000	—	—	—
FY 1980	17,000	150	$ 11,500 3/	$ 6,754
FY 1981	48,000	578	54,000 3/	55,626
Total	$ 66,000	628	$ 65,000	$ 62,380

1/ Congressional appropriations (in FY 1981, requested appropriation) to the Department of the Treasury for purchase of class A stock.

2/ Excludes obligations which are expected to be financed through non-Federal sources in the amounts of $3,841,000 in FY 1980 and $9,767,000 in FY 1981.

3/ Excludes obligations of $850,000 in FY 1980 and $2,125,000 in FY 1981 which are expected to be financed through collections of interest on loans.

National Consumer Cooperative Bank

ANALYSIS OF AUTHORIZED LEVEL FOR FISCAL YEAR 1980
(Dollars in thousands)

	Permanent Positions	Non-Federal Full-time Positions	Total Full-time Positions	Average Positions	Amount
1980 Appropriation Enacted by Congress	2	164	166	103	$74,000
Proposed Authorized Level for 1980	2	164	166	103	$74,000
Estimates, FY 1981	2	219	221	194	$174,450

DIGEST OF BUDGET ESTIMATES BY ACTIVITIES FISCAL YEAR 1981
(Dollars in thousands)

	Appropriation FY 1979		Authorized Level FY 1980		Budget Estimate FY 1981		Increase for FY 1981	
	Ave. Pos.	Amount	Ave. Pos.	Amount	Ave. Pos.	Amount	Ave. Pos.	Amount
1. Investment in National Consumer Cooperative Bank	—	$1,000	—	$49,050	—	$116,000	—	$66,950
2. Salaries and Expenses	—	1,500	103	7,950	194	10,450[a]	91	2,500
3. Self-Help Development and Technical Assistance	—	1,000	—	17,000	—	48,000	—	31,000
Total Appropriation, authorized level and budget estimates	—	$3,500	103	$74,000	194	$174,450	91	$100,450
Full-time positions established	(—)		(166)		(221)		(55)	

Note: The increase for FY 1981 is due to a full year's activity, compared to a part year's activity in FY 1980.

[a]The $10.45 million appropriation for admin. expenses will be augmented with an anticipated $2 million from interest income to cover the $12.45 million total administrative expenses for FY 1981.

National Consumer Cooperative Bank

Justification for Appropriations

Fiscal Year 1981

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National Consumer Cooperative Bank

1. Summary of Request

58-369 O - 80 - 18

National Consumer Cooperative Bank

1. Summary of Request

The funds requested are for the operation of the National Consumer Cooperative Bank. The Bank is a mixed ownership government corporation established by P.L. 95-351 to make sound loans at market rates to cooperatives in a variety of fields. Its Office of Self-Help Development and Technical Assistance will extend capital advances, interest supplement payments, and technical assistance to cooperatives with special needs. Cooperatives and projects serving low income persons will receive priority from the Bank and its Self-Help Office.

In P.L. 95-351, Congress stated that "user-owner cooperatives are a proven method of broadening ownership and control of economic organizations, increasing the number of market participants, narrowing price spreads (between producers and ultimate consumers), raising the quality of goods and services available to (cooperatives') membership, and building bridges (between producers and consumers) ..." At the same time, Congress found that "consumer and other types of self-help cooperatives have been hampered in their formation and growth by lack of access to ... credit facilities and lack of technical assistance." The requested appropriations will allow the Bank to achieve the goals established by Congress.

National Consumer Cooperative Bank

The Bank is governed by a Board of Directors initially appointed by the President with the advice and consent of the Senate. The capital of the Bank will be derived from the sale of Class A stock to the federal government, Class B stock to the Bank's borrowers, and Class C stock to borrowers and eligible organizations. The Bank is also authorized to raise capital through the public and private sale of its bonds, debentures, notes, and other evidence of indebtedness, but is unlikely to do so in the first two years of operation. The Director of the Office of Self-Help Development and Technical Assistance is appointed by the President with the advice and consent of the Senate. It is expected the President will make such appointment in the near future.

$174,450,000 is requested for FY 1981. Of the amount requested, $116,000,000 for purchase of Class A (preferred) stock by the Treasury; $10,450,000 for salaries and expenses of the Bank and the Office of Self-Help Development and Technical Assistance (an amount of $2,000,000 anticipated from interest income, will be used to defray total expenses of $12,450,000); and $48,000,000 for capitalizing the Office's Self-Help Development Fund.

National Consumer Cooperative Bank

2.A. Investment in National Consumer Cooperative Bank

NATIONAL CONSUMER COOPERATIVE BANK

Federal Funds

General and special funds:

INVESTMENT IN NATIONAL CONSUMER COOPERATIVE BANK

For the purchase of class A stock issued by the National Consumer Cooperative Bank as authorized by section 104 of the National Consumer Cooperative Bank Act (12 U.S.C. 3014), [$49,050,000] *$116,000,000* to remain available until September 30, [1981] *1982*[: *Provided*, That such amount shall also be the limit on the aggregate amount of commitments by the Bank to make or to guarantee loans in accordance with section 108 of the Act (12 U.S.C. 3018)]. *(12 U.S.C. 3014, 3018; Department of Housing and Urban Development—Independent Agencies Appropriation Act, 1980.)*

National Consumer Cooperative Bank

Investment in National Consumer Cooperative Bank

Program and Financing (in thousands of dollars)

Identification Code 28-1866-0-1-376		1979 Actual	1980 Estimate	1981 Estimate
Program by activities				
10.00	Purchase of Class A bank stock (costs-obligations) (object class 33.0)	...	37,500	117,003
Financing				
21.40	Unobligated balance available, start of year	...	-1,000	-12,550
24.40	Unobligated balance available, end of year	1,000	12,550	11,547
40.00	Budget authority (appropriation)	1,000	49,050	116,000
Relation of obligations to outlays				
71.00	Obligations incurred, net	...	37,500	117,003
72.40	Obligated balance, start of year	...	...	16,300
74.40	Obligated balance, end of year	...	-16,300	-38,173
90.00	Outlays	...	21,200	95,130

National Consumer Cooperative Bank

2.A. Investment in National Consumer Cooperative Bank

$116,000,000 is requested for the purchase of Class A (preferred) stock by the federal government. In FY 1979, $1,000,000 was appropriated and in FY 1980, $49,050,000 was appropriated for this purpose. The FY 1981 request for $116,000,000 will bring the total amount of appropriation for investment in Class A(preferred)stock to $166,050,000. This will leave $133,950,000 authorized by P.L. 95-351 for FY 1982 and FY 1983.

The Bank will redeem the Class A stock held by the Treasury over time using capital accumulated from retained earnings and from the sale of stock to cooperatives. When all Class A stock has been redeemed, the Bank will continue operations as a private bank owned and controlled by cooperatives.

2.B. National Consumer Cooperative Bank Fund

NATIONAL CONSUMER COOPERATIVE BANK

Federal Funds

Public enterprise funds:

National Consumer Cooperative Bank Fund

During 1981 and within the resources and authority available, gross obligations for the principal amount of direct loans shall not exceed $125,770,000.

During 1981, total commitments to guarantee loans shall not exceed $5,000,000 of contingent liability for loan principal.

NATIONAL CONSUMER COOPERATIVE BANK

Federal Funds

Public enterprise funds:

NATIONAL CONSUMER COOPERATIVE BANK FUND

During 1981 and within the resources and authority available, gross obligations for the principal amount of direct loans shall not exceed $125,770,000.

During 1981, total commitments to guarantee loans shall not exceed $5,000,000 of contingent liability for loan principal.

National Consumer Cooperative Bank

National Consumer Cooperative Bank Fund

Program and Financing (in thousands of dollars)

Identification Code 28-4001-0-3-376		1979 Actual	1980 Estimate	1981 Estimate
Program by activities				
	1. Bank loans	...	41,341	125,770
	2. Loan loss reserve	...	827	2,515
	3. Education fund	...	40	215
10.00	Total program costs, funded - obligations	...	42,208	128,500
Financing				
	Offsetting collections from:			
11.00	Federal funds: Commitments to purchase Class A stock by the Secretary of the Treasury	...	-37,500	-117,003
14.00	Non-federal sources:			
	Interest on loans	...	-800	-4,296
	Sale of Class B stock	...	-954	-4,201
	Repayment of principal	...	-2,954	-5,000
23.98	Unobligated balances transferred to other funds	...	...	2,000
	Budget authority	...	...	...
Relation of obligations to outlays				
71.00	Obligations, incurred, net	...	...	-2,000
90.00	Outlays	...	...	-2,000

2.B. National Consumer Cooperative Bank Fund

The funds from the sale of Class A stock will be utilized by the Bank to make sound loans at market rates to eligible consumer and producer cooperatives. Loans will be made for a variety of consumer-owned endeavors, including housing, food and other retailing, health care, day care, small scale energy production and distribution, auto repair, as well as a number of different types of producer-owned activities, including handicrafts.

The Bank's lending activity will benefit both cooperative members and consumers in general. As noted in the Reports of the Senate Committee on Banking, Housing and Urban Affairs and the House Committee on Banking, Finance and Urban Affairs, consumer cooperatives can bring significant savings to their members. Even in cases where cooperative members do not receive cash savings, they often benefit from higher quality goods and services, from more detailed and objective consumer information, and from having a voice in the policy-making process.

Consumers as a whole gain from the anti-inflationary effects of a strong cooperative presence in retail markets. When a cooperative charges lower prices for products and services of comparable quality, it makes for a more competitive market place. Moreover, numerous consumer protection gains pioneered by cooperatives, such

as nutritional labelling of food products, have come to be adopted by the industry or by government regulatory agencies.

Initially the Bank will respond to cooperatives' needs through field representatives based in Washington. However, two small regional offices are expected to be opened in FY 1981, to improve services to cooperatives in those areas.

Banking operations are scheduled to begin in mid-March, and it is estimated that during the remainder of FY 1980, the Bank will make 210 loans and will service 210 accounts. In FY 1981, the Bank estimates 1,650 applications for loans, 625 closings, and service to 835 accounts. The loan guarantee program authorized by P.L. 95-351 will be implemented on a demonstration basis in FY 1981 and will not exceed $5,000,000. For a summary and analysis of selected workload data, see Appendices A, B, C, and D.

FY 1981 represents the first full year of operation of the Bank. The additional capitalization supplied to the Bank as a result of this appropriation will be sufficient to assure that all loan applicatons received by the Bank, which meet its credit requirements, will be approved. Yet this level of funding will assure that there will be no unreasonable delay in financing the credit-worthy cooperatives that require the Bank's services. For a comparison of the government's investment with the loans which will be generated by that investment, see Appendix E.

National Consumer Cooperative Bank

2.C. Self-Help Development Fund

NATIONAL CONSUMER COOPERATIVE BANK

Federal Funds

General and special funds:

SELF-HELP DEVELOPMENT AND TECHNICAL ASSISTANCE

For advances by the Office of Self-Help Development and Technical Assistance as authorized by section 202 of the National Consumer Cooperative Bank Act (12 U.S.C. 3042), [$17,000,000] ~~*$48,000,000**~~ to remain available until September 30, [1981] *1982. (12 U.S.C. 3042; Department of Housing and Urban Development—Independent Agencies Appropriation Act, 1980.)*

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* Total authorization for the Self-Help Development Office for fiscal years 1980 and 1981 is $65,000,000. In FY 1980, $17,000,000 was appropriated. The above appropriation request for FY 1981 should therefore be $48,000,000.

National Consumer Cooperative Bank

Self-Help Development and Technical Assistance

Program and Financing (in thousands of dollars)

Identification Code 28-0201-0-1-376		1979 Actual	1980 Estimate	1981 Estimate
Program by activities				
10.00	Total program costs funded - obligations (object class 33.0)	...	12,350	56,125
Financing				
14.00	Offsetting collections from: non-Federal sources: interest on loans	...	-850	-2,125
21.40	Unobligated balance available, start of year	...	-1,000	-6,500
24.40	Unobligated balance available, end of year	1,000	6,500	500
40.00	Budget authority (appropriation)	1,000	17,000	48,000
Relation of obligations to outlays				
71.00	Obligations incurred, net	...	11,500	54,000
72.40	Obligated balance, start of year	...	...	4,746
74.40	Obligated balance, end of year	...	-4,746	-3,120
90.00	Outlays	...	6,754	55,626

National Consumer Cooperative Bank

2.C. Self-Help Development Fund

$48,000,000 is requested for the Fund in FY 1981 to meet the needs of eligible cooperatives. Of the $10,000,000 authorized for FY 1979, only $1,000,000 was appropriated because of a late start-up. $17,000,000 was appropriated in FY 1980. The FY 1981 request will complete the total amount authorized by P.L. 95-351 to be appropriated to the Fund through FY 1981.

This appropriation would provide funding for the Self-Help Development Fund. The Fund is authorized to make repayable, interest-bearing capital investment advances to eligible cooperatives which do not meet the Bank's credit standards, and to make interest supplement payments on behalf of low-income cooperatives. These advances and interest supplements will enable consumer and producer cooperatives to initiate, expand, or otherwise improve their operations.

In addition to administering the Fund, the Office is authorized to provide a broad range of technical assistance, training, educational activities, and information to eligible cooperatives; to conduct related research; and to undertake investigations of new types of services which consumer cooperatives might provide.

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The mission of the Office is thus to serve as the development arm of the Bank. It will foster the creation and growth of cooperatives, particularly among low-income persons. Since its activities are vital to the Bank's future growth and success, it is important that the Office have sufficient funding to allow its work to develop at a pace equal to that of the Bank's lending activities.

In FY 1980, it is anticipated that the Fund will receive more than 1,000 applications for self-help advances and that the Fund will make 150 advances and service 250 accounts.

FY 1981 will be the first full year of the Fund's operations. More than 2,500 applications are anticipated for self-help advances. The Fund will make 500 advances and service 1,050 accounts. These accounts will include a high proportion of new cooperatives, cooperatives serving low-income persons, and cooperatives entering new fields or new markets. As a result, servicing the Fund's accounts will require more person-days per account than the Bank's loans.

The Office's technical assistance program will aid cooperatives in a variety of ways. The major portion of its resources will be devoted to training and consulting. Areas of highest demand for training include: training members of cooperatives to serve effectively on boards of directors; training general managers in

such specialties as housing, retailing, and health care management; and developing member education programs. On-site consulting will supplement these efforts, particularly for cooperatives that are experiencing severe operating problems. In all cases, the emphasis will be on training for self-help.

National Consumer Cooperative Bank

2.D. Salaries and Expenses of the Bank and the Office of Self-Help Development and Technical Assistance

NATIONAL CONSUMER COOPERATIVE BANK

Federal Funds

General and special funds:

SALARIES AND EXPENSES

For necessary administrative expenses and technical assistance of the National Consumer Cooperative Bank, including the office of Self-Help Development and Technical Assistance, as authorized by sections 112 and 209 of the National Consumer Cooperative Bank Act (12 U.S.C. 3022 and 3049), [$7,950,000] *$10,450,000: Provided*, That none of these funds shall be used to retire any of the indebtedness of the National Consumer Cooperative Bank. *(12 U.S.C. 3022 and 3049; Department of Housing, and Urban Development—Independent Agencies Appropriation Act, 1980.)*

National Consumer Cooperative Bank

Salaries and Expenses

Program and Financing (in thousands of dollars)

Identification Code 28-0200-0-1-376		1979 Actual	1980 Estimate	1981 Estimate
Program by activities				
10.00	Administration of the bank (costs - obligations)	170	7,950	12,450
Financing				
22.40	Unobligated balance transferred from other accounts	...	...	-2,000
25.00	Unobligated balance lapsing	1,330	...	...
40.00	Budget authority (appropriation)	1,500	7,950	10,450
Relation of obligations to outlays				
71.00	Obligations incurred, net	170	7,950	12,450
72.40	Obligated balance, start of year	...	170	339
74.40	Obligated balance, end of year	-170	-339	-485
90.00	Outlays	...	7,781	12,304

National Consumer Cooperative Bank

Salaries and Expenses

Object Classification (in thousands of dollars)

Identification code 28-0200-0-1-376		1979 Actual	1980 Estimate	1981 Estimate
Personnel Compensation				
11.1	Permanent positions	2	92	105
11.8	Special personal services payments	4[1]	2,590	4,513
	Total personnel compensation	6[1]	2,682	4,618
12.1	Personnel benefits: civilian	...	734	1,307
21.0	Travel and transportation of persons	14[1]	756	968
22.0	Transportation of things	...	30	4
23.1	Standard level user charges	...	279	406
23.2	Communications, utilities, and other rent	3[1]	283	489
24.0	Printing and reproduction	8	39	44
25.0	Other services	73[1]	2,598	4,474
26.0	Supplies and materials	12[1]	50	55
31.1	Equipment	54	508	85
99.0	Total obligations	170[2]	7,950	12,450

[1]These amounts differ from the amounts shown in the President's Appendix to the Budget. The above amounts represent the correct obligations by classification for FY 1979. These corrected figures do not affect the total obligations for FY 1979 ($170,000).

[2]Total obligations for FY 1979 are shown in the President's Appendix to the Budget as $107 thousand. The correct total is $170 thousand.

National Consumer Cooperative Bank

Salaries and Expenses

Personnel Summary

Identification code 28-0200-0-1-376	1979 Actual	1980 Estimate	1981 Estimate
Total number of permanent positions	1	2	2
Full-time non-federal positions	...	164	219
Total compensable work-years	...	103	194
Average salary	$52,750	$26,000	$26,000

National Consumer Cooperative Bank

Salaries and Expenses

Detail of Permanent Positions

	1979 Actual	1980 Estimate	1981 Estimate
Grade			
Executive Level IV	1	2	2
Salary Ranges			
Full-time, non-federal positions:			
$50,000 and over	...	...	...
$40,000 to $49,999	...	12	16
$30,000 to $39,999	...	22	28
$25,000 to $29,999	...	37	40
$20,000 to $24,999	...	30	35
$18,000 to $19,999	...	15	20
$16,000 to $17,999	...	15	20
$14,000 to $15,999	...	15	20
$13,000 to $13,999	...	10	15
$12,000 to $12,999	...	4	13
$11,000 to $11,999	...	4	12
Total	1	166	221

National Consumer Cooperative Bank

2.D. Salaries and Expenses of the Bank and the Office of Self-Help Development and Technical Assistance

$10,450,000 is requested for FY 1981 to implement and administer the Bank's programs under Title I and Title II of P.L. 95-351. This amount, supplemented by an anticipated $2,000,000 from interest income, will cover the administrative costs of the Bank and the Office of Self-Help Development and Technical Assistance.

The operation of these programs includes such costs as establishing and maintaining a staff of loan officers and specialists to administer appraisals of the real property, collateral arrangements, collections and re-negotiations, and record keeping. The operation of each program would also include a pro rata share of support services. These include policy-making by the Board of Directors, the mandatory appeals process, legal counselling and contracts work, financial planning and budgeting, accounting and cash management, contract approval and monitoring, and sundry other administrative services. For a description of the object classifications used for Salaries and Expenses, see Appendix F.

The President of the Bank assumed duties in February 1980, and permanent staffing and training of employees will continue

throughout the year. The Bank and Office anticipate a total of 166 employees by the end of FY 1980. Additional employees will be hired in FY 1981 as the need arises. It is estimated that a total of 221 employees will be employed at the Bank and Office by the end of FY 1981.

Initially, the Bank will deal with cooperatives through field representatives based in Washington. This appropriation includes administrative expenses for two regional offices to improve the Bank's capability to offer services quickly and efficiently to regional areas.

The Bank will also conduct research, information-gathering, and publishing activity. Research work in FY 1980 includes compiling and evaluating existing studies of cooperatives and developing a data base for future work. This activity will continue in FY 1981 and future years. The Bank has already received and responded to several thousand requests for information. It will also compile and disseminate information on alternative sources of assistance for cooperatives. Finally, it will edit and publish materials on behalf of the Office as well as the Bank.

National Consumer Cooperative Bank

SELECTED WORKLOAD DATA
(Dollars in thousands)

Activities and Principal Workload Factors	1979 Actual	1980 Budget	1981 Estimate	% of Increase over 1980
Applications	---	500	1,650	230
Credit-worthy Applications	---	210	625	198
Loan Closings	---	210	625	198
New Loan Volume*	---	$ 41,341	$125,770	204
Loan Officer Work-Years	---	11.4	18.3	61
Loan Service Officer Work-Years	---	1.2	3.5	192
Loans/Loan Officer	---	18.4	34.2	86
Volume/Loan Officer	---	$3,626	$6,873	90

* Loan volume is financed by capitalization and additional income from non-appropriated sources which include interest on loans, repayment of loan principal, and sale of Class B stock.

Loan Projections
Fiscal Years 1980 and 1981

Projected volume of loan activity for FY 1980 (six months) and FY 1981 (12 months) is as follows:

	FY 1980	FY 1981
Applications received	500	1,650
Applications approved	210	625
Loans approved	$41,341,000	$125,770,000
Loan funds advanced	$22,000,000	$100,000,000*

*Includes $80,659,000 in loans closed in FY 1981 and $19,341,000 in loans closed in FY 1980.

The projections by type of loan (housing, food, consumer services, and producer) are shown in Appendix C.

In the above table, loan advances are 53% and 64%, respectively, of the loans approved in FY 1980 and FY 1981. A series of verifications by those experienced in financing similar operations suggests that the length of time after an initial loan is approved until it is fully advanced varies from two months for some consumer cooperative loans to over 18 months for new housing construction. These projections have been applied to an even level of monthly loan approvals, and the outlays (amounts of loans advanced) at the end of the year have been calculated accordingly.

Loan Volume Summary -- Title I
Fiscal Year 1980

Type of co-op	Number of loans	Obligations (in thousands)	Outlays (in thousands)
Housing	49	$24,805	$15,215
Food and consumer	104	12,027	4,935
Consumer services	26	2,974	1,220
Producer	31	1,535	630
Total	210	$41,341	$22,000

Note: This table reflects the Bank's projected activity for six months.

Loan Volume Summary -- Title I
Fiscal Year 1981

Type of co-op	Number of loans	Obligations	Outlays
		(in thousands)	
Housing	49	$ 26,000	$ 15,950
Food and consumer	372	72,570	61,133
Consumer services	93	18,000	15,113
Producer	111	9,200	7,804
Total	625	$125,770	$100,000

National Consumer Cooperative Bank Appendix C (continued)

Loan Volume Summary -- Title II
Fiscal Year 1980

Type of co-op	Number of loans	Obligations (in thousands)	Outlays (in thousands)
Housing	15	$ 1,235	$ 665
Food and consumer	55	4,565	2,500
Consumer services	60	4,940	2,700
Producer	20	1,610	889
Total	150	$12,350	$6,754

Note: This table reflects the Bank's projected activity for six months.

National Consumer Cooperative Bank Appendix C (continued)

Loan Volume Summary -- Title II
Fiscal Year 1981

Type of co-op	Number of loans	Obligations	Outlays
		(in thousands)	
Housing	116	$ 5,550	$ 5,500
Food and consumer	250	27,242	27,000
Consumer services	60	18,463	18,299
Producer	74	4,870	4,827
Total	500	$56,125	$55,626

Loan Processing

The Bank's lending operation provides for credit and lending officers and analysts totaling 18 persons and loan servicing staff of three persons, plus secretaries. In consultation with the Banks for Cooperatives (agricultural) and persons familiar with co-op housing loans, a determination has been made of the time needed to perform the functions of screening, analysis, supplemental information gathering, consultation with supervisory credit officers, negotiations between the Bank and the Self-Help Fund on joint loans (estimated to be about 30% of total loans), loan committee review, and processing. Based on these consultations, the Bank estimates that it will require approximately 23 hours per application received, 22.5 hours additional for each loan approved, and approximately 24 hours additional processing time for each housing loan approved. Loan servicing would require eight additional hours per approved loan per year.

Utilizing these estimates, the 1980 projections for loan applications and approvals are as follows:

Subject	Number	Hours per function	Total hours
Applications received	500	23	11,500
Applications approved	210	22.5	4,725
Housing loans approved	49	24	1,176
Joint loans with Self-Help Fund	70	3	210
Subtotal			17,611
Loan servicing	210	8	1,680
Total			19,291

FY 1981 estimates are as follows:

Subject	Number	Hours per function	Total hours
Applications received	1,650	23	37,950
Applications approved	625	22.5	14,062
Housing loans approved	49	24	1,176
Joint loans with Self-Help Fund	185	3	555
Subtotal			53,743
Loan servicing	835	8	6,680
Total			60,423

The initial staffing projections for the first six months of lending operation (April to September, 1980) are as follows:

Position	Number	Hours per person	Total hours
Senior loan officers	4	944	3,776
Credit analysts	14	944	13,216
Subtotal			16,992
Loan servicing staff	3	944	2,382
Total			19,824

The staffing projections for FY 1981 are as follows:

Position	Number	Hours per person	Total hours
Senior loan officers	8	1,888	15,104
Credit analysts	22	1,888	41,536
Subtotal			56,640
Loan servicing staff	5	1,888	9,440
Total			66,080

The above figures indicate that at the anticipated levels of staffing, the Bank will be capable of performing the work necessary, as projected by the workload data.

Bank Fund and Self-Help Fund
Comparison of Capital Investment and Loans
(Dollars in thousands)

Bank Fund

	Capital Investment	Loans		
		Obligations, net		Outlays
		Number	Amount	
FY 1979	$1,000	-	-	-
FY 1980	49,050	210	$ 37,500[2/]	$ 22,000
FY 1981	116,000	625	117,003[2/]	100,000
Total	$ 116,050	835	$ 154,503	$ 122,000

Self-Help Fund

	Capital Investment	Loans		
		Obligations, net		Outlays
		Number	Amount	
FY 1979	$ 1,000	-	-	-
FY 1980	17,000	150	$ 11,500[3/]	$ 6,754
FY 1981	48,000	578	54,000[3/]	55,626
Total	$ 66,000	628	$ 65,000	$ 62,380

1/ Congressional appropriations (in FY 1981, requested appropriation) to the Department of the Treasury for purchase of class A stock.

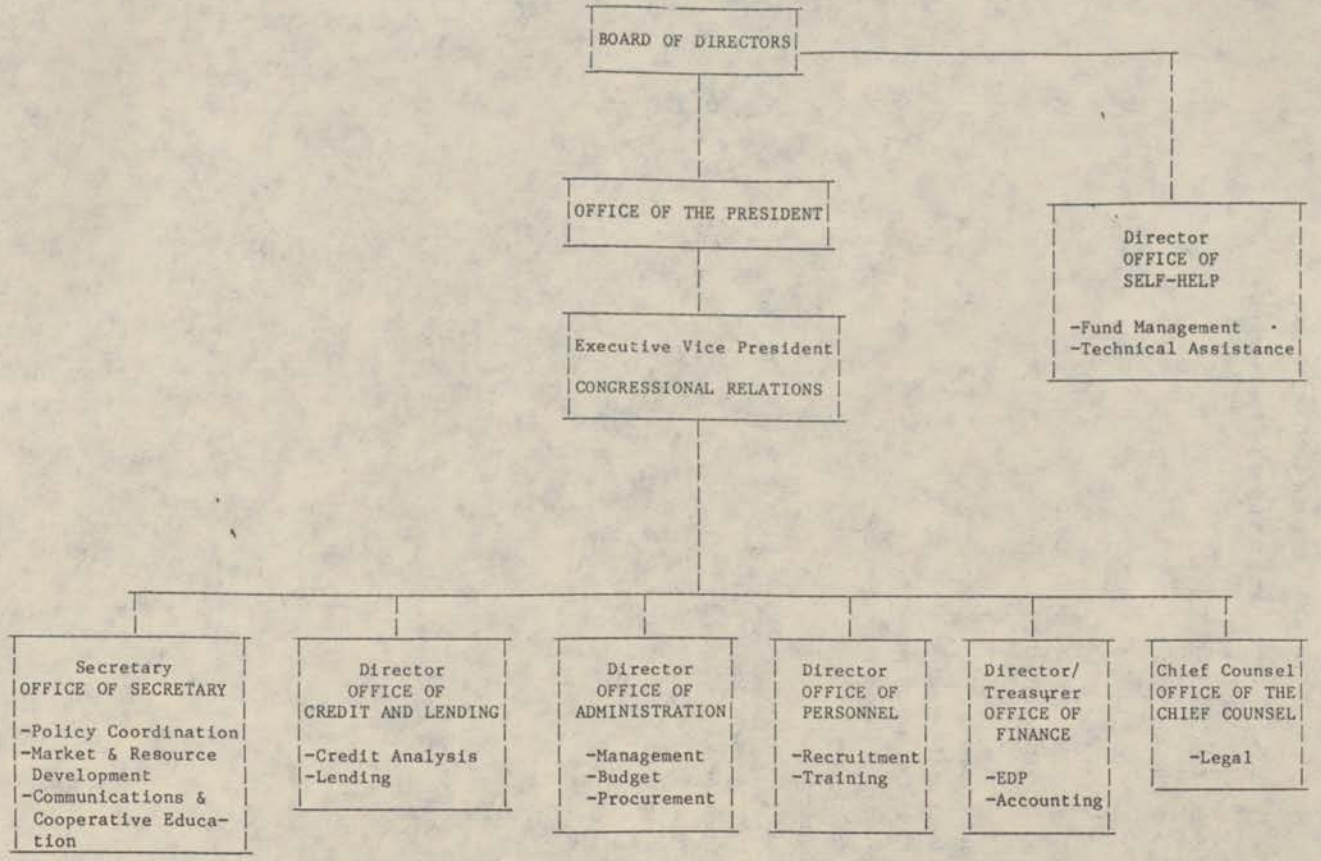
2/ Excludes obligations which are expected to be financed through non-Federal sources in the amounts of $ 3,841,000 in FY 1980 and $ 8,767,000 in FY 1981.

3/ Excludes obligations of $ 850,000 in FY 1980 and $ 2,125,000 in FY 1981 which are expected to be financed through collections of interest on loans.

Explanation of Object Classifications:
Salaries and Expenses, FY 1981

Object Classification Code	Title	Description
11.1	Permanent positions	$105,000 represents the annual salary costs for two permanent full-time federal employees--the President of the Bank and the Director of the Office of Self-Help Development and Technical Assistance.
11.8	Special personal service payments	$4,513,000 includes the salaries of all non-federal employees, both full-time and part-time, as well as compensation for six public Directors. Full-time non-federal employment is anticipated to increase from 164 to 219 during FY 1981.
12.1	Personnel benefits	$1,307,000 includes contributions for health benefits, life insurance, disability insurance, workers' compensation, FICA, unemployment insurance, and annual leave. The Bank's management has decided that in order to better control the Bank's costs, the expense incurred for annual leave (which includes sick leave) is to be accounted for as an employee benefit rather than as a part of regular salaries expense.
21.0	Travel and transportation of persons	$968,000 provides for the travel expenses of the Bank's Directors, its employees, and necessary outside advisors engaged in delivery of the Bank's services.
22.0	Transportation of things	$4,000 provides for the expenses of moving the personal effects of the Bank's employees, as well as any necessary moving expenses of the Bank.

Object Classification Code	Title	Description
23.1	Standard level user charges	$406,000 represents the amount reimbursable to GSA for office space. Anticipated cost for 36,500 square feet is $11.11 per square foot.
23.2	Communications, utilities, and other rent	$489,000 includes the cost of communications (telephone and mail charges), utilities, and rental expenses for equipment (photocopiers, computer terminals, word processors), and two regional offices (1,000 square feet at $12 per square foot).
24.0	Printing and reproduction	$44,000 provides for photocopying expenses, printing and reproduction of office forms and of the Bank's manuals and informational materials.
25.0	Other services	$4,474,000 includes the expenses for computer services, the fees of outside advisors, the costs of delivering technical assistance, and miscellaneous services such as security guards, advertising, and messenger services.
26.0	Supplies and materials	$55,000 consists of the necessary expenses to provide the stationery and other office supplies for the Bank's staff, and subscriptions and publications necessary for the Bank's operations.
31.0	Equipment	$85,000 represents the cost of office furniture and equipment (desks, chairs, file cabinets, typewriters, calculators, etc.) necessary to support the additional staff to be employed in FY 1981.


BOARD OF DIRECTORS
OFFICE OF THE PRESIDENT
Director
OFFICE OF
SELF-HELP
-Fund Management
-Technical Assistance
Executive Vice President
CONGRESSIONAL RELATIONS
Secretary
OFFICE OF SECRETARY
-Policy Coordination
-Market & Resource Development
-Communications & Cooperative Education
Director
OFFICE OF
CREDIT AND LENDING
-Credit Analysis
-Lending
Director
OFFICE OF
ADMINISTRATION
-Management
-Budget
-Procurement
Director
OFFICE OF
PERSONNEL
-Recruitment
-Training
Director/
Treasurer
OFFICE OF
FINANCE
-EDP
-Accounting
Chief Counsel
OFFICE OF THE
CHIEF COUNSEL
-Legal

APPENDIX G

APPENDIX H

NATIONAL CONSUMER COOPERATIVE BANK

Projected Loan Demand - Loan Closings

Industry/Activity Class	FY 1980	FY 1981
food and other retailing	104	372
housing	49	49
agricultural producers	5	18
energy production and distribution	5	18
handicraft producers	18	64
day care	6	21
auto repair	3	11
industrial producers	3	11
rural transportation	1	4
electronics and appliance repair	1	4
health care	2	7
optical	2	7
cable TV	1	3
other consumer services	7	25
other producers	3	11
TOTAL	210	625

DEPARTMENT OF THE TREASURY

NATIONAL CONSUMER COOPERATIVE BANK

FISCAL YEAR 1981

BUDGET REQUEST

National Consumer Cooperative Bank, Investment in National Consumer Cooperative Bank

ANALYSIS OF AUTHORIZED LEVEL FOR FISCAL YEAR 1980
(Dollars in thousands)

	Permanent Positions	Average Positions	Amount
1980 Appropriations Enacted by Congress	---	---	$49,050
Proposed Authorized Level for 1980	---	---	49,050
Estimates, FY 1981	---	---	$116,000

DIGEST OF BUDGET ESTIMATES FOR FISCAL YEAR 1981
(Dollars in thousands)

	Appropriation FY 1979	Authorized Level FY 1980	Budget Estimate FY 1981		Increase (+) or Decrease (-) For FY 1981	
	Amount	Amount	Amount	Total Changes Amount	Program Changes	Other Changes
1. Purchase of Class A stock by Treasury (Bank Capitalization)	$1,000	$49,050	$116,000	$66,950	$66,950*	---
Total Appropriation, authorized level and budget estimate	$1,000	$49,050	$116,000	$66,950	$66,950	---

*NOTE: Increase due to full-year operations in FY 1981, compared to partial year operations in FY 1980. The increment in FY 1981 represents the continuing implementation of the five-year authorized capitalization contained in PL 95-351.

SUMMARY JUSTIFICATION OF FY 1981 BUDGET ESTIMATES

The funds requested are for the capitalization of the National Consumer Cooperative Bank. The Bank is a mixed ownership government corporation established by PL 95-351 to make credit-worthy loans at market rates to cooperatives in a variety of fields. The Bank is required to use its best efforts to insure that cooperatives serving low-income persons receive at least 35% of its loans. The Congress provided for initial capitalization of the Bank through a purchase of Class A stock by the United States not to exceed $300,000,000.

In PL 95-351 Congress stated that "user-owned cooperatives are a proven method of broadening ownership and control of the economic organizations, increasing the number of market participants, narrowing price spreads (between producers and ultimate consumers), raising the quality of goods and services available to their (cooperatives') membership, and building bridges (between producers and consumers), . . ." At the same time, Congress found that "consumer and other types of self-help cooperatives have been hampered in their formation and growth by lack of access to . . . credit facilities and lack of technical assistance." The requested appropriations will allow the Bank to continue satisfying the needs identified by Congress.

SUMMARY OF REQUEST

$116,000,000 is requested for purchase of Class A (Preferred) stock by the United States. Combined with the amounts appropriated for this purpose in FY 1979 ($1,000,000) and FY 1980 ($49,050,000), the request for FY 1981 would bring the total amount to $166,050,000 or approximately 55% of the amount authorized by PL 95-351 for the period 1979-1983.

We estimate that in FY 1981 the Bank will receive approximately 1,650 applications for loans, will make approximately 625 loans, and will service approximately 835 loans consisting of 210 loans made in FY 1980 and 625 loans to be made in FY 1981.

FY 1981 represents the first full year of operation of the Bank. The additional capitalization supplied to the Bank as a result of this appropriation will be sufficient to assure that all loan applications received by the Bank which meet its credit requirements will be approved. No significant effort to build demand for Bank loans will be necessary since available capital will be only adequate to meet unsolicited demand. Yet this level of funding will assure that there will be no unreasonable delay in financing the credit-worthy cooperatives that need the Bank's services.

Proceeds from the sale of Class B and Class C stock purchased by cooperatives can be utilized to redeem Class A stock which will ultimately result in full ownership of the Bank by cooperatives.

The Bank will make credit-worthy loans at market rates to eligible consumer and producer cooperatives. Loans will be made for a variety

of consumer-owned endeavors, including housing, food and other retailing, health care, day care, small scale energy production and distribution, and auto repair; and for a number of different types of producer-owned activities.

The Bank's lending activity will benefit both cooperative members and consumers in general. As noted in the reports of the Senate Committee on Banking, Housing and Urban Affairs and the House Committee on Banking, Finance and Urban Affairs, consumer cooperatives can result in significant savings to their members. Even in cases where cooperative members receive no cash savings, they often benefit from higher quality goods and services, from more detailed and objective consumer information, and from having a voice in the business' policy-making process.

Consumers as a whole gain from the anti-inflationary effects of a strong cooperative presence in retail markets. When a cooperative charges lower prices for products and services of comparable quality, it makes for a more competitive market place. Moreover, numerous consumer protection gains pioneered by cooperatives, such as nutritional labeling of food products, have come to be adopted by the industry or by government regulatory agencies.

SELECTED WORKLOAD DATA
(Dollars in thousands)

Activities and Principal Workload Factors	1979 Actual	1980 Budget	1981 Estimate	% of Increase over 1980
Applications	---	500	1,650	230
Preliminary Analyses	---	500	1,650	230
Full Credit Analyses	---	500	1,650	230
Credit-worthy Applications	---	210	625	198
Loan Closings	---	210	625	198
New Loan Volume*	---	$41,341	$125,770	204
Loan Officer Work-Years	---	11.4	18.3	61
Loan Service Officer Work-Years	---	1.2	3.5	192
Loans/Loan Officer	---	18.4	34.2	86
Volume/Loan Officer	---	$3,626	$6,873	90

* Loan volume is financed by capitalization and additional income from non-appropriated sources which include interest on loans, repayment of loan principal, and sale of Class B stock.

THURSDAY, FEBRUARY 28, 1980.

FEDERAL HOME LOAN BANK BOARD

WITNESSES

JAY JANIS, CHAIRMAN OF THE BOARD
ANDREW A. DiPRETE, BOARD MEMBER
RITA FAIR, EXECUTIVE ASSISTANT TO THE CHAIRMAN
MILAN C. MISKOVSKY, GENERAL COUNSEL
L. DAVID TAYLOR, DIRECTOR, OFFICE OF EXAMINATIONS AND SUPERVISION
DALE RIORDAN, DIRECTOR, OFFICE OF POLICY AND ECONOMIC RESEARCH
WILLIAM R. MALONI, DIRECTOR, CONGRESSIONAL RELATIONS OFFICE
RICHARD L. PETROCCI, DIRECTOR, ADMINISTRATION OFFICE
DAVID A. VAUGHAN, JR., BUDGET OFFICER

	1979 actual	1980 estimates		1981 estimate	Change from 1980 current
		Budget	Current		
Administrative:					
Board and staff offices	$16,347,525	$18,984,000	$18,359,000	$21,030,000	+$2,671,000
Supplemental (pay)			765,000		−765,000
FSLIC	744,686	33,566,000	33,466,000	1,115,000	−32,351,000
Supplemental (pay)			1,270,000		−1,270,000
Total	17,092,211	52,550,000	53,860,000	22,145,000	−31,715,000
Nonadministrative:					
Office of Examinations and Supervision	28,928,022			34,105,000	+34,105,000
Extimated savings	3,557,767				
Total	49,578,000	52,550,000	53,860,000	56,250,000	+2,390,000
Supplemental (pay)			(2,035,000)		(−2,035,000)
Administrative:					
Board and staff offices:					
Positions	495	462	462	495	+33
Work years	458	456	456	489	+33
FSLIC:					
Positions	20	972	972	20	−952
Work years	17	967	963	19	−944
Nonadministrative:					
Office of Examinations and Supervision:					
Positions	919			919	+919
Work years	899			911	+911
Total positions	1,434	1,434	1,434	1,434	0
Total work years	1,374	1,423	1,419	1,419	0

Mr. BOLAND. The Committee will come to order.

We are delighted to have with us today the Federal Home Loan Bank Board.

You are looking for $56,250,000. That is an increase of $2,390,000 over the current budget. Is that correct?

Mr. VAUGHAN. Yes.

Mr. BOLAND. I am delighted to welcome the new Chairman of the Board, Jay Janis, who of course is no stranger to us. He has been well and favorably known throughout Congress. I don't know of anyone who in his appearances before this Committee, and other committees before which he appeared when he was the Under Secretary for the Department of Housing and Urban Development, has enjoyed the confidence of the members such as he did.

We always enjoy having him before this Subcommittee. We always gave him what he wanted, and that is the reason why he insists that this budget be kept within the purview of this Committee.

We know Mr. DiPrete, of course. Mr. DiPrete has had a long career as a distinguished lawyer, and before that he was Rhode Island's principal regulator of the State-chartered financial institutions. We are delighted to have you with us.

Mr. DIPRETE. Thank you.

Mr. BOLAND. You probably understand that the Federal Home Loan Bank Board would love to get out from under the supervision of any of the committees of the Congress. They always make a point that you pay your own way, all the money is yours, and why should you be supervised. You get those arguments all the time but you don't agree with them.

Mr. JANIS. I am glad you raised that issue, Mr. Chairman.

Mr. BOLAND. What are you going to say?

Mr. JANIS. I think I would support you on it.

Mr. DIPRETE. So would I.

Mr. JANIS. I always support you when I can.

Mr. BOLAND. You know why, because if you don't get all the money you request you can blame the problems on us. That is a good way to pass it along. Anyway, we are delighted to have you.

Mr. Janis, as I say, has been a favorite of mine and has always been a favorite of this Subcommittee. I understand that John Dalton was confirmed by the Senate to fill the remaining vacancy on the Board. When was he confirmed?

Mr. JANIS. Last week, sir.

Mr. BOLAND. Where does he come from, incidentally?

Mr. JANIS. He is a Texan.

Mr. BOLAND. I would imagine he has been in the finance business.

Mr. JANIS. Yes. You will remember, Mr. Chairman, that he was the president of Ginnie Mae, the Government National Mortgage Association.

Mr. BOLAND. Oh, yes, of course.

Mr. JANIS. I believe he appeared before this Committee when he worked at HUD. He came at the beginning of the Administration with Pat Harris and myself, and we enjoyed a very good relationship there. Prior to that he was with Goldman, Sachs, large investment bankers, so he has had an excellent background in finance as well as in government.

Mr. BOLAND. We are delighted to know that he has joined you. I am sure he will bring some expertise to the Board. I understand

there has been not a recommendation but some suggestion that the membership of the board increase from 3 to 5. Has that suggestion been made by someone within the industry?

Mr. JANIS. I have heard that from certain people within the industry.

Mr. BOLAND. What would be your feeling on that?

Mr. JANIS. I have certain ambivalence on the question.

Mr. BOLAND. Why don't you leave it at that. I think all of us would be ambivalent on it too. I don't know whether or not an increase in the size of a commission helps them very much. Sometimes it adds to the problems of the commission. Anyway, Mr. Chairman, you and Mr. DiPrete come to the Bank Board during a very turbulent and rather exciting time in the savings and loan industry. Regulation Q, which permits thrifts a quarter of a point interest advantage over banks, will probably be phased out during the next decade. Is that true?

Mr. JANIS. Yes, I think it will be.

Mr. BOLAND. Variable rate mortgages are now permitted nationwide, and certain analysts have said that the long-time fixed-rate mortgages will become a thing of the past. You have renegotiable mortgages. You seem to place some faith in these in your statement. The negotiable order of withdraw accounts and savings and loan interstate branching activity are other issues being addressed. I am sure you will comment on many of these issues in your prepared statement and also when we get into the justifications.

I have read your statement, Mr. Chairman, and I think it is a fine statement. I think it highlights the problems that you have, and suggests some of the remedies which may assist the S&L's during what I think and what you believe and I think probably everyone else believes is going to be a difficult year. Why don't you go ahead with your statement.

Mr. JANIS. Mr. Chairman, thank you very much for your kind remarks. I would like to summarize here, and place my full statement in the record.

Members of the Subcommittee, you have already met new board member Andrew DiPrete. I would like to submit his biographical information for the record.

Mr. BOLAND. Fine. We will place the biographical sketch of Mr. DiPrete in the record at this point.

[The biographical sketch follows:]

ANDREW A. DIPRETE

Mr. DiPrete was nominated on June 1, 1979 as a Board Member of the Bank Board by President Jimmy Carter for a term expiring on June 30, 1979, and renominated for a full 4-year term expiring June 30, 1983. He was confirmed by the Senate on June 27, 1979, and sworn in on June 29, 1979, by Judge Thomas J. Paolino, a retired justice of the Rhode Island Supreme Court.

Before coming to the Bank Board, Mr. DiPrete has been a partner in the law firm of Tillinghast, Collins and Graham in Providence, Rhode Island, since 1965.

From January, 1963 until November, 1965 he served as Director of the Department of Business Regulation for the State of Rhode Island under the then Governor, now United States Senator, John H. Chafee. In that capacity, he served on the State's Board of Bank Incorporation which charters and regulates State-chartered financial institutions.

Following completion of law school in 1953, Mr. DiPrete practiced law in Providence. From 1961-1965, he was vice president, secretary, and assistant treasurer of

Smith Estates, Inc., and Incorporated Estates, related closely held real estate investment firms.

In 1962 and then again from 1966 to 1974, Mr. DiPrete was affiliated with Old Stone Savings Bank, first as a trustee, then as a trustee and general counsel. He represented Old Stone when it converted from a mutual savings bank to a stockholder-owned bank holding company and commercial bank, and served as a director of both institutions. He was a member of Old Stone Bank's Trust Committee.

Mr. DiPrete received a B.A. degree in 1950 from Harvard College. In 1953, he received an LL.B. degree from Yale University Law School.

Mr. DiPrete is a member of the Rhode Island Bar Association where he was a member on the Committee of Federal and State Legislation. He is also a member of the American Bar Association and served on the Bar Association's Subcommittee on Taxation of Financial Institutions. He also served on the board of directors of Lawson-Hemphill, Inc., the Narragansett Electric Company, and Rhode Island Legal Services; and as a trustee of Butler Hospital (of which he was president from 1967 to 1972).

Mr. DiPrete was born December 6, 1929, in Cranston, Rhode Island. His wife, Carol, is a native of Oklahoma and has worked as a college librarian. He is the father of six children and has one step-daughter.

General Statement

Mr. Janis. I am pleased to appear before you today to testify on the Federal Home Loan Bank Board's fiscal year 1981 budget. Our 1981 budget request of $56,250,000 represents an overall net increase of only 4.4 percent, or $2,390,000, over the current 1980 estimate of $53,860,000. The latter includes our supplemental request to cover the costs of the October 1979 pay increase during fiscal year 1980.

Before discussing specific budgetary issues, I would like to discuss briefly the state of the thrift industry and the various actions the Bank Board has taken over the past year to strengthen the industry and to support the flow of adequate funds to finance the Nation's housing needs.

INDUSTRY AND HOUSING STRENGTH

1979 was a difficult year for the thrift industry. The housing market was supported by the existence of an "investment psychology," the favorable demographics of the baby-boom generation coming of home-buying age, and the formation of increasing numbers of non-traditional households. Thrifts were able to better insulate their savings flows from rising interest rates through use of new savings instruments such as the 6-month money market certificate (MMC) and jumbo CDs. S&Ls, however, originated over $7 billion less in mortgage loans in 1979 compared to 1978 and savings flows declined by 12 percent. In addition, housing starts decreased by 13 percent over the previous year.

The Federal Reserve Board's abrupt tightening of monetary policy in October 1979 caused short-term interest rates to increase rapidly, rising briefly to 14 percent before the end of the year, severely jolting the housing market. Although rates had begun to decrease slightly by the first of the year, the Feds most recent increase in the discount rate has caused rates to begin to inch back up to last fall's highs. Rates are now as high as 14½ percent in California.

ACTIONS TAKEN TO MODERATE TIGHT MONEY IMPACT ON HOUSING

These are mortgage rates. We realize that inflation is the most important problem facing both the country and the savings industry and that the need to curb it has made restrictive policies inevitable. Since it appears that some reasonable decline in housing and lending activity in 1980 will be a necessary casualty of our anti-inflation efforts, the Bank Board has taken the following steps to moderate the disproportionately severe impact on housing that generally characterizes tight money periods:

Over the last year, we have strengthened the ability of thrifts to finance housing by expanding the number of savings certificates whose yields are tied to those of the open market, first with the MMC and most recently with the 2½-year floating rate certificate.

We recently proposed to liberalize and simplify the regulatory limitations on outside borrowing [i.e., borrowing from sources other than a Federal Home Loan Bank or State-chartered central reserve institution] by FSLIC-insured institutions.

We authorized associations to tap non-traditional sources of funds such as Eurodollar certificates.

We reduced liquidity requirements, potentially freeing $2.3 billion in funds for lending.

We authorized Federals to make, purchase and participate in variable-rate mortgages, and have proposed to authorize them to make, purchase, and participate in renegotiable rate mortgages (RRMs), which when finally implemented should offer thrifts a way to partially offset the decline in earnings they have experienced over the past year.

We have supported various legislative proposals which would strengthen the thrift industry and the housing sector such as phasing out rate control, restructuring the industry through the grant of additional asset and liability powers, and reactivating the Brooke-Cranston GNMA tandem emergency home purchase assistance program.

And, two weeks ago, in order to improve the capital adequacy position of thrifts, we adopted a proposal to revise our reserve requirements.

I would now like to focus on several items in our fiscal year 1981 budget submission.

OFFICE OF EXAMINATIONS AND SUPERVISION

Last year my predecessor came before you with a proposal to divide the functions of what was then our Office of Examinations and Supervision (OES) between our Office of District Banks (ODB) and the FSLIC to achieve what he hoped would be a more efficient and effective operation. Prior to my assuming the Board's chairmanship, Acting Chairman Anita Miller and others indicated to me that there were problems with this revised organization. Soon after I was sworn in, I appointed a task force to evaluate the reorganization. They unanimously recommended establishing the Office of Examinations and Supervision and I concurred.

DIVISION OF CONSUMER AFFAIRS/CIVIL RIGHTS

Within the reconstituted OES, we have created a new division of Consumer Affairs/Civil Rights which will carry out the Bank Board's consumer and civil rights responsibilities. As you are aware, the Administration is strengthening and upgrading consumer affairs offices within Federal agencies. In addition, the Bank Board was required by Public Law 96-37 to establish a consumer affairs division to administer its new powers under that Act. This new unit centralizes those responsibilities within one office.

EXAMINATION COSTS

As a result of new legislation and regulations, examination procedures concerning various civil rights and consumer requirements have greatly expanded over the past five years. Despite its increased responsibilities, the Bank Board has not significantly increased its examination staff. Rather, we have worked to improve procedures through better resource utilization, the use of data processing, and revised examination procedures which have considerably reduced examination time and cost.

However, no matter how well we have revised our procedures and made better use of our resources, the fact remains that consumer and civil rights responsibilities have significantly increased our examination time. OES is currently developing a work measurement system to produce quantitative evidence of the Bank Board's future needs for additional examination personnel.

COOPERATION WITH STATE REGULATORS

During the past year, considerable progress has been made in our program to train State examiners as a part of a cooperative program for the examination of State-chartered, FSLIC-insured institutions. During 1979, State examiners participated in our CRA and nondiscrimination training program, our residential appraisal course, our new examiners training school, and in our career development training program. We spent $383,499 on this program in fiscal year 1979 and have allocated $400,000 for it in each of fiscal years 1980 and 1981.

FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL

We have also been working with the Federal Financial Institutions Examination Council which was established by Public Law 95-630. The Bank Board is actively participating in the Council's programs, including its various task forces. Under the Act that created it, we are required to pay 20 percent of the Council's operating expenses, estimated to be $70,000 for fiscal year 1981.

BANK BOARD BUILDING

This past year the court in the Globe Books case concluded that by law we had only short-term or temporary authority to lease the commercial space in our headquarters building and that only GSA could make long-term commitments for the space. On September 14, 1979, GSA delegated to the Chairman of the Bank Board its

authority to lease space in this building and instructed us to review all prior agreements to insure that they met all legal requirements.

This process is currently underway. In the course of this review, I have also taken a hard look at our commercial leasing activities and have become increasingly aware of our difficulties in acting as the operator of a commercial retail center. As a result, I have suggested that we begin discussions about transferring our commercial leasing activities to GSA which has a responsibility for performing these matters in most other Federal buildings.

ADMINISTRATIVE AND NONADMINISTRATIVE EXPENSE LIMITATIONS

Finally, I will not discuss our other administrative and nonadministratitve expenses which are subject to limitation in much detail since that is contained in the budget justification we have previously submitted to you. I would like to say that our request for fiscal year 1981 of $56,250,000 represents a net increase of only 4.4 percent over the revised estimate for fiscal year 1980—which, from a percentage standpoint is considerably below the inflation rate.

This net increase is primarily the result of anticipated general price increases in areas over which we have little control and basically maintains our level of operations at that planned for fiscal year 1980. We believe that these spending requests are reasonable and necessary if we are to carry out our statutory mission to ensure the safety and soundness of the thrift industry and assist it in financing the nation's housing needs.

I would be pleased to answer any questions the Committee may have.

[The statement follows:]

Statement Summary

Mr. Chairman, Members of the Subcommittee, I am pleased to appear before you today to testify on the Federal Home Loan Bank Board's fiscal year 1981 budget. Our 1981 budget request of $56,250,000 represents an overall net increase of only 4.4%, or $2,390,000, over the current 1980 estimate of $53,860,000. The latter includes our supplemental request to cover the costs of the October 1979 pay increase during fiscal year 1980.

Before discussing specific budgetary issues, though, I would like to discuss briefly the state of the thrift industry and the various actions the Bank Board has taken over the past year to strengthen the industry and to support the flow of adequate funds to finance the nation's housing needs.

Industry and Housing Strength

1979 was a very difficult year for the thrift industry. Nevertheless, despite high levels of inflation, a weak dollar, and sharply rising interest rates, mortgage lending and housing starts remained surprisingly strong compared to past periods of tight credit although by yearend both were declining sharply. During 1979, S&Ls originated approximately $100 billion in mortgage loans compared to $107.3 billion in 1978. Savings flows declined by 12 percent, from $44.2 billion in 1978 to $38.8 billion in 1979. This modest decline in mortgage lending was accompanied by a similar decline (13%) in housing starts, from 2.02 million units in 1978 to 1.74 million units in 1979.

Through most of the year, the housing market was supported by the existence of an "investment psychology," the favorable demographics

of the baby-boom generation coming of home-buying age, and the formation of increasing numbers of non-traditional households. In addition, because of new savings instruments such as the six-month money market certificates (MMCs) which the Bank Board had authorized in 1978, thrifts were able to better insulate savings flows from rising market interest rates and, thus, to stay in the mortgage market. This, however, was a two-edged sword in that the higher-rate MMCs placed downward pressure on association earnings. While the figures would indicate only a slight decline from the record earnings levels of 1978, some portion of the stronger than anticipated picture in the last half of 1979 was due to penalty income derived from depositors prematurely withdrawing the funds they had placed in lower-rate certificate accounts in order to deposit them in indexed accounts.

Despite the relative strength of housing and the mortgage markets earlier in the year, the Federal Reserve Board's abrupt tightening of monetary policy in October, 1979 severely jolted the housing market. Short term interest rates increased rapidly and, in some parts of the country, mortgage rates reached 14% briefly before the end of the year, pricing many potential homebuyers out of the market, before they declined to the 12 1/2% to 13 1/2% range early this year. Restrictive usury ceilings in a number of states, now temporarily suspended until March 31, 1980 through federal preemption, placed an additional damper on housing demand and mortgage lending. When the Federal Reserve Board increased the discount rate on February 15, mortgage rates moved back up toward last fall's highs. California associations are now making mortgage loans at rates of 14 to 14 1/2%.

We realize that inflation is the most important problem facing both the country and the savings industry and that the need to curb it has made restrictive policies inevitable. If we do not get inflation under control, I can tell you that in the next ten years a significant number of associations will be in an unprecedented adverse situation -- no matter what extra powers they get. That is why I support the Federal Reserve Board's actions of October 6 and February 15 and why I believe it may be necessary to impose even stricter conditions. In any case, since some reasonable decline in housing and lending activity in 1980 will be a necessary casualty of our anti-inflation efforts, the Bank Board has taken a number of steps to moderate the disproportionately severe impact on housing that generally characterizes tight money periods.

The most important action taken by the Bank Board this past year to strengthen the ability of thrifts to finance housing was its expansion of the number of savings certificates whose yields are tied to those of the open market. As I am sure you are aware, the first of these, the six month MMC, was introduced in June, 1978. In 1979, we extended this concept to certificates with longer maturities, substantially reduced withdrawal penalties, and eliminated the minimum denomination requirements on long-term certificates. The recently authorized 2 1/2 year certificate, with an interest rate pegged to that of Treasury securities with the same maturity, has already attracted a significant amount of funds. I want to stress, though, that this is a two-edged sword. The cost of funds for savings associations

has increased at a record pace over the last 18 months. Because savings institutions hold a large volume of low-yielding mortgages, portfolio yields have not risen as rapidly, although they have increased, and the bottom line has been affected. However, I would say that the money market certificates and other indexed certificates have had a positive effect since they have allowed the industry to stay in the mortgage lending business and make the current high-rate loans which has generated a healthy amount of loan fee income.

The Bank Board has also recently proposed to liberalize and simplify the limitations on outside borrowing (i.e., borrowing from sources other than a Federal Home Loan Bank or a state-chartered central reserve institution) by FSLIC-insured institutions. The proposal would substantially increase the present limit of 10% of savings (with an additional 5% for conforming mortgage-backed bonds). In addition, Federal associations would no longer need Board approval for the issuance of commercial paper. Since a significant number of the comments we have received have indicated that even more flexibility would be desirable, we are closely reviewing various proposals made to see if further liberalization is feasable. Final regulations should be published before the end of March.

The Bank Board has also recently authorized associations to tap non-traditional sources of funds such as Eurodollar certificates and, as of November 1, 1979, reduced liquidity requirements from 6% to 5 1/2%, an action which potentially freed $2.3 billion in funds that previously were required to be held as eligible liquid assets.

The Federal Home Loan Bank System maintained its substantial support of the thrift industry as advances to member institutions increased by $9.1 billion in 1979, reaching a level of $41.8 billion by yearend. Similarly, the Federal Home Loan Mortgage Corporation actively supported thrifts and the housing sector by making commitments for $5.5 billion in mortgage loan purchases during the year.

On the asset side of the balance sheet, the Bank Board authorized Federal associations to make, purchase, and participate in variable rate mortgages (VRMs) and proposed to authorize Federals to make, purchase, and participate in renegotiable rate mortgages (RRMs). The interest rate on RRMs is indexed to current mortgage rates and can be increased or decreased at a maximum rate of 1/2% per year only once every three to five years, for a maximum of plus or minus 5% over the life of the loan. In addition, significant consumer safeguards have been proposed.

The RRM offers thrifts a way to alleviate the growing imbalance between the maturity of their assets and liabilities. Thrifts have traditionally borrowed short and lent long. However, in times of volatile interest rates such as we are now experiencing, thrifts are subject to large outflows of funds, if their deposits are principally in fixed interest rate certificates, or to extreme income volatility, if they are in floating interest rate certificates. If thrifts continue to become more reliant on high cost, short-term funds such as MMCs and jumbo CDs -- and I believe they will have to if they are going to successfully compete for funds -- while maintaining large portfolios of long-term fixed rate mortgages, their current earnings decline will only be exacerbated. After record earnings

in 1978, rates of return on S&L assets declined from 1978's 0.82 of 1 percent to 0.69 of 1 percent and 0.65 of 1 percent in the first and second halves of 1979 respectively. As I mentioned previously, the second half figure was inflated somewhat by additional penalty income from early withdrawals. We expect to see a much more substantial decline in the first half of 1980 as the average rate of return on S&L assets is expected to drop to something close to zero or, perhaps, even a negative rate of return. Use of RRMs offers thrifts a way to partially offset this decline in earnings by more closely tying the maturity of their assets to that of their liabilities.

The long term health of the thrift industry and its ability to adequately finance housing depends, though, on getting inflation under control and on the industry's restructuring through the phasing out of rate control and the granting of additional powers which would enable thrifts to more effectively compete with other financial institutions. I testified last month before the House Banking Committee's Subcommittee on Financial Institutions in support of several proposals which would couple the phase out of rate control with the granting to thrifts of NOW account authority, expanded consumer lending powers, trust authority, and so forth. I am convinced that these changes are necessary and in the best interests of consumers, the housing market and the thrift industry itself. But, let me stress, that even with these powers, thrifts will have a very difficult period if inflation does not subside.

The Bank Board has also been studying the capital adequacy of the thrift industry. In particular, we are concerned about

whether our current regulatory requirements impose appropriate levels of required capital on individual institutions. Among other things, the Bank Board has been reviewing the reserve and net worth requirements placed on thrifts and has concluded that regulatory changes are necessary. On February 21, the Bank Board adopted a proposal to revise the existing reserve requirement which would designate net worth as the statutory reserve account, eliminate the separate Federal Insurance Reserve account, and generally revise the method of calculating an institution's reserve requirement. This proposal will be out for public comment for sixty days.

A healthy thrift industry is essential if we are to have the resources to finance the nation's housing needs over the next decade. Although our current anti-inflation policies will depress the housing market this year, with housing starts expected to average between 1.20-1.25 million units in 1980, housing demand will continue to build, given the millions of Americans coming of home-buying age in this decade. The 1980's promise to be a period of high housing demand. Some estimate that 22 million starts will be needed to satisfy the new decade's housing needs. If this demand cannot be met by new construction, the existing housing market will feel the impact of the law of supply and demand. In addition to overcrowding, the costs of homes will escalate far beyond what those seeking them can afford and many will be priced out of the market forever. In order to avoid a collapse of the housing market in 1980, for which we will pay a high price in housing inflation later on, I have supported the Administration's efforts to reactivate the Emergency Home Purchase Assistance Act of 1974 and recently testified before the Senate Banking Committee's Housing Subcommitte that the rapid reauthorization, funding, and,

when appropriate, implementation of such a program could spare us the severe inflationary consequences that a severe housing downturn in 1980 would generate later in the decade.

Budget Issues

At this point, I would like to focus on several items in our fiscal year 1981 budget submission: the reorganization of our Office of Examinations and Supervision and the creation of a special consumer affairs division, examination costs, our relationship with State regulators and the Federal Financial Institutions Examination Council, our building, and our administrative and nonadministrative expense limitations.

Reorganization of OES

Last year my predecessor came before you with a proposal to divide the functions of what was then our Office of Examinations and Supervision (OES) between our Office of District Banks, which would get the Department of Supervision, and the FSLIC, which would get the Department of Examinations. He believed that this reorganization would streamline these operations and lead to more efficient and better management.

Prior to my assuming the Chairmanship of the Bank Board, Acting Chairman Anita Miller and others indicated that there were problems with the revised organization and I determined to give this matter top priority when I became Chairman.

In September 1979, shortly after I was sworn in, I appointed a task force to evaluate the 1978 reorganization of OES. The task force unanimously recommended reestablishing the Office of Examinations and Supervision. I concurred with this recommendation. As a part

of this reconstitution of OES, we created a new division of Consumer/ Civil Rights in that office.

Division of Consumer/Civil Rights

This new unit within OES is a special division which will carry out the Bank Board's consumer and civil rights responsibilities. As you are aware, the Administration is mounting efforts to strengthen and upgrade consumer affairs offices within Federal agencies. In addition, the Bank Board was required by Public Law No. 96-37 to establish a division of consumer affairs to administer its new powers under that Act. Previously, policy on consumer and civil rights was made in OES, the Office of Community Investment (OCI), the Office of District Banks (ODB), and the General Counsel's Office. This new unit centralizes this responsibility within one office.

Examination Costs

As a result of new legislation and regulations, examination procedures in the areas of nondiscrimination and the Community Reinvestment Act (CRA) and other related civil rights and consumer requirements has been greatly expanded over the past five years. A recent sampling of the length of examinations in 732 associations showed that an average of 20% of total examination time, or seven staff-days, was spent in reviewing consumer, nondiscrimination, EEO, and CRA related matters. Of these seven additional staff-days of examination time, three, or 9% of the total examination time, were spent on CRA related procedures.

Despite its increased responsibilities over the past five years, the Bank Board has not significantly increased its examination staff. Rather, it has worked to improve examination procedures through better resource

utilization, the use of data processing, and revised examination procedures which have reduced examination time and costs. One measure of the efficiency of these actions is the average number of staff-days required for each million dollars of assets of an examined institution. In fiscal year 1975, 0.392 staff days per million dollars of assets were required. A 1979 sampling of 1,260 S&Ls showed that, on the average, only 0.125 staff-days per million dollars of assets were required -- a 68% reduction.

However, no matter how well we have revised our procedures and made better use of our resources, the fact remains that our consumer and civil rights responsibilities have significantly increased our examination time. OES is currently developing a work measurement system, which it anticipates will be in place by the end of March, 1980 which should produce quantitative evidence of the Bank Board's future needs for additional examination personnel.

Cooperation with State Regulators

During the past fiscal year, considerable progress has been made in the Bank Board's program to train state examiners as part of a cooperative program for the examination of state-chartered, FSLIC-insured associations. In 1979, 216 state examiners participated in our CRA and nondiscrimination training program; 28 participated in our residential appraisal course; 49 attended our New Examiners Training School (NETS); and, 8 participated in our career development training program. In addition, a training course in electronic data processing for state examiners was commissioned. The Bank Board spent $383,499 out of the $395,000 budgeted for fiscal year 1979 to train state examiners. $400,000 has been allocated for this program for each

of fiscal years 1980 and 1981.

Federal Financial Institutions Examination Council

The Federal Financial Institutions Examination Council was established: to develop uniform principles, standards and report forms for the examination of financial institutions; to make recommendations for uniformity in other supervisory matters; to develop uniform reporting systems for Federally supervised financial institutions, their holding companies, and the nonfinancial institution subsidiaries of such institutions or holding companies; and, to conduct schools for examiners and assistant examiners. The Council has established 33 Task Force subcommittees in which the Bank Board's staff participates. Over the past year, the Council has developed some uniform policies on such issues as disclosure of statutory enforcement proceedings, discrimination (including discouraging the payment of dues for employees to clubs which discriminate), and has proposed others on Truth-in-Lending enforcement, credit life insurance, and the purchase and sale of the guaranteed portion of Federally-guaranteed loans.

Public Law No. 95-630, which established the Council, requires the Bank Board to pay 20% of the Council's operating expenses, estimated to be $70,000 for fiscal year 1981.

Bank Board Building

Several significant events concerning the Bank Board's authority to lease the commercial space within our headquarters building have occurred in the past year. The Court in the Globe Books case concluded that the Bank Board's authority to lease the commercial space in the building contained in the Federal Home Loan Bank Act (12 U.S.C. §1438(c)(4)) vested only short-term or temporary control

in the Bank Board and that the authority to make long-term commitments for the space was vested in the General Services Administration (GSA). On September 14, 1979, the Administrator of GSA delegated to the Chairman of the Bank Board "any and all authority of the Administrator of General Services under the Public Buildings Cooperative Use Act of 1976 (40 U.S.C. §490(a)(16)) to outlease commercial space at the Bank Board's Headquarters building, 1700 G Street, N.W. Washington, D.C." The Bank Board was also instructed that all prior agreements be reviewed again to insure that all actions taken met the requirements of the Public Buildings Cooperative Use Act of 1976 and were otherwise legally correct. The process is currently underway.

In the course of a review of the overall operations and organization of the Bank Board, I have taken a hard look at our commercial leasing activity in terms of its origin and relationship to the Bank Board's mission and our effectiveness in executing it. I have also become increasingly aware of the difficulties which the Bank Board is experiencing as the operator of a commercial retail center. It is apparent to me that these activities are not completely consistent with the Bank Board's mission and that our staff resources could be more profitably spent on other matters. As a result of my review, I have suggested that we begin discussions about transferring these commercial leasing activities to GSA which has the responsibility for leasing matters in most other Federal buildings.

Administrative and Nonadministrative Expense Limitations

The final matter I would like to discuss today is the Bank Board's administrative and nonadministrative expenses which are

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subject to limitation. In all, the Bank Board is requesting authority to spend $56,250,000 in fiscal year 1981. This represents a net increase of $2,390,000, or 4.4%, over the revised estimate for fiscal year 1980. From a percentage standpoint, this is considerably below the rate of inflation over the past year.

This net increase is primarily the result of anticipated general price increases in areas over which we have little control, such as pay and benefit adjustments required by the October 1979 pay raise, increased travel costs (primarily examiner travel), and supplies, materials, and services required to carry on our operations at about the same level as that planned for fiscal year 1980.

The Bank Board believes that the spending requests contained in the budget justification which was previously submitted to you are reasonable and necessary if we are to carry out our statutory duties to ensure the safety and soundness of the thrift industry and to assist it in its job of financing the nation's housing needs. Because of the state of our national economy and its effect upon housing and those lenders that finance housing, 1980 will be a difficult year for the Bank Board and for the thrift industry, but as I outlined earlier, we will use all our resources and ability to keep housing and thrifts from being unduly impacted.

I would be pleased to answer any questions the Committee may have.

HOUSING STARTS

Mr. BOLAND. Thank you very much, Mr. Janis.

On the first page you indicate that housing starts had decreased by about 13 percent over the previous year. I think in the longer statement you indicated that housing starts are running about 1.7 million as I recall. Is that correct?

Mr. JANIS. The figure for 1978 was just over 2 million. The figure for 1979 was 1.74 million, and that was the 13 percent decrease, in housing starts from 1978 to 1979.

Mr. BOLAND. And you projected 1.4 for the next year?

Mr. JANIS. Mr. Chairman, we projected that at the end of last year, but as a result of the recent further tightening by the Fed, and the increase in mortgage rates, we are currently predicting a rate for 1980 of approximately 1.22 million starts.

Mr. BOLAND. I would think that is one of the lowest rates that I have experienced, since I have been sitting on this Committee, and I have been here for a good many years. When was the last year we had starts of around 1.2 million?

Mr. JANIS. 1975 would be our previous low, and that year was 1.7 million units.

Mr. BOLAND. Oh, it was?

Mr. JANIS. Yes.

FLOATING RATE CERTIFICATES

Mr. BOLAND. On page 2 you talk about the money market certificates, and then as you say, ". . . most recently with the 2½-year floating rate certificate." How does that operate?

Mr. JANIS. The 2½-year floating rate certificate is a certificate approved by the financial institutions Depository institutions, banks, savings and loans, credit unions, can issue a certificate with a maturity of 2½ to 10 years. The rate is based on a comparable or equivalent Treasury yield, and for thrifts it is 50 basis points below what the Treasury yield would be, whereas for commercial banks it would be 75 basis points below. These were issued for the first time in January 1980. Let me give you an example.

In January the Treasury equivalent was established at the end of the month, at 10.9, approximately 10.9. That was the equivalent Treasury yield on what would have been a 2½-year certificate if they had had one, so if you deduct 50 basis points from that, that means that the S&L's could have issued a certificate at approximately 10.4.

Now, to the 10.4 coupon rate which they would pay to a saver, you would have to add compounding, and the effective yield to a saver would bring that back to about 11.12. That is what it would have been in January. Now for February it is a little higher rate, and you probably know, Mr. Chairman, from this morning's newspaper it was necessary for the regulators on a temporary basis to cap the rate at 12 percent. That means that with compounding, the effective rate to a saver will be 12.97 percent for the month of March, and until the cap is removed, unless the market rate should go below it.

OUTSIDE BORROWING LIMITATIONS TO BE LIBERALIZED

Mr. BOLAND. Another statement on page 2 indicates you recently proposed to liberalize and simplify the regulatory limitations on outside borrowing from sources other than the bank and State-chartered central reserve institutions by FSLIC-insured institutions. Why is this?

Mr. JANIS. Well, there were a few reasons.

Mr. BOLAND. Have they always had this authority to borrow from outside sources, or is this something that has been put in place recently?

Mr. JANIS. I don't know in what year it was actually put in place, but I know in recent times they have had the ability to borrow approximately 10 percent from sources other than our central banks, meaning the Federal Home Loan Bank system.

Mr. BOLAND. From whence would these borrowings come, what type of sources?

Mr. JANIS. It could be commercial paper, to the extent that they were allowed at the time, certificates of deposit, jumbo CDs, other types of borrowings, reverse repos, things of this nature.

Now, there is an overall limitation on borrowings of 50 percent of savings. There is a limitation on outside borrowings currently of 10 percent plus 5 percent for conforming mortgage-backed loans.

We proposed in regulations to loosen that, and we did it for a couple of reasons. One was to give added flexibility to the associations to manage their liabilities in a much better way. It is too constraining, we feel, with all of the various market mechanisms working today, all these additional sources of funds that are now available, to restrict them to the central borrowing facility that we provide.

Secondly, we felt that there were certain other windows that could be opened, and that they would use their ingenuity and innovative capacity to find some of these new windows if we sort of took the handcuffs off. Let me give you an example.

In the Eurodollar market, for instance, there is a market that is useful only in certain times. The window might open only for a couple of weeks. What I mean by that is that at that point in time in which the Eurodollar rates actually fall below the rates in this country, and it makes sense to tap that market, so we allowed them to borrow, to go out for Eurodollars, on an unsecured basis, and also by taking away some of the restrictions on outside borrowings, we make it more possible for them to do so, and remove these constraints.

Mr. BOLAND. Have you increased the amount that they could borrow from outside sources beyond the 10 percent? What is the rate now?

Mr. JANIS. Our proposal was to increase it to 25 percent. Frankly, the way the regulation was drawn, based on the comments that I have had an opportunity to analyze thus far, I think we were too restrictive in some of the particulars, and I am now in the process of putting the comments together, and I think we will expand further on our proposed regulation, and increase the ability to borrow outside.

LIQUIDITY REQUIREMENTS REDUCED

Mr. BOLAND. What about the reduction in liquidity requirements? Your statement indicates potentially freeing $2.3 billion in funds for lending. How have you reduced liquidity requirements, from what to what?

Mr. JANIS. When I came on board, the liquidity requirement was 6 percent. We reduced it from 6 percent to 5-1/2 percent. That action freed up potentially $2.3 billion for mortgage lending.

Now not all of it is going to go to mortgage lending, because some of the money will certainly go for arbitraging, buying of other investments and making investments other than long-term loans, given the nature of the market.

The statutory restriction on liquidity is 4 percent, so we can go down to 4 percent without having to go back to Congress to ask for additional approval. You will be interested in knowing that each half-point drop equals approximately $2.3 billion of funds that have been freed up.

OFFICE OF EXAMINATIONS AND SUPERVISION ESTABLISHED

Mr. BOLAND. You indicated in the brief statement, and also in the longer prepared statement, that the Bank Board is proposing a change in account structure again this year. The 1981 proposal would reinstate the structure in place before the 1980 change. The clear implication is that the 1980 reorganization did not work. You are an expert at reorganization. You really felt deeply about this, didn't you, not long after you became chairman of the board?

Mr. JANIS. Yes, Mr. Chairman, I did, and I know we discussed it. I felt upon analysis of my committee and my own analysis of their recommendation that the best way for the Bank Board to carry out its functions in these very important areas was in fact to merge these two functions and put them under one chief. I have not introduced to you, by the way, David Taylor, the Director, who we were able to obtain. He comes to us from the Department of HEW, and Pat Harris' loss was my gain, and she gave him up very unwillingly.

Mr. BOLAND. Wasn't he lucky. Apparently you were mightily concerned with the division of the functions, of what was then your Office of Examinations and Supervision, between the Office of District Banks and the FSLIC, to achieve what was hoped would be a more efficient and effective operation. But that really did not work out that way, did it?

Mr. JANIS. No. I guess I felt that to make sense out of this divided function I needed to have one chief that would somehow integrate what the examiners found with the action that the supervisory people were to take. Now, it just seemed that those two functions were so naturally combinable in the sense of putting them under one head that otherwise we might be working at cross purposes; that is to say, examinations might be working at cross purposes with supervision. This tied things together in a very useful way. Ms. Fair, my Executive Assistant, was the architect of that process, and she might want to add a reason, if you care to have her do so.

Ms. FAIR. We just felt that we needed one person who was in charge of the policy for both sections because there is such a natural relationship there. In hindsight it looks like we made the proper move because with the industry in the state it is in today there has to be that necessary integration. Also from the standpoint of staffing we felt there was a potential of having two separate organizations with additional buildup of the policy staff in each of the units. This way we used the single policy group both for examinations and supervision.

Mr. JANIS. You will be interested to know, Mr. Chairman, Ms. Fair was with me at HUD as my Executive Assistant as well, so she participated for better or for worse in the HUD reorganization from start to finish.

VARIABLE RATE MORTGAGES

Mr. BOLAND. The board permitted Federal savings and loans nationwide to make variable rate mortgages after July 1, 1979. Variable rate mortgages provide the S&L's some relief from long-term fixed-rate mortgages when interest rates are rapidly rising, and provide relief to borrowers when interest rates decline. By permitting flexibility, VRMs aim to make more mortgage money available. What has been the response of industry and borrowers to VRMs?

Mr. JANIS. It has only had limited usage thus far. It was first used in California on an experimental basis and fairly successfully. The information that I have, and it is considerable from certain California institutions, suggests that it has worked well from a borrower point of view.

We have been in a rising market over the past couple of years since the VRM was authorized. Mortgage rates have been increasing. I have certain statistics from one or two of the largest S&L's that I would be happy to submit for the record, which indicate that there has been a minimum of consumer reluctance or consumer unhappiness with the rate increases with the VRM. I think there was a reasonable feeling on the part of consumers that the rate increase was in fact necessary, and that there was very little adverse feedback from consumers.

However, the VRM has certain limitations, and certain requirements that have not made it as useful, such as the lack of a secondary market nationwide. From a lender point of view it was our feeling that we needed a new instrument that would be even fairer to the borrower, and would in fact be a better instrument from the lender point of view. That is why we have developed the rollover or renegotiated rate mortgage.

Mr. BOLAND. Is there any evidence that the S&L's would prefer to lock in homebuyers at a fixed rate rather than the VRMs? The rates are at an all-time high. I am wondering whether or not the S&L's prefer that the borrower be locked in at that all-time high rate, rather than a variable rate.

Mr. JANIS. That is, of course, an excellent question, and I think the answer is that nobody quite knows where the mortgage market is going, and I think that the industry feels, and I think I agree with their contention, that if we are going to have a floating or a

variable rate as far as what savers are paid, in other words, if savers are going to be paid interest based on the fluctuation of market rates, then the mortgages, which is the other side of the balance sheet, ought to also fluctuate in the same way. This is the fairest way for both sides to, especially with the kind of economic conditions that we find ourslves in now.

What it is, Mr. Chairman, is sort of like going to your corner gas station and asking them to guarantee the price of gasoline to you for the next 30 years. You just cannot do it any more, and I am convinced that there is not going to be money available for mortgage credit generally in this country, unless and until we adopt a renegotiated or roll-over type mortgage.

Otherwise I think lenders cannot continue to borrow short and lend long on a fixed-rate basis, given the nature of the inverted yield curve that we have in this kind of inflating environment.

It just seems to me that there are good consumer safeguards in the proposal that we have made, and if we are going to meet the needs of the small saver with regard to paying market rates, then we are certainly going to have to get to variability. But I think your question is a good one. Given the uncertainty, I think lenders would probably like to hedge and take their chances in the marketplace, and essentially just make a reasonable spread between the cost of money and the yield of the mortgage portfolio.

REGULATION Q PHASEOUT

Mr. BOLAND. H.R. 4986, the Consumer Checking Account Equity Act, is currently in conference. The conference agreement on the bill may call for a phaseout of Regulation Q by gradually lifting interest rate ceilings for small savers. In addition, partly to compensate S&L's for the loss of the current one-quarter percentage point advantage, the conference agreement on H.R. 4986 may enlarge savings and loan authorities to permit negotiated order of withdrawal accounts, a wider variety of consumer loans and investment in commercial paper. Is that correct?

Mr. JANIS. Yes, Mr. Chairman.

Mr. BOLAND. You know Mr. Milton Feinerman,——

Mr. JANIS. Yes, sir.

Mr. BOLAND. President of the Federal Home Loan Bank of San Francisco, said last July, "I believe Regulation Q is very necessary for the survival of the market which provides funds for homebuyers." Do Mr. Feinerman's comments concern you at all?

Mr. JANIS. Mr. Feinerman is one of the really superb bank presidents. We have 12 excellent bank presidents, and Mr. Feinerman and I have had the opportunity to get to know one another since I have come into this job.

I think there might have been a time that you could have quoted me some years ago in which I would have said pretty much the same thing. I guess that both of our positions probably have changed over recent months as a result of understanding where the economic forces are taking us. It is simply unacceptable for institutions not to be able to pay competitive rates to savers for deposits, because if they don't pay competitive rates, the funds will flow out

of S&L's and into the money market funds, into Treasury bills, and into other investments.

Without trying to speak for Mr. Feinerman—but I feel like I almost can, because I just met with him over this past week, and I meet with him regularly—I think all of us associated with this industry are pretty convinced now that a gradual phaseout of Regulation Q ceilings is necessary, and that the other part of the equation, to bring in certain asset powers so that the savings and loans and thrifts can earn more is the other part of a very vital ingredient that must go along with the gradual removal of Reg Q ceilings.

Mr. BOLAND. Do you know whether or not Feinerman's views are representive of much S&L management?

Mr. JANIS. There are three leagues, as you know, the U.S. League which is the largest, the National League which is made up of a smaller number of associations but the larger associations, and the American League, which is a minority league. The U.S. League, as best I can tell, has been ambivalent on the subject and has not formally endorsed the Regulation Q phaseout. However, they have I believe supported a compromise position, as stated by Chairman St Germain, which would eliminate Reg Q in 5 years, and as he has put it, "with no ifs or buts," while introducing new asset powers for thrifts.

The National League, on the other hand, has supported the so-called Senate-passed H.R. 4986 which contains the ratcheting phaseout of Reg Q between 1982 and 1990. I don't recall offhand what position the American League has taken. I have met with dozens of leaders around the country since I have been in this job and with literally hundreds of S&L executives, and I find that the ones who are more up to date on issues tend to understand the need for a phasing out of the Reg Q over time.

MONEY MARKET CERTIFICATES

Mr. BOLAND. There has now been nearly two years experience with money market certificates. What is the current amount of funds invested in MMCs?

Mr. JANIS. I think it is approximately $140 billion outstanding, and that represents approximately 30 percent of the savings of the savings and loans.

Mr. BOLAND. There is no question about the fact that it has made money available for housing during this time of tightening credit. You have indicated that it works as a two-edged sword, though it has affected the S&L's profitability. Do you have any figures in this regard? You may supply the answer for the record.

Mr. JANIS. We will be happy to.

[The information follows:]

The effect of MMCs on the earnings of S&L's may well have been favorable during 1978 and 1979 and, at least, significantly not adverse in recent months. It is true that MMCs have proven to be a high cost source of funds because of the sharp rise in the interest rate on 6-month T-bills since June 1978, when the MMC was first authorized. However, without the MMC, S&Ls would have borrowed much more heavily both at their Federal Home Loan Banks and from outside sources. These borrowings carry a higher rate of interest generally than the interest rate that has to be paid on MMCs. In addition, the continued growth in savings accounts that has been made possible through the competitive tool of the MMC has caused

S&Ls to originate until recently a much higher volume of high interest rate mortgages since June 1978 than would have been the case without the MMC. Given the intense competition from money market funds and the increased sophistication of savers with respect to their knowledge of open market obligations, such as Treasury bills, the absence of an MMC would probably have caused a significant loss of funds from S&Ls as S&L savers transfered money from maturing fixed-rate certificates and passbook accounts to savings media outside of S&Ls rather than transfer them to MMCs within S&Ls. The result would have been to increase even more the need of S&Ls to borrow money at extremely high interest rates and, in some cases, perhaps to liquidate mortgages and incur capital loses. The likelihood that MMCs have not been adverse to earnings of S&Ls is suggested by data on net income as a percentage of average assets for S&Ls. Thus, during the second half of 1978, after the authorization of the MMC, net income was 0.83 of 1 percent of average assets, the highest in recent years. During 1979, the net income ratio dropped to 0.67 of 1 percent but was still higher than has been typical of high interest rate periods in the past. Toward the end of 1979, net income was being held up temporarily by above average withdrawal penalties.

Mr. BOLAND. Won't the S&L profit picture be further adversely affected if the minimum MMC denomination is lowered to $1,000?

Mr. JANIS. Yes, I couldn't think of a worse move, and I certainly hope that the Congress does not take such action.

MORTGAGE INTEREST RATES

Mr. BOLAND. This is the sixty-four dollar question, I suppose we ought to ask Mr. Kaufman of Salomon Brothers, when do you feel mortgage interest rates will peak?

Mr. JANIS. I have been wrong so many times before that I hate now to——

Mr. BOLAND. Do you want me to ask you this after 4 o'clock this afternoon when the market closes, or do you want it now?

Mr. JANIS. I would be happy to go on record on the subject. We are estimating that there will be a recession of some kind, perhaps by the second and certainly into the third quarter. When that happens, it would be our guess that the Federal Reserve would be able to loosen the restrictive monetary policies that they have been pursuing. When that happens, there should be an immediate and rather sharp drop in the short-term interest rates.

As a result of that, I would guess that long-term mortgage rates will drop, but much more slowly, and they will lag coming down. I would hope that mortgage rates would in fact be able to peak and then begin to drop in the third quarter of this year as a result of the scenario that I have just given you.

HOUSING STARTS

Mr. BOLAND. Your best estimate now as you have indicated housing starts is around 1.2 million starts. How do you split that between single-family and multi-family units?

Mr. RIORDAN. About 900,000 to 1,000,000 single-family—1-4 units—and the remainder being multi-family, Mr. Chairman.

BANK BOARD BUILDING

Mr. BOLAND. As I understand it, you are straightening out the problems associated with the construction of the new headquarters building in Washington, D.C., are you not?

Mr. JANIS. Yes, sir.

Mr. BOLAND. Is the GAO continuing the investigation?

Mr. JANIS. That's right.

Mr. BOLAND. Who is going to handle the leasing responsibility? Is it GSA?

Mr. JANIS. Yes.

Mr. BOLAND. The Committee staff has informed me that this problem will be straightened out with the assistance of GAO and GSA.

Mr. JANIS. I would like to tell you what I have done on this, Mr. Chairman. I was concerned enough to ask for a meeting of your staff, the staff of this Committee, and the staff of the Committee in the Senate, and I had a joint meeting with them at my request about a week or 10 days ago, in which I discussed the problem with them, and told them how I proposed that we proceed.

At their suggestion and with my very enthusiastic concurrence, it was agreed that the GAO would be called in and used to continue an investigation that had started before.

In addition, I have written to the GSA and asked them to consider taking over commercial leasing responsibilities, because they are the experts at it and I don't think we are.

INSPECTOR GENERAL OFFICE

Mr. BOLAND. You are proposing the establishment of an Office of Inspector General. You don't have an Inspector General now, as I understand it?

Mr. JANIS. No, we have an Office of Internal Review.

Mr. BOLAND. And you are going to establish the position of Inspector General who will be reporting directly to you?

Mr. JANIS. Yes, sir. Well, to the board.

ADMINISTRATIVE AND NONADMINISTRATIVE EXPENSES

Mr. BOLAND. We will turn to the justifications.

My staff has indicated to me that the budget justifications have been thoroughly drafted for fiscal year 1981. I want to compliment you on a job well done.

FISCAL YEAR 1979 SAVINGS

Let's turn to page B–7, which contains a tabular summary of Agency expenses. The 1979 actual column reflects estimated savings of $3,557,767, or 7 percent of the total limitation. As we note here, the Committee is always pleased with agencies when they effect savings or don't spend funds needlessly. But a figure this large suggests that the limitations were higher than necessary. How do you estimate the amount of the estimated savings?

Mr. VAUGHAN. Basically, of course, we always try to operate as efficiently as possible, realizing that we use savings and loan money, but these savings are higher than normal this year. Primarily it is attributable to the fact that we had a change in the administration last year with Mr. McKinney leaving about four months before the end of the fiscal year. This creates a tendency to bring things to sort of a standstill as far as hiring people, particularly at the higher levels.

I think probably a moratorium on hiring was instituted pending the arrival of Mr. Janis, I think this permeates throughout the whole budget when you have that type of a change. Other projects that may have been carried forward under Mr. McKinney were at that point tabled. That is basically the reasons for the savings.

FISCAL YEAR 1980 PAY RAISE SUPPLEMENTAL

Mr. BOLAND. Let me pose the same question in a different manner. Turn to the justifications on page C-4, with respect to the board and staff offices, the indicated savings for 1979 is $1,695,475. I might add that only $200,000 of the $616,000 requested for the October 1978 pay increase last year was provided, which had the effect of reducing the 1979 actual by savings by $400,000. Is that correct?

Mr. VAUGHAN. Yes, sir.

Mr. BOLAND. And this year you are requesting a 1980 pay cost supplemental of $765,000. Is that correct?

Mr. VAUGHAN. Yes, sir.

Mr. BOLAND. Isn't it a little high?

Mr. VAUGHAN. No, sir, not at the time we predicted it. In fact, that amount is a lot less than our projected pay cost turned out to be, but as you are aware, we were required to absorb quite a bit of the estimated pay cost by OMB, and this is less than what we projected. We think we can live with it.

Mr. BOLAND. Would it be fair to say that the Committee could assume that within the existing 1980 limitation of $18,359,000 there are adequate resources to meet the 1980 pay cost supplemental?

Mr. VAUGHAN. No, sir.

Mr. BOLAND. I knew you would say that, but I thought I would ask the question anyway.

Mr. VAUGHAN. I can say at this point there is a possibility that we may not need all of the $765,000, but I don't know yet because we haven't been long enough through the year yet to make that determination.

PROJECTED EMPLOYMENT LEVELS

Mr. BOLAND. The table on page C-6, details the positions and work-years by office. The 1979 work-year total was 457.6—compared to planned work-years of 486. That is a shortfall of about 28.4 or 5.8 percent. The average cost per work-year budgeted in 1979 was approximately $28,000. That means that the work-year shortfall amounted to about $800,000 that wasn't needed. The committee reduced the 1980 compensation and benefits $50,000 because the lapse rate didn't appear to be adequate. I notice, however, that the 1981 estimate again assumes a very low lapse rate. Let me ask you how many administrative expense positions are currently filled.

Ms. FAIR. I would like to respond to that if I may. When we got close to the end of the fiscal year there were 89 vacancies. Currently, we are only carrying 42, and 9 of those have firm commitments. As Mr. Vaughan mentioned, with Chairman McKinney leaving we held off filling a lot of them but we are monitoring this on a

biweekly basis to be sure that the vacancies are filled. We have also made certain staff interchanges in position allocations to provide the staff where we needed it without having to request any additional staff in the next budget.

Mr. JANIS. In effect, we have reduced the vacancies since we have been there by two-thirds.

Mr. BOLAND. What is the estimate for the 1980 work-years to date?

Mr. VAUGHAN. Right now we are carrying as far as C-8 is concerned on the board—and I think that is the schedule you were looking at earlier—we planned 489 for 1981. If you try to relate this to the reorganization that has actually occurred in 1980, not funding wise but actually on an administrative basis, that 489 for 1981 would be roughly the same, for 1980, and we are carrying about 483 employees right now. It is very difficult to explain because of the difference in the account structure.

Mr. BOLAND. You have a figure of 456 for the 1980 estimate. Is that still the best estimate for the——

Mr. VAUGHAN. Yes, sir, that is a good estimate, but that figure does not of course include the 33 positions for the Washington Office of the Office of Examinations and Supervision, which positions are included in the 1981 estimate.

INCENTIVE AWARDS

Mr. BOLAND. On page C-10, the 1980 justifications included $50,000 for incentive awards. The Committee thought that this was a little exccessive and it recommended that it be reduced by at least $25,000. Did the Bank Board comply with the Committee's directive?

Mr. VAUGHAN. Yes, we did.

Mr. BOLAND. What amount is included in the 1981 budget for incentive awards?

Mr. VAUGHAN. $37,500.

Mr. BOLAND. In 1979, did any employee of the Bank Board receive salary and awards which totaled more than the rate for a GS-18?

Mr. VAUGHAN. No, sir.

Mr. BOLAND. Has the Senior Executive Service altered in any way the handling of monetary merit awards for Bank Board employees?

Ms. FAIR. It does considerably. It makes the amounts available to career employees considerably greater than they were under the regular incentive awards program.

LIFE INSURANCE COSTS

Mr. BOLAND. The amounts for life insurance vary by more than 100 percent from 1979 actual to the 1980 original estimate, which was revised downward from $57,000 to $35,000. What accounts for these significant swings, and why aren't you better able to predict these amounts?

Mr. VAUGHAN. As far as the 1980 figure is concerned, the $57,000, that was just a pure outright error.

ADMINISTRATIVE TRAVEL

Mr. BOLAND. One of the board members travel was nearly double the amount for the Chairman's Office—and double the $9,000 estimated in 1979. Is that correct?

Mr. VAUGHAN. Yes, sir.

Mr. BOLAND. The Committee directed a $50,000 reduction in travel in 1980. Can you indicate how this reduction was applied? You may do that for the record.

[The information follows:]

1980 TRAVEL REDUCTION

The fiscal year 1980 original travel estimate of $569,000 was reduced to $510,000, a reduction of $59,000, which amount exceeds the $50,000 reduction directed by the Committee by $9,000. The application of the $59,000 reduction by individual offices within the Bank Board is shown in the table on page C-11 of the fiscal year 1981 justification document.

Mr. BOLAND. Why does the Office of General Counsel reflect an $11,000 increase in the 1980 current estimate?

Mr. MISKOVSKY. There is a lot more work to do.

GENERAL COUNSEL OFFICE EMPLOYMENT

Mr. BOLAND. How many employees do you have in the General Counsel's Office?

Mr. MISKOVSKY. Total?

Mr. VAUGHAN. 79.

Mr. BOLAND. How many are lawyers?

Mr. MISKOVSKY. About 60 are lawyers.

Mr. BOLAND. What is the breakdown between the lawyers and the clerical staff?

Mr. MISKOVSKY. I can provide that for the record.

[The information follows:]

OFFICE OF GENERAL COUNSEL

As of February 29, 1980, the permanent staff of the Office of General Counsel consisted of 55 attorneys and 24 secretaries and clerical employees, totaling 79 staff members.

Mr. BOLAND. What is the turnover?

Mr. MISKOVSKY. The turnover is average, mainly I think because they are good lawyers and they are getting better offers from higher-priced areas such as savings and loans and private practice.

Mr. JANIS. Mr. Chairman, may I interrupt just for a moment? They really do have an awful lot more work. I came into this job and developed a list of 49 specific things that I wanted to get done over the next year in terms of regulation. I really believe in the need to deregulate this industry and make it more competitive and take the handcuffs off, and this has overburdened, in my judgment, and taxed the General Counsel's Office tremendously.

Mr. BOLAND. Why don't you ask for more personnel in OGC?

Mr. JANIS. We are trying to.

Mr. BOLAND. Do you want us to increase it?

Mr. JANIS. Thank you, but we believe that with the inflating economy that we have we must do everything we can within our resources to meet our needs.

TRANSPORTATION OF THINGS

Mr. BOLAND. On page C–12, the budget for transportation of things is increasing to $24,000 in 1981. The last sentence of the paragraph says that it provides for five transfers at an average cost of $1,500 each. How does that yield $24,000? Five times $1,500 is $7,500.

Mr. VAUGHAN. It isn't meant to yield $24,000. The $24,000 is the total of which only about $7,500 would be for transportation of household goods and that type of thing, for employees moving from one district office to another.

Mr. BOLAND. So the $24,000 provides for more than just five transfers?

Mr. VAUGHAN. Oh, yes, sir. That includes all of our transportation.

EQUIPMENT RENTAL

Mr. BOLAND. Comparing page C–13 with the corresponding page from the 1980 justifications reveals an increase of 4 terminals, 2 copying machines and 2 word processing machines. Why are these increases necessary, and what workload data do you have to support the increases?

Mr. PETROCCI. This includes the terminals for a nationwide system for the field examiners which will provide them with tools to assist in the examination process. As far as the word processing, there are a number of offices within the Board with no processing equipment. With the reorganization and reallocation of positions, the additional need for word processing is necessary.

Mr. BOLAND. Are the 44 the total number of terminals that you have available within the system?

Mr. PETROCCI. That is correct.

Mr. BOLAND. Also are the total word processing machines the 37 you have here?

Mr. PETROCCI. Right.

Mr. BOLAND. Give us a breakout of the $22,000 requested for miscellaneous equipment charges. You may put that in the record.

[The information follows:]

Miscellaneous equipment rental

(1) 104–S Norfin collator	$1,250
(1) Compugraphic 7200 processor	3,900
(2) 129 model 3 card deck recorder	3,840
(1) Dex 4100 and Dex 580	4,800
(1) 4250 TCS model 2300 platemaker and labeler	2,160
(1) LA 36 Dec writer II verifier	4,750
(1) PCL model 3 sorter	1,300
Total	22,000

PRINTING AND REPRODUCTION COSTS

Mr. BOLAND. On page C–14, printing and reproducing, the actual cost for 1979 was $266,825. The 1980 current estimate is $107,000 more than the 1980 budget estimate, and includes two new categories—Economic Quarterly and Federal Register. What is the Economic Quarterly and who will write it? To whom will it be distrib-

uted? How many copies will be printed? Will there be a charge for the publication?

Mr. RIORDAN. The Economic Quarterly articles will be solicited from outside practitioners and academicians. A small portion of the articles will be written by FHLBB staff. It will be distributed widely by the GPO. The $45,000 is for printing costs.

Mr. BOLAND. How many copies will be printed?

Mr. RIORDAN. We haven't an estimate yet. I personally don't know. I could get that for you.

Mr. BOLAND. What are you going to charge for it?

Mr. RIORDAN. The GPO would have to determine that. I would imagine it would be somewhere in the area of seven to nine dollars a copy. That is the current price for many of the journals today, comparable journals anyway.

Mr. BOLAND. Why do you believe the costs for printing the Federal Register will nearly double in 1980 above 1979. What would make the costs double?

Mr. VAUGHAN. We based our estimates on the cost per page. I think it is running about $95 a page, and obviously there is going to be a lot of activity with respect to regulations in 1980 and 1981, and we should cover ourselves.

Mr. BOLAND. What about the annotated manuals; the estimate for 1979 was $145,000. The actual was $41,908. What accounts for the difference?

Mr. VAUGHAN. This is a very difficult thing to estimate because there are wide swings, depending upon the number of regulations and the changes that are made in the regulations which are put into the manual, and that is part of the answer. Also in prior years—and this affects 1978—we had at the end of the year to make an estimate of certain costs for which we didn't have bills, and we accrued these estimates in 1978. Well, these estimated accrued costs turned out to be more than what we actually had to disburse in 1979, and this resulted in a credit coming back to that account in 1979. That is part of the reason for the reduced 1979 expenses.

ADP SERVICES COSTS

Mr. BOLAND. Turn to page C-15, other services. I want to explore the ADP services portion in some detail. That table on this page contains a tabular display of other services.

The 1978 budget estimate for ADP was $820,000. The revised estimate transmitted with the 1979 request was $807,000. The actual experience was $462,000. That is a difference of $345,267, or 43 percent.

The 1979 budget estimate was $975,000. The 1979 revised estimate transmitted with the 1980 request was $817,000. This was despite language in the House report directing another services reduction not including ADP. The 1979 actual experience was $468,547—a difference of $348,453 or 43 percent again.

As we noted earlier, the Bank Board had a significant spending shortfall in 1979. What about your ADP estimates, have they been overstated?

Mr. PETROCCI. No. What happened in 1979, the Bank Board was projecting significant changes to survey forms in the industry which would have resulted in significant changes in the data processing system with related costs in two areas. One major costs would have been the additional contract programming staff that would have been needed to do the programming. In addition, the telecommunications cost would have gone up as a result of the new on-line data systems that were being proposed for examiners use. When Mr. Janis came in we put a hold on the survey changes pending a revaluation of the changes. This has been completed and in fact we will probably start implementing them in 1980 and 1981.

Mr. BOLAND. Now what about the difference in 1978 figures? The 1978 budget estimate for ADP was $820,000. The revised estimate transmitted with the 1979 request was $807,000. The actual experience was $462,000. That is a difference of $345,267, or 43 percent.

Mr. PETROCCI. It was mainly a result of not using the outside programming sources because we did not develop the new systems that we had intended to. In 1978, when Chairman McKinney came in, a change in philosophy resulted and we held up on some of the systems. The key area was the telecommunications systems that we are trying to design to assist the examiners, which were held up but are now going forward.

FEDERAL FINANCIAL INSTITUTIONS EXAMINATIONS COUNCIL

Mr. BOLAND. On page C–17 you mentioned the contribution of the Federal Financial Institutions Examinations Council. What was the contribution?

Mr. JANIS. Seventy thousand dollars, Mr. Chairman.

Mr. BOLAND. The Federal Financial Institutions Examinations Council is made up of whom?

Mr. JANIS. It consists of the Federal Reserve Board, the National Credit Union Administration, the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Federal Home Loan Bank Board.

Mr. BOLAND. And the expenses of the Council should be borne by the Federal Financial Regulatory Agencies, as I understand it?

Mr. JANIS. Yes.

Mr. BOLAND. Who develops and performs oversight on that budget of the Council?

Mr. JANIS. Sir, I do not know.

Mr. BOLAND. All you do is make a contribution?

Mr. JANIS. Yes, sir.

Mr. BOLAND. Does the Bank Board provide any support in addition to the 20 percent contribution?

Mr. VAUGHAN. Not that I know of, no, sir.

Mr. BOLAND. How about the operation of the Council to date?

Mr. JANIS. Mr. Chairman, I should correct the record to indicate that in addition to the $70,000 contribution I believe that we contribute staff to the task force that staffs it.

Mr. BOLAND. How many people do you contribute to the task force?

Mr. JANIS. There are a couple of people supplied by way of staff by each agency. It constitutes the secretariat for the group. It has been a very useful operation. In my longer statement I indicated

some of the specifics that the council has been able to accomplish. They have over 33 task forces and subcommittees.

They have adopted some uniform policies on disclosure of statutory enforcement proceedings, discrimination, including discouraging the payment of dues for employees to clubs which discriminate, and we propose others on truth-in-lending enforcement, credit life insurance, and the purchase and sale of the guarantee portion of Federally guaranteed loans.

Mr. BOLAND. How many employees does the council have? You may supply that for the record.

Mr. JANIS. Yes, sir.

[The information follows:]

The Council presently has six employees and has been authorized to add one additional position.

SPECIAL STUDIES

Mr. BOLAND. Page B-43 of the 1980 justifications, listed 19 special studies proposed at a cost of $576,000. That amount was reduced $200,000 by congressional action. For the record, provide a revised 1980 list.

[The information follows:]

1980 list of special studies:	*Approximate budget*
1. A study of policies and activities of the Federal Home Loan Bank System in terms of maximizing housing credit objectives	$100,000
2. Reverse annuity mortgage study	47,500
3. Policy options to deal with current adverse financial conditions of Savings and Loans	30,000
4. Design and support of a course at Howard University to increase minority participation in thrift institution and housing finance policy areas	32,000
5. Research seminars and forecasting conferences	21,000
6. Study of Saving and Loan tax options	10,000
7. Study on improvements in the secondary market for mortgages to stimulate more housing credit	16,870
8. Analysis of the demand and supply of housing credit in the 1980's	2,630
9. Possible use of futures market by Savings and Loans to reduce interest rate risk	10,000
10. Additional money for joint study with HUD on market value appraisal	54,000
11. Space planning for the Federal Home Loan Bank Board headquarters building	20,000
12. Task Analysis of Bank Board positions	20,000
Total	364,000

Mr. BOLAND. Also provide a list by priority of the 12 special studies proposed for 1981 contained on page C-17.

[The information follows:]

The special studies shown on page C-17 of the 1981 justification document are ranked in order of importance as follows:

1. Capital Adequacy and Capital Instruments.
2. Liability Management Issues Confronting S&L's.
3. Research Seminars and Forecasting Conference.
4. Analysis of the Riskiness of Mortgages as shown by Secondary Market Transactions.
5. RAM Demonstration Projects.
6. Publications Assessment.
7. Investment Demand for Housing.
8. Analysis of Tax Issues for S&L's.

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9. Franchise Approach to S&L Valuation.
10. Major Loan Information Systems.
11. Deregulation.
12. Market Value Appraisal Project.

Mr. JANIS. Mr. Chairman, with regard to the 1981 list, let me say for the benefit of the committee that I consider these to be vital. I have personally looked at each of these. We have more of the need for studies. Most of them are not long term.

Mr. BOLAND. So the listing you have here is not necessarily a priority list?

Ms. FAIR. That is right.

Mr. BOLAND. It is just a numerical list. They all enjoy high priority, I take it?

Mr. JANIS. Yes. In a year like this I would especially assign the highest of priority to these special studies.

Mr. BOLAND. I was going to ask some questions about the list of studies, but I think I will pass them up since you attach so much significance to them.

CONTRACT AUDITS

We will turn to page C–21. You are requesting $75,000 for outside consultants in support of the Internal Review Office. That was the same amount as requested in 1980. What are the 1980 obligations to date for contract audits for the Office of the Internal Review?

Mr. VAUGHAN. I know they have entered into contracts to audit the district banks, and I think that amounts to about $114,000.

SUPPLIES AND MATERIALS

Mr. BOLAND. Turn to page C–22. The justification here states that the increase in supplies and materials is due to inflation. The general office supplies category is increasing 20 percent from $258,000 in the current year to $310,000. The Consumer Price Index increased about 13 percent in the last year. Why are you requesting a 20 percent increase, or 50 percent more than the Consumer Price Index increase?

Mr. VAUGHAN. If you are comparing 1981 with 1980, Mr. Chairman——

Mr. BOLAND. Yes.

Mr. VAUGHAN. The 1980 figures, because of the change in our budget structure, do not include the cost of supplies and materials of $19,000 attributable to the Washington office of the Office of Examinations and Supervision.

INTERNAL REVIEW OFFICE FUNCTIONS

Mr. TRAXLER (presiding). The functions of the Internal Review Office are described on page C–39. Last year's justifications included auditing the Neighborhood Reinvestment Corporation's field operations as a function. This year's justification makes no mention of the corporation. Does the Internal Review Office no longer perform that function because the Corporation is now a separate legislated entity? What is the reason for that?

Ms. FAIR. The corporation has an audit committee and the corporation is handling its own audit functions. We do plan, however, to provide some oversight there with our own internal review staff.

Mr. TRAXLER. Did your review office find any significant irregularities in the Corporation's field operations?

Ms. FAIR. I don't believe that they did any significant work in that area, which is why we have asked them to take a look at it in the current audit plan.

BANK SYSTEM SUPPORT OF NEIGHBORHOOD REINVESTMENT CORPORATION

Mr. TRAXLER. Last year the Committee questioned Chairman McKinney on the level of financial support the Bank Board provides to the Neighborhood Reinvestment Corporation. The amount was decreasing, and I wondered if that was a result of the Corporation receiving a direct appropriation. We were advised that that wasn't the case.

What is the proposed 1981 contribution of the Federal Home Loan Bank System to the Corporation?

Mr. VAUGHAN. I don't have that figure.

Mr. TRAXLER. Would you provide it for the record.

Mr. VAUGHAN. They got an appropriation of $12 million this year, but I think the banks do contribute in addition to that.

Ms. FAIR. We still provide the Neighborhood Reinvestment Corporation officer salaries and some other support functions, but we will supply that figure for the record.

[The information follows:]

For fiscal year 1981 we estimate that the 12 Federal Home Loan Banks will contribute $1,171,000 to help finance the operations of the Neighborhood Reinvestment Corporation.

SECRETARIAT

Mr. TRAXLER. Turn to page C-42s. It indicates that the Secretariat had received 132,600 internal requests. That equates to a phenomenal number per employee. What does this statistic represent?

Mr. VAUGHAN. It could be a phone call, it could be someone walking in and asking to see a record or an address, or anything like that, and they have been tabulating these items. This is primarily some of the work measurements of our performance evaluation system which has been in effect for several years.

OFFICE OF COMMUNITY INVESTMENT

Mr. TRAXLER. The Office of Community Investment received $50,000 in the 1979 supplemental to expand the Bank Board's activities in connection with Community Investment Fund. How much of a supplemental was actually obligated?

Mr. VAUGHAN. I will have to supply that for the record.

[The information follows:]

The fiscal year 1979 supplemental of $50,000 for the Office of Community Investment was obligated in the amount of $30,701.

COMMUNITY INVESTMENT FUND

Mr. TRAXLER. What is the total of advances made from the Community Investment Fund to the Federal Home Loan Bank Board members?

Mr. JANIS. The total commitment will be $10 billion over a 5-year period, of which approximately $3.6 billion I believe have been committed, but I will supply that last number for the record.

[The information follows:]

Through February 28, 1980, a total of $3,353,800 in CIF advances have been made. CIF advances outstanding on February 28, 1980 totaled $3,198,600,000.

Mr. TRAXLER. What is the total subsidy the CIF has provided to date; i.e., the difference between the below market rates of the advances and the going market rates?

Mr. JANIS. That will take a careful calculation which we will have to provide for the record, if we can.

[The information follows:]

CIF advances are priced when the Federal Home Loan Banks commit for the funds at 50 basis points (one-half of one percent) under the estimated cost of selling the same maturity Federal Home Loan Bank obligations. On that basis, the estimated subsidy of the CIF from its inception through December 31, 1979 (the latest date for which figures are available) was $12,770,921.

VEHICLE COSTS

Mr. TRAXLER. Page C-53 indicates that one function of Printing and Distribution Service of the Facilities and Special Services Branch is to operate the driver pool. How many drivers does the Bank Board currently have on board?

Mr. VAUGHAN. We have 6 at the present time.

Ms. FAIR. That is just an ancillary function. The drivers work in the mail room as well as drive cars.

Mr. TRAXLER. I never knew a chauffeur that didn't have another title.

Mr. VAUGHAN. Let me assure you that these people do other work.

Mr. JANIS. I assure you we have no chefs and no bodyguards.

Mr. TRAXLER. Provide us with the job description for those drivers. Tell us what the annual cost of operating the driver pool, the chauffeur portion, and what is the cost of your automobiles? Is that cost included under administrative services budget?

[The information follows:]

POSITION DESCRIPTION MOTOR VEHICLE OPERATOR

I. DUTIES AND RESPONSIBILITIES

Operates official vehicles, generally within the Washington Metropolitan Area, but occasionally on extended trips.

Drives for the Chairman of the Board, Board Members and other officials of the Agency.

Is responsible for the comfort and safety of passengers and/or cargo enroute to their destinations. Must be familiar with and observe all local safety rules, regulations and traffic signs.

Drives carefully over roads and streets, determining shortest and safest routes, recognizing hazardous conditions and changing routes accordingly to avoid them.

The operator loads and unloads the vehicle by hand, with occasional help from other employees. Moderate physical effort is required in the frequent handling of

objects weighing up to 20 pounds and the occasional handling of objects weighing over 50 pounds.

Operator is required to work outdoors and is occasionally exposed to bad weather conditions while loading and unloading the vehicle. He drives in all types of traffic and weather and is exposed to the possibility of serious accidents. He is subject to cuts, bruises and broken bones as a result of accidents while driving or when loading and unloading the vehicle.

Makes minor repairs and adjustments, washes the vehicle, changes tires, replenishes gas and oil, grease, water, air and battery fluid.

Makes special deliveries and collections to and from offices and divisions of the Board and other government agencies and commercial establishments.

Prepares records and reports of trips, passengers carried, mileage, gas consumption, accidents and other information as required.

Incumbent is responsible for sorting incoming mail for delivery to the various Board offices. Determines best method of shipment for outgoing mail and is familiar with postal regulations, postage rates, zones and type of material to be sent by the various methods.

II. SUPERVISION AND GUIDANCE RECEIVED

The incumbent is under the general supervision of the Printing Officer. Performs day to day duties on his own initiative and responsibility. Messenger and mail assignments are received from the Mail Supervisor.

Performs related duties as assigned.

ANNUAL COST OF DRIVER'S POOL

The total cost of the six FHLBB driver's salary compensation and benefits for fiscal year 1979 was $102,333.

The driver's spent an estimated ⅓ of their time driving and ⅔ of their time handling mail. We therefore apportion $34,111 of salary costs to the driving function.

LEASED VEHICLE COSTS

[FHLBB has four vehicles; three are commercially leased and one is obtained from GSA]

Vehicle	Monthly payment	Monthly maintenance	Total/annual cost
1979 Ford Fairmont	$166.89	$10	$2,122.68
1979 Ford Fairmont	166.89	10	2,122.68
1979 Buick LeSabre	223.73	30	3,044.76
Subtotal			7,290.12
1979 GSA station wagon			1,949.00
Total annual vehicle costs			9,.239.12

Mr. TRAXLER. For the record, I would like to include some questions submitted by Congresswoman Boggs on employment of women in the Federal government.

[The questions follow:]

UPWARD MOBILITY PROGRAM

Question. How many women have moved into higher grade target positions as a result of your agency's Upward Mobility Program?

Answer. Four.

EXECUTIVE DEVELOPMENT PROGRAM

Question. How many women have been selected to participate in your agency's Executive Development Program?

Answer. Because the Bank Board is a comparatively small Federal agency, an Executive Development Program has not been feasible up to this time. However, the Bank Board plans to develop a limited Executive Development Program in fiscal year 1981.

MANAGEMENT DEVELOPMENT PROGRAM

Question. Do you have a Management Development Program? If so, how many women have been selected for it?

Answer. No, for the same reason noted in question 2. The Bank Board plans to establish a limited Management Development Program in fiscal year 1981.

REPRESENTATION OF WOMEN ABOVE GS–9 LEVEL

Question. Why do you show such a significant drop in representation of women above the GS–9 level?

Answer. Part of the drop, which occurred in the spring and early summer, was due to the overall drop in total employment over the past year. There was also a delay experienced in filling vacancies. However, since the beginning of Chairman Janis' term of office, there has been a significant increase in the number of women above the GS–9 level. That increase is expected to continue.

FEDERAL EQUAL OPPORTUNITY RECRUITMENT PROGRAM

Question. We know that many women in clerical positions hold college degrees. What have you done to assure that you are fully utilizing your personnel? Have you conducted a skills survey?

Answer. In accordance with the Office of Personnel Management's instructions, the Bank Board is establishing its Federal Equal Opportunity Recruitment Program (FEORP). One of the requirements of FEORP is to conduct a skills utilization survey. We are currently in the preliminary stages of planning such a survey and will establish and monitor a job/skills bank once it has been conducted. We feel that the job/skills bank will enable us to more fully utilize Bank Board personnel, particularly women with college degrees. Additionally, all merit promotion positions are posted throughout the agency and all qualified employees are encouraged to apply.

EQUAL EMPLOYMENT OPPORTUNITIES

Question. In his memorandum to heads of departments and agencies dated November 17, 1978, President Carter stated that he expected to see "significant improvements made in your department or agency as a result of your personal initiatives" (emphasis added). What have you personally done to improve women's employment and advancement in your agency?

Answer. Since being appointed Chairman of the Bank Board in September 1979, one of my foremost priorities has been to improve the EEO situation. Specifically, I have hired women for three of my top management positions—my Executive Assistant and the Director of Personnel and Director of OID. This constitutes 50 percent of top management positions that I have been responsible for filling.

Question. What are the main mission-related occupations of your agency? What efforts are you making to assure representation of women in these occupations, which generally have the best promotion potential?

Answer. The Savings and Loan Examiner position comprises nearly two-thirds of the positions in the Bank Board. The agency has made significant recruiting efforts at colleges and at career days over the last several years to attract women candidates. Since Examiners are hired from the PACE registers, however, a continuing drawback continues to be veteran's preference. The Bank Board also developed a Cooperative Education Program in each of its District Offices where Examiners are hired to offset this particular barrier as well as other EEO barriers. This staffing alternative resulted in a selection rate of 50 percent females.

COMPETITIVE STAFFING SYSTEM

Question. The Office of Personnel Management is introducing a model competitive staffing system which will give your agency more flexibility and authority in the hiring process. Do you think that your employment profile for women will improve as a result of this new freedom?

Answer. The Bank Board expects this delegated examining authority to provide it with a more representative work force, including its female composition.

AFFIRMATIVE ACTION GOALS

Question. Did you achieve your affirmative action goals for women last year?

Answer. The affirmative action goals established by the Bank Board during 1979 were projected figures to be met by the end of Fiscal Year 1983. Those goals

specifically targeted for Fiscal Year 1979 were essentially met, although normal turnover at the agency has altered the final figures slightly.

MEDIUM GRADE LEVEL

Question. What is the median grade level for women in your agency? For men? How does this compare with the government as a whole?

Answer. Specifically, our average grade level for women is 7.61 compared to 6.04 government wide. Our average grade for men is 11.54 as compared with 9.59 for the Federal government. The governmentwide figures may be somewhat outdated, however, since the most recent figures the Office of Personnel Management could provide were from November, 1978.

REPRESENTATION OF WOMEN

Question. What are you doing to assure that your supervisors and managers recognize and are held accountable for their responsibilities to the FWP?

Answer. In addition to emphasizing the need for EEO objectives in the work plans of managers and supervisors, these employees have also received supervisory training in order to reinforce their role in eliminating underrepresentation of women.

POLICY ON SEXUAL HARASSMENT

Question. How are you implementing the Office of Personnel Management's policy statement on sexual harassment?

Answer. I am presently preparing a memorandum to all Bank Board employees defining the Federal government's policy regarding sexual harassment and informing them of the avenues for seeking redress along with the actions that will be taken against any employee violating the policy.

EXAMINATION WORKLOAD

Mr. TRAXLER. Turn to page E-4, under the Office of Examinations and Supervision. The first set of statistics, dealing with examinations of Federal and State associations, indicates that the number of examinations will decline 257 or 12 percent from 1979 to 1981. At that same time, average staff days per examination increases by 5.4, or 13 percent. Are you concerned with these trends? And if you are, what are you going to do about it?

Mr. TAYLOR. We are concerned by those trends. There are two related sets of conditions, the first being the new responsibilities we are picking up with CRA, with nondiscrimination, with truth-in-lending. We also need more time to train our staff in those areas, so that adds another dimension.

In addition, the increased volume of assets creates another thing to look at, plus we have a situation where we are prognosticating that the economic situation is going to create more problems that we are going to have to be looking at when we look at each savings and loan.

On the other hand, we discussed earlier one of the approaches that we want to take toward that in terms of getting data out to the examiners on a more rapid basis, hopefully saving them time from having to dig that out themselves within an association. Instead, what we are aiming toward is having a centralized data base from which they can extract some of that information, and thereby reduce some of the time that they spend in the future.

INCENTIVE AWARDS

Mr. TRAXLER. Earlier the Chairman asked you about incentive awards. How are the incentive awards handled in 1981 in the nonadministrative account?

Mr. VAUGHAN. In 1981, based upon a directive from the Office of Management and Budget, we were required to classify incentive awards as a part of our personnel cost rather than as a part of our benefit costs, as it was in prior years, so now they are included in the personnel compensation cost. It is just a technical change by OMB.

Mr. TRAXLER. Provide for the record a detailed analysis of personnel program development costs for 1979, 1980, and 1981. Please include the total costs and the per student costs of the major training schools.

[The information follows:]

PERSONNEL DEVELOPMENT PROGRAM

PROGRAM DETAILS AND COST OF MAJOR PROGRAMS—FISCAL YEAR 1979, 1980, AND 1981

FHLBB examiners' training school

The Examiners' Training School is a four week course that familiarizes new examiners with the primary phases of the examination process, teaches necessary examination techniques and procedures and enhances the capabilities of assisting examiners.

Fiscal Year 1979.—During the year, five sessions of the school were conducted, training a total of 100 people. The attendees included 46 FHLBB examiners, 49 state examiners, and 5 from other FHLBB offices.

The incremental cost of the school for FHLBB examiners was $80,166 or $1,743 per examiners. Loss of revenue (that is, the reimbursable time of the examiners that is lost by their attending training), totaled $95,600, for a total of $175,766 or $3,821 per examiner trained.

The incremental cost for state examiners was $89,190 ($1,820 per examiner). Other costs totaled $87,776 making a total $176,966, or $3,611 for each state examiner trained.

Fiscal year 1980: Five sessions are planned during the year. OES expects to train 66 FHLBB examiners, and 47 state examiners during FY 1980. A slight increase in cost is anticipated for both FHLBB and state examiners. Anticipated costs are as follows:

For FHLBB examiners: Incremental cost of $115,038, and loss of revenue $137,280 for a total of $252,318.

For state examiners: Incremental cost of $85,540, and other $92,612, for a total of $178,152.

FHLBB appraisal training—level I

This program is designed to acquaint examiners with the fundamental principles and techniques of residential real estate appraising as well as the proper procedures to be followed in examination of residential appraisal reports. More specifically, the objective of the course is to provide individual examiners with the necessary understanding of appraisal practices and procedures to adequately review a savings & loan association's appraisal practices and policies, to recognize the existence of appraisal problems, and to discuss the materiality of appraisal deficiencies, and to recommend corrective measures.

Fiscal year 1979.—Two pilot sessions of the FHLBB Real Estate Appraisal School—Level I were held in September. A total of 30 FHLBB and 28 state examiners were trained at these two sessions.

Incremental cost for FHLBB examiners was $19,770, or $659 per examiner. Loss of revenue totaled $15,600, for a total of $35,370 or $1,179 per examiner.

For state examiners the incremental cost was $17,743 ($634 per examiner) and other costs were $10,378, for a total of $28,121, or $1,004 for each examiner.

Fiscal year 1980.—Three sessions are planned for FY 1980. A total of 90 people are expected to attend these sessions, 60 FHLBB examiners and 30 state examiners. Anticipated cost are as follows:

FHLBB examiners—Incremental cost of $39,540, loss revenue of $31,200, for a total of $70,740 or $1,179 for each examiner.

State examiners.—Incremental cost of $19,770, other $11,120, for a total of $30,890 or $1,030 for each examiner.

FHLBB civil right training

This course is intended to more fully developed examiners' skills and knowledge of the examination process and regulations for areas involving civil rights and the Community Reinvestment Act.

Fiscal year 1979.—During the year, 790 FHLBB staff members and 219 state examiners received training in this area. There were 31 two and a half day sessions held in the districts and in Washington, D.C.

The FHLBB cost totaled $303,500, or $384 per individual ($147,500 incremental costs and $156,000 loss of revenue).

The cost to the FHLBB of state participants totaled $23,729, or $110 per person ($8,053 incremental costs for the state examiners attending these sessions.

Fiscal year 1980—This training is not scheduled in fiscal year 1980.

FHLBB—EDP training

This program is designed to provide the field staff with examiners who are capable of conducting EDP examinations, including the training of a core of examiners who could be used as staff resources for solving more complex EDP related problems.

Fiscal year 1979.—During the year, five sessions of the basic EDP course and one advanced level EDP course were given. Training was received by 150 FHLBB examiners.

Incremental costs were $37,000, with loss of revenue at $70,200.

Fiscal year 1980.—Two four to five day sessions are planned for this year. A total of 70 people (40 FHLBB examiners and 30 state examiners) are scheduled to attend these sessions.

Incremental costs for FHLBB examiners are expected to be $8,520 ($213 per examiner) with a loss of revenue at $16,640.

State examiners' incremental costs are anticipated at $6,390 ($213 per examiner) and other costs at $1,224, or a total of $7,614.

Society and institute appraisal training

University-sponsored courses conducted by the Society of Real Estate Appraisers and American Institute of Real Estate Appraisers were attended by FHLBB examiners. Examiners attended courses at two levels of appraisal training.

Fiscal year 1979.—Thirty FHLBB examiners attended courses during the year. Incremental costs totaled $32,168 or $1,072 per examiner. Loss of revenue for the training was $31,200.

Fiscal year 1980.—Seventeen FHLBB examiners and 17 state examiners are expected to attend university-sponsored real estate appraisal courses during fiscal year 1980.

Incremental costs for both FHLBB and state examiners are anticipated to total $36,448 or $1,072 per examiner. Loss of revenue for FHLBB examiners should be $17,680. There are no additional costs for state examiners.

FHLBB regulation Z training

The objectives of this training are to enable field examiners to review the propriety of disclosures made to comply with Regulation Z, to test the accuracy of disclosed annual percentage rates, and where necessary, to calculate reimbursement.

Fiscal year 1979.—No training in this area on a national basis was conducted during the year. Some district level sessions were held with minimal incremental costs.

Fiscal year 1980.—Twenty sessions of three days duration are anticipated during 1980. Approximately 740 FHLBB examiners will be trained on a district-level. The incremental cost is projected to be $158,000 ($213 per examiner), with a loss of revenue of $230,880.

Interagency training

The Federal Financial Institutions Council has allocated 12 slots for Instructor Training and 9 slots for Management Training for the remainder of fiscal year 1980.

It is anticipated that FHLBB examiners will participate in the programs. The cost will be minimal.

Fiscal year 1981 training program

The Bank Board's Office of Examinations and Supervision (OES) has not finalized its training program for fiscal year 1981. However, the Examiner Training School and several other courses held in fiscal year 1980 will be continued in fiscal year 1981:

Examiner Training School.—OES anticipates holding the same number of sessions (5) that were held in fiscal year 1980, with the same number of FHLBB (60) and state (50) examiners attending.

OES Appraisal Training Level I.—Four sessions are planned during the year, with 80 FHLBB examiners, and 40 state examiners attending.

Advanced Civil Rights Training.—This program will continue in fiscal year 1981. All examiners who did not participate in fiscal year 1980, will receive training in this area. Approximately 475 FHLBB examiners, and 75 state examiners will attend 17 sessions during the year.

OES EDP Training.—The duration of each session or number of sessions have not been determined. This cannot be determined until the course has been fully developed.

Society and Institute Courses.—During fiscal year 1981, FHLBB and state examiners will continue to participate in university-sponsored level II real estate appraisal courses.

Interagency Training.—The following programs will be attended by FHLBB and state examiners (1) Management Training, (2) Instructors Training, (3) Nondiscrimination and Consumer Compliance, and (4) White Collar Crime. The number of examiners attending the courses will depend on the number of openings allocated to the FHLBB by the Federal Financial Institutions Council.

The incremental cost for each examiner in fiscal year 1980, is anticipated to increase for all courses approximately 15 percent in fiscal year 1981.

Cost and budget estimates

The fiscal year 1979 actual and fiscal year 1980 and 1981 budget estimates shown in the Federal Home Loan Bank Board's "Justification for fiscal year 1981 Estimates" for the personnel development program does not include travel and per diem expenses. Travel and per diem expense for training is included under the budget estimates for Travel and Transportation of Persons. Detail for the actual and estimated personnel development program as shown in the budget justification follows:

	Fiscal year 1979 actual	Fiscal year 1980 estimated	Fiscal year 1981 estimated
Individual district level training	$54,162	$90,000	$99,000
National program	23,461	60,000	76,000
NASSLS	197,637	150,000	150,000
Total	275,260	300,000	325,000

Individual district level training includes the expense for management and clerical training, appraisal courses, home study courses, financial education courses, university courses, an interagency training.

The expense for national programs includes site cost, books and materials, tuition for various courses, publications, and shipping charges.

STATE EXAMINER TRAINING

Mr. TRAXLER. This Committee has been extremely interested in the State Examiner training program. On page E-14 you describe 1979 activity in this area. Briefly describe the electronic data processing course and how you identified this need?

Mr. TAYLOR. The industry as a whole is turning rapidly toward data processing. We just feel that we need to have the capabilities to know how to extract from records the information we need, and how those systems work. We want to make sure that the accounting, that the statistics and information that we use in the examination process are correct and that the proper safeguards are there to prevent errors and prevent fraud. I would like to supply additional detailed information for the record.

Mr. TRAXLER. Also provide for the record how the $130,000 would be expended.

[The information follows:]

In 1978, the Office of Examinations and Supervision first offered a training course to acquaint examiners with electronic data processing functions and systems used in insured institutions. This course was supplemented with written examination programs to be used during an examination for the evaluation of internal controls in the EDP systems. At present, the EDP course is offered in two one-week sessions to participating state examiners as well as FHLBB examiners.

In 1980, sixty-two state examiners have expressed a desire to receive our training which is a number beyond our present capabilities. In order to provide training to a larger number of examiners as well as to improve EDP training content, OES is developing a new EDP course which will be available for state and federal examiners by late fiscal year 1980 or early fiscal 1981. This course will consist of one 4–7 day session utilizing a video-type presentation augmented with written lesson plans and student notebooks. The course plan at present consists of 16 subject:

1. Introduction; 2. External audits; 3. The examination; 4. Operations; 5. Computing technology (part I); 6. Computing Technology (part II); 7. Computing technology (part III); 8. Data integrity (introduction); 9. Data integrity (batch); 10. Data integrity (processing); 11. Data integrity (outfit); 12.Physical security; 13. Case study (physical security); 14. System standards and documentation (introduction); 15. System standards and documentation; (conclusion); and 16. Case studies.

In developing this course, OES retained outside consultants to furnish educational research, develop the printed and video materials and assist in the production of both. Total estimated costs for the design, production and development of this course are $130,555. (Consultants—$27,250 and $103,305 reserved for production and distribution costs.)

This course has been discussed on several occasions with representatives of NASSLS during meetings of the Joint Committee or examinations. After reviewing the initial course content outlines and receiving assurances that the course would have substantial written materials as well as the video-tape presentations, the NASSLS representatives expressed satisfaction.

Training in EDP is becoming of increasing importance to both state and federal examiners. Approximately 85 percent of insured institutions now utilize some form of EDP system, either through in-house installations or independent service centers. Not only is the potential for abuse of such systems very high but the FHLBB has witnessed their misuse in an increasing number of cases. A technical and specialized expertise is required to properly examine and review an institutions EDP system and its use.

Mr. TRAXLER. Turning to page E-12, we were told that as a result of OMB action on the 1979 pay increase, it may be necessary to restrict State examiner training. The Committee believes that $400,000, which includes the $250,000 in travel costs, is a modest sum in a $30 million program, and would expect that the Bank Board to make an effort to protect the State examiner training program in both 1980 and 1981. In addition, the Committee would like to be advised in advance if the Bank Board foresees no way to remain within the limitation without reducing the State examiner training program. We would expect you to notify us of that decision, if that should be the case.

LOSS ON SALE OF SECURITIES

Turn to Tab F, the Federal Saving and Loan Insurance Corporation. Page F-3 contains a $22,390,014 entry in the 1979 column for loss on sale/exchange of securities. Could you explain this column? You can do that for the record if you wish.

[The information follows:]

The loss on exchange of securities in Fiscal Year 1979 resulted from the sale of flower bonds with a purchase yield of 3.9770 and a maturity of 7.38 years. These bonds were purchased at a time (in mid 60's) when FSLIC traded in the public market and was often requested by Treasury to support new offerings. To enhance the portfolio performance, these bonds were replaced in December 1978 with higher yielding securities with an initial loss on the exchange but with an eventual recovery highly beneficial to the FSLIC in additional income.

SPECIAL STUDIES

Mr. TRAXLER. On page F-19 of the justifications it describes a $175,000 special study dealing with capital adequacy in the S&L industry. The funds are budgeted under the Bank Board's administrative expenses limitation in 1981 to study capital adequacy and capital instruments. Additionally, funds were included in the 1978 budget for study of capital adequacy for savings institutions. Why are the additional funds needed under the FSLIC limitation for this study? Provide the information for the record.

[The information follows:]

The fiscal year 1981 Budget request covers several elements of the FSLIC program to identify and revive the capital adequacy requirements which are imposed on the savings and loan industry through regulations.

Specifically, the 1981 budget of $175,000 includes the two following studies.

Budgeted for $125,000 is work on a system for implementing variable insurance premiums as an outgrowth of the variable net worth studies. Testing, evaluating and implementing this system will enable the FSLIC to charge insurance premiums commensurate with the FSLIC expected probability of loss from insuring association's savings accounts.

For example, we believe that three categories of risk may be appropriate. Category I, the least risky, would require the lowest premium and Category II, the most risky, would require the highest premium. In all cases, the actual premium would be reduced on a sliding scale to the extent that the association holds surplus net worth or is otherwise evaluated as being less risky.

The output from this work will be a simple formula for determining the insurance premium based on data contained in the semi-annual report.

Also, budgeted for 1981 is $50,000 for the study of capital adequacy. This study will continue the work on the variable net worth requirements in several ways. For example, the updating of the variable net worth requirements will be continued to incorporate the latest available information into net worth requirements and into the insurance premium structure. However, the study will differentiate between types of associations with respect to the potential risk that they become a claim against the insurance fund. For example, do mutuals represent a potentially greater probability of loss to the Corporation's insurance fund than stock associations? If so, this type of factor should be incorporated into the risk monitoring system and activities of the FSLIC through the net worth and insurance premium requirements.

The refinements of previous analyses on capital adequacy in the savings and loan industry will allow the FSLIC to focus on the significant different characteristics that exist between capital adequate and capital inadequate associations. The objective is to enhance policy decisions that must be made regarding adequate levels of capital.

These efforts do not conflict with or overlap the work outlined in C-19. Then, efforts will make use of these findings in other work such as that in C-19. Several levels of effort are required to properly address the problem. While the FSLIC is concerned with managing and regulating the capital adequacy requirements of the

industry over time, in several economic scenarios, efforts such as in C-19 are directed more toward access to capital markets.

The capital adequacy study included in the 1978 budget was not undertaken at that time.

Mr. TRAXLER. The proposed study——

Mr. JANIS. Mr. Chairman, I believe in this study we are trying to develop an asset-based test for the industry, so that we could possibly consider switching over to such a test of net worth. It would give a more precise calculation of what that net worth cushion in fact ought to be, by going into the factors relating to the relative strength of various kinds of assets, such as VA, FHA mortgages versus conventional mortgages and other types of assets.

Mr. TRAXLER. Do you think that $175,000 is a considerable sum for that study?

Mr. JANIS. No. I think in terms of what is involved, it is quite a reasonable sum.

Mr. TRAXLER. The FHLBB budget justification will be inserted in the record at this point. Thank you, gentlemen. The committee stands adjourned.

[The justification follows:]

FEDERAL HOME LOAN BANK BOARD

Justification of Estimates for Fiscal Year 1981

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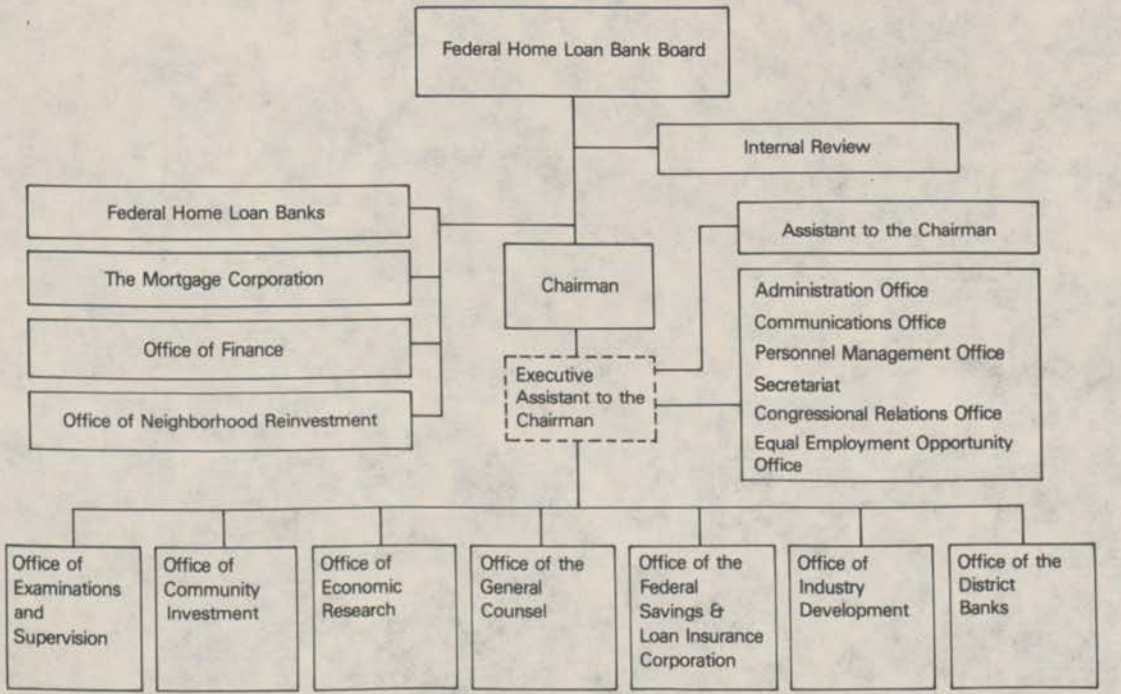
Federal Home Loan Bank Board Organization



Approved:

JAY JANIS
CHAIRMAN
JANUARY 21, 1980

A-1

HISTORICAL SUMMARY OF THE

FEDERAL HOME LOAN BANK BOARD AND ITS CONSTITUENT AGENCIES

The Federal Home Loan Bank Board was established by the Federal Home Loan Bank Act, approved July 22, 1932, to provide a permanent credit reservoir for thrift and home-financing institutions through the creation of regional Federal Home Loan Banks. The United States Government provided the original capital of the banks by investing a total of $124,741,000. This investment was retired by the banks, over the years, at a rate in excess of statutory requirements. As of July 2, 1951, the Government's investment had been fully repaid. Since that time the capital stock of the 12 banks is owned by the member institutions.

The Home Owners' Loan Act, approved June 13, 1933, gave authority to the Board to charter and supervise local mutual institutions to be known as Federal savings and loan associations. These associations were to serve as a means of encouraging local thrift and home financing.

From the date of its creation in 1932 until April 25, 1939, the Federal Home Loan Bank Board functioned as an independent establishment reporting directly to the Congress and the President. On April 25, 1939, by congressional approval of the President's Reorganization Plan No. 1, the Board and the organizational units under its jurisdiction were grouped under the Federal Loan Agency along with other related Government corporations and organizations.

The Board continued under the Federal Loan Agency until February 24, 1942, when by Executive Order No. 9070 the five-man Board was vacated and its Chairman was made Commissioner of the "Federal Home Loan Bank Administration," the units formerly under the Board being retained. The Executive Order placed the Board under the National Housing Agency, together with the Federal Housing Administration and the Federal Public Housing Authority.

Under Reorganization Plan No. 3 of 1947, effective July 27, 1947, a bi-partisan Board of three members was substituted for the single Commissioner and the "Home Loan Bank Board" became a component part of the Housing and Home Finance Agency.

The Board continued in this relationship until the enactment of the "Housing Amendments of 1955," approved August 11, 1955, which reestablished the "Federal Home Loan Bank Board" as an independent agency.

Reorganization Plan No. 6 of 1961, effective August 12, 1961, transferred to the Chairman of the Board, the Board's functions with respect to the overall management, functioning, and organization of the Agency. The appointment, removal, and direction of personnel, the distribution of business among and the communication of Board policies to such personnel, the enforcement of policies, as well as other administrative and management functions were transferred to the Chairman.

Nothing in the transfer impinges upon the ability of the Members of the Board to act independently with respect to substantive matters. In carrying out his managerial functions, the Chairman is governed by the general policies of the Board; the Board has the authority to approve the Chairman's appointments of the heads of major administrative units, and the other Members of the Board retain their control over the personnel in their immediate offices.

Federal Savings and Loan Insurance Corporation

On June 27, 1934, Title IV of the National Housing Act provided for the creation of the Federal Savings and Loan Insurance Corporation and placed it under the direction and management of the Federal Home Loan Bank Board. The capital stock of the Corporation was $100,000,000. It was subscribed for by the former Home Owners' Loan Corporation. Retirement of the stock began in 1951 and was completed by July 1, 1958.

The Federal Savings and Loan Insurance Corporation insures the safety of savings against loss up to $40,000 for each insured member in all Federally-chartered associations and in State-chartered associations which apply and qualify for such insurance.

Federal Home Loan Mortgage Corporation

The Federal Home Loan Mortgage Corporation was established by Title III of the Emergency Home Finance Act of 1970 (84 Stat. 451-458), approved July 24, 1970. The Corporation's board of directors, by law, is comprised of the members of the Federal Home Loan Bank Board. The function of the Corporation is to provide a secondary market for residential mortgages. The operations are confined, so far as practicable, to residential mortgages which generally meet the purchase standards set by private institutional mortgage investors.

Neighborhood Reinvestment Corporation

The Neighborhood Reinvestment Corporation (formerly the Urban Reinvestment Task Force) was established by Public Law 95-557, approved October 31, 1978, to promote reinvestment in older neighborhoods by local financial institutions working cooperatively with local people and local government. The Chairman of the Federal Home Loan Bank Board serves as a member of a six-person board of directors.

Federal Home Loan Bank Board

PROGRAM HIGHLIGHTS

The Federal Home Loan Bank Board supervises and regulates the Federal Home Loan Bank System, the System of Federal Savings and Loan Associations, and the Federal Savings and Loan Insurance Corporation, created to serve the American public through the media of savings and loan associations, co-operative banks, and other financial institutions engaged in the encouragement of thrift and economical home ownership.

The Federal Home Loan Bank Board is primarily a regulatory and supervisory agency in the savings and home-financing field. It issues charters for Federal savings and loan associations, and insures savings accounts in Federal savings and loan associations, and in approved State-chartered savings and loan institutions.

The 1981 budget estimates of the Federal Home Loan Bank, the Office of Examinations and Supervision, and the Federal Savings and Loan Insurance Corporation are based on the need for maintaining all operations in a current status, giving full consideration to the complex problems arising from changing economic conditions and the increased competition for savings among financial institutions.

The costs of the Federal Home Loan Bank Board operations -- including the examinations of insured savings and loan associations -- are met by assessing the twelve Federal Home Loan Banks and the Federal Savings and Loan Insurance Corporation for services rendered, and by direct examination charges to savings and loan associations for the services of the Office of Examinations and Supervision. Thus, although the Board restricts its expenditures to budget limitations, the Board receives no appropriated funds from the U.S. Treasury.

The number, size, and business activity of the institutions supervised by the Board continues to fluctuate. The following table relating to savings and loan association members of the Bank System shows the number and assets on September 30, 1979 and mortgage loans made and the net inflow of savings for the 12-month period ending on that date; it also shows the increases over the comparable 1978 period in dollar and percentage terms.

Description	Fiscal 1978	Fiscal 1979	Increase or Decrease (-) Amount	Increase or Decrease (-) Percent
	(Dollars in Billions)			
Number of Member Savings and Loan Associations at September 30.....	4,158	4,143	-15	-0.4
Assets at September 30..	$501.8	$562.7	$60.9	12.1
Mortgage Loans Made During Year.....	$109.2	$103.8	$-5.4	-4.9
Net Inflow of New Savings During Year 1/.....	$ 43.3	$ 42.2	$-1.1	-2.5

1/ Includes Dividends Credited

As indicated in the table on the previous page, the number of member savings and loan associations decreased by 15 over the number recorded at September 30, 1978. Assets showed an increase of $60.9 billion over September 30, 1978; loans made during fiscal year 1979 decreased $5.4 billion over the volume made during the preceding 12-months. The net inflow of new savings declined by $1.1 billion, as a result of an increase in market interest rates however, and was particularly poor late in the period, resulting in an increase in borrowing from the Federal Home Loan Banks. At the end of fiscal year 1979, member savings and loan associations held about $383 billion in, or 46 percent of, all home mortgages.

FEDERAL HOME LOAN BANK SYSTEM

The Federal Home Loan Bank System, through its 12 regional Federal Home Loan Banks, strategically located throughout the country, provides a permanent credit reserve for eligible institutions. The Federal Home Loan Banks advance funds to these member institutions to meet withdrawal demands as well as seasonal and expansionary needs for additional home-mortgage funds. Through the use of interbank deposits, the System maintains flows of housing funds into every locality.

The regional Banks, the stock of which is owned by their member institutions, do not deal directly with individuals. The great majority of the members are savings and loan associations, also known sectionally as building and loan associations, co-operative banks, and homestead associations. Included also in the membership of the Federal Home Loan Bank System are 100 mutual savings banks and two life insurance companies.

The importance of the Federal Home Loan Bank System is indicated by the fact that at September 30, 1979, the combined resources of its member institutions totaled $605 billion. In fiscal year 1979 its savings and loan members made housing and other mortgage loans amounting to $103.8 billion.

Located in most cities, suburban areas, and towns throughout the United States, the System's member institutions serve around 105 million people including savers, investors, and borrowers.

Member Institutions

The Federal Home Loan Bank System, comprised of the 12 regional Federal Home Loan Banks, had a membership of 4,245 institutions at September 30, 1979. Membership in the System since its inception increased from 2,080 at year end 1933 to 3,951 on December 31, 1938. Resulting primarily from consolidation and mergers, the membership gradually decreased to 3,698 in calendar year 1946. From that time, both the membership and membership assets went steadily upward until calendar year 1967. Membership assets have continued to grow since then, but the number of members has decreased in most years, as shown in the table on the following page, due primarily to mergers and voluntary withdrawals.

Federal Home Loan Bank Board

Number and Assets of Members of the Federal Home Loan Bank System

Fiscal Year-End	Number	Assets (Billions)
1950	3,898	$ 15.4
1955	4,272	34.0
1960	4,674	65.8
1965	5,043	128.6
1970	4,714	173.3
1975	4,310	333.7
1976	4,244	386.1
1977	4,254	469.2
1978	4,241	535.9
1979	4,245	605.4
1980*	4,243	649.2
1981*	4,239	721.2

*Estimate

Membership increased by 4 last year in contrast to the historical trend, however, because of an increase in mutual savings bank membership in the New England area. But even with some further rise in mutual savings bank membership over the several years, it is expected to drop by another 2 during the current fiscal year to 4,243 by September 30, 1980, and by an additional 4 to 4,239 by September 1981.

Member assets totaled $605.4 billion on September 30, 1979, 13.0% more than a year earlier. They are expected to increase by a smaller $43.8 billion, or 7.2%, during the 12 months ending September 30, 1980, and to reach $721.2 billion by September 30, 1981, a rise of 11.1% in fiscal year 1981.

Federal Home Loan Bank Board

The following table shows composition of the total membership at September 30, 1978 and 1979, together with the estimated total assets:

Members	September 30, 1978 Number	September 30, 1978 Assets	September 30, 1979 Number	September 30, 1979 Assets
		(Dollars in Millions)		
Savings and Loan Associations:				
Federally-Chartered	2,006	$289,998	1,996	$319,772
State-Chartered-Insured	2,047	208,848	2,047	239,660
State-Chartered-Uninsured	105	2,961	100	3,227
Mutual Savings Banks	81	33,973	100	42,639
Insurance Companies	2	126	2	150
Total All Members	4,241	535,906	4,245	605,448

Included in the 100 State-chartered uninsured institutions at Sept. 30, 1979, are 38 co-operative banks in the State of Massachusetts. These institutions are members of the Massachusetts Share Insurance Fund of the Co-operative Central Bank.

Mortgage loans made by member savings and loan associations

Loans made by member savings and loan associations for the years indicated are shown in the following table:

Loans Made by Member Savings and Loan Associations
(In Millions)

Fiscal Year	S&L Members of FHLB System	All Insured Associations
1950	$ 4,202	$ 3,709
1955	10,298	9,820
1960	14,193	13,916
1965	23,789	23,473
1970	18,459	18,042
1975	38,862	38,642
1976	66,461	66,045
1977	98,900	98,343
1978	109,206	108,636
1979	103,826	103,288
1980*	81,500	81,000
1981*	109,800	109,300

*Estimate

As indicated, the total dollar volume of mortgage loans made by member savings and loan associations in fiscal year 1979 aggregated $103.8 billion. This was 4.9% less than a year earlier because of a modest reduction in the flow of funds from both savers and loan repayments. Lending by member associations in the current fiscal year is expected to decline 22% further in fiscal 1980 to $82 billion because of a drop in savings flow to members resulting from a monetary policy designed to reduce inflationary pressures. Lending is expected to rise by 35% to $109 billion in fiscal 1981, however, as monetary policy becomes less restrictive and savings flow to members improves. The total dollar volume of mortgage loans made by insured associations is also shown in the table, and follows a similar pattern.

Federal Home Loan Bank Board

The principal purposes for which loans were made by insured savings and loan members over the last three fiscal years are indicated in the following table:

Loans Made by Insured Savings and Loan Associations, by Purpose of Loan
(Dollar Amounts in Millions)

Purpose	Fiscal 1977	%	Fiscal 1978	%	Fiscal 1979	%
Home Construction..	$16,440	16.7	$ 19,555	18.0	$ 19,062	18.5
Home Purchase.....	57,152	58.1	63,508	58.5	62,198	60.2
Other Purposes*....	24,751	25.2	25,573	23.5	22,028	21.3
Total.....	98,343	100.0	108,636	100.0	103,288	100.0

*Includes loans for construction and purchase of apartments and non-residential property, refinancing, and miscellaneous purposes.

The volume of home construction loans made in fiscal 1979 showed a decrease of 2.5% when compared with 1978. Home purchase loans declined by 2.1% and loans for other purposes by 13.8%. The overall decrease was 4.9%.

Savings in member savings and loan associations

Trends in savings flow of member savings and loan associations are shown in the following table:

Trend in Savings in Member Savings and Loan Associations
(In Billions)

Fiscal Year	Gross Savings Received**	Withdrawals	Net Inflows**
1950	$ 4.5	$ 3.0	$ 1.5
1955	11.9	7.3	4.6
1960	23.0	16.3	6.7
1965	38.3	29.0	9.3
1970	59.0	55.1	3.9
1975	139.1	108.8	30.3
1976	163.1	119.7	43.4
1977	207.7	154.8	52.9
1978	249.2	205.9	43.3
1979	330.8	288.7	42.2
1980*	370.4	345.6	24.8
1981*	410.4	348.9	61.5

*Estimate
**Includes interest credited

As indicated, gross savings received by member savings and loan associations during fiscal 1979 aggregated $330.8 billion. This was 32.7% more than a year earlier partly because of the introduction of new savings instruments such as the 6-month money market certificate. Withdrawals of savings rose even more as a result of the rise in market interest rates, however, leaving a net inflow of $42.2 billion, $1.1 billion less than a year earlier. The net inflow of savings to associations is expected to decline by nearly 41 percent to $24.8 billion in fiscal 1980 as a result of high market interest rates associated with a restrictive monetary policy, but then to increase to a record $61.5 billion in fiscal 1981, when monetary policy becomes less restrictive and interest rates decline.

Federal Home Loan Bank Board

Summary of activities

The following table summarizes the condition of the members of the Federal Home Loan Bank System at September 30, 1979, and also provides our estimates for the fiscal years ending September 30, 1980 and 1981:

Federal Home Loan Bank System	Sept. 30, 1979 Actual	Sept. 30, 1980 Estimate	Sept. 30, 1981 Estimate
	(Dollars in Millions)		
Member institutions:			
Number	4,245	4,243	4,239
Assets	$605,448	$649,200	$721,200
Savings	$494,000	$523,300	$576,900
Mortgage Loans	$487,900	$521,600	$587,600
Number of Insured Associations	4,043	4,033	4,023
Regional Banks:			
Advances Outstanding	$ 38,596	$ 46,500	$ 43,500

FEDERAL SAVINGS AND LOAN ASSOCIATIONS

The creation of Federal associations was authorized by Congress in 1933 to provide additional local thrift institutions for people to place their savings and/or obtain loans to finance their homes. Savings and loan associations have been making loans to help finance home purchases in the United States for the past 148 years.

All Federal savings and loan associations are required to be members of the Federal Home Loan Bank System and to carry insurance of their savings accounts with the Federal Savings and Loan Insurance Corporation.

At September 30, 1979, there were 1,996 Federal savings and loan associations operating under charter, examination, and supervision by the Federal Home Loan Bank Board. Their combined resources at September 30, 1979 were $320.0 billion. Federal savings and loan associations are in operation in every State, in the District of Columbia, and in Puerto Rico.

FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION

Created in 1934, the Federal Savings and Loan Insurance Corporation insures, up to $40,000 each, withdrawable savings, deposits and investment certificates in approved savings and loan associations and similar institutions. Insurance of savings has been an important factor in stimulating the flow of savings into thrift and home-financing institutions. These savings are used largely for the financing of homes. The number of insured institutions at September 30, 1979 was 4,043; their combined assets were $559.4 billion. Reserves for insurance losses held by the Corporation were $5.6 billion at September 30, 1979, and are estimated at $6.2 and $6.8 billion, respectively, at September 30, 1980 and 1981. All FSLIC insured institutions are members of the Federal Home Loan Bank System. (See more extensive activity description beginning on page F-5.

Federal Home Loan Bank Board

SUMMARY OF AGENCY EXPENSES

The budget programs of the Federal Home Loan Bank Board including the Federal Savings and Loan Insurance Corporation are presented as business-type budgets.

The budget estimates for 1981, the revised estimates for the current fiscal year, and actual expenses for fiscal 1979 are summarized in the following two tables:

Comparative Summary of Positions and Work-Years

Unit	1979 Actual		1980 Estimate		1981 Estimate	
	Positions	Work-Years	Positions	Work-Years	Positions	Work-Years
Board and Staff Offices.....	495	458	462	456	495	489
Federal Savings and Loan Insurance Corporation.....	20	17	972	963	20	19
Office of Examinations and Supervision.....	919	899	-0-	-0-	919	911
Total.....	1,434	1,374	1,434	1,419	1,434	1,419

Comparative Summary of Expenses

ADMINISTRATIVE EXPENSES:

Unit	1979 Actual	1980 Budget Estimate	1980 Current Estimate	1981 Estimate	Increase or Decrease(-)
Board and Staff Offices.....	$16,347,525	$18,359,000	$19,124,000	$21,030,000	$ 1,906,000
Federal Savings & Loan Insurance Corporation.....	744,686	33,466,000	34,736,000	1,115,000	-33,621,000
Sub-Total.....	17,092,211	51,825,000	53,860,000	22,145,000	-31,715,000
NONADMINISTRATIVE EXPENSES:					
Office of Examinations and Supervision.....	28,928,022	-0-	-0-	34,105,000	34,105,000
Total.....	46,020,233	51,825,000	53,860,000	56,250,000	2,390,000
Estimated Savings.	3,557,767	.....	.....	.....	.....
Proposed Supplemental due to Increased Pay Costs.....	.....	.....	-2,035,000	.....	2,035,000
Actual, Authorization and Estimate....	49,578,000	51,825,000	51,825,000	56,250,000	4,425,000

As shown, the difference of $2,035,000 between the 1980 budget estimate of $51,825,000, and the current estimate of $53,860,000 is attributable to increased pay costs totaling $2,035,000 resulting from the October 1979 pay increase. This amount is net of $860,000 administratively absorbed by the Bank Board and FSLIC. Of the total supplemental requested, $765,000 is for the Board and Staff Offices and $1,270,000 is for the FSLIC.

As shown, our total positions and estimated work-years for 1981 remain the same as for 1980. However, as a result of reestablishing the Office of Examinations and Supervision (OES), the FSLIC will drop 952 positions; 33 of these positions involved in the examination function in Washington will be restored to and funded under the Board and Staff Offices 1981 limitation, and 919 district office positions will be restored to and funded under the OES separate limitation for 1981 on field examination expenses.

The 1981 estimate of $56,250,000 represents an overall net increase of only $2,390,000, or 4.4% over the current 1980 estimate of $53,860,000. This net increase is primarily the result of anticipated general price increases in areas over which we have little control such as pay and benefit adjustments occasioned by the October 1979 pay raise, increased travel costs (primarily examiner travel), and other supplies, materials, and services required to carry on our operations at about the same level as that planned for 1980.

The Board and Staff Office 1981 estimate shows an increase of about 10% over the 1980 current estimate. However, the bulk of this increase - $1,317,000 or 6.9% is attributable to the expenses for the OES Washington Office to be restored to this limitation in 1981. Comparative costs for 1980, included in the FSLIC limitation, total $1,282,000.

The total net increase of $2,390,000, by category of expense, is shown below.

Item	Increase or Decrease (-)
Personnel Compensation	$1,216,000
Personnel Benefits	175,000
Travel and Transportation of Persons	305,000
Tranportation of Things	18,000
Rent, Communications, and Utilities	272,000
Printing and Reproduction	37,000
Other Services	205,000
Supplies and Materials	72,000
Acquisition of Capital Assets	90,000
Total	$2,390,000

Distribution of these increases between the Bank Board and FSLIC Administrative accounts and the Office of Examinations and Supervision Nonadministrative account is shown on pages C-5, E-5, and F-15.

Federal Home Loan Bank Board Revolving Fund
A. Statement of Sources and Applications of Funds

FUNDS APPLIED	1979 Actual	1980 Estimate	1981 Estimate
To operations			
Acquisition of assets:			
Furniture, fixtures and equipment.....	$ 362,673	$ 350,000	$ 627,000
Land and building.....	2,160,972	1,100,000	250,000
Expense:			
Administrative expense.....	16,011,146	18,676,000	20,546,000
Nonadministrative expense:			
Cost of examining and supervising savings and loan associations.....	28,964,906	-0-	34,071,000
Building operating expense.....	2,269,899	2,439,000	2,652,000
Increase in selected working capital..	46,371,390	-0-	-0-
Total applied to operations.....	96,140,986	22,565,000	58,146,000
To financing			
Increase in Treasury cash.....	-0-	634,748	-0-
Total funds applied.....	96,140,986	23,199,748	58,146,000
FUNDS PROVIDED			
By operations			
Income	93,680,481	21,655,000	57,895,000
Decrease in selected working capital....	-0-	1,544,748	251,000
Decrease in annual leave liability	1,735,082	-0-	-0-
Total funds applied by operations.....	95,415,563	23,199,748	58,146,000
By Financing			
Decrease in Treasury cash	725,423	-0-	-0-
Total funds provided	96,140,986	23,199,748	58,146,000
BUDGET EXPENDITURES			
Funds applied to operations.....	96,140,986	22,565,000	58,146,000
Funds provided by operations.....	-95,415,563	-23,199,748	-58,146,000
Net budget expenditures.....	725,423	-634,748	-0-

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Federal Home Loan Bank Board Revolving Fund
B. Statement of Income and Expense

	1979 Actual	1980 Estimate	1981 Estimate
Income			
Examining fees and charges	$18,079,339	$ -0-	$19,276,000
Assessment for services and facilities: Federal Savings and Loan Insurance Corporation	21,872,518	12,671,000	28,577,000
Federal Home Loan Banks	52,433,342	7,539,000	8,406,000
Rental income from building	937,573	1,200,000	1,391,000
Reimbursements from other accounts	145,277	70,000	70,000
Miscellaneous	212,432	175,000	175,000
Total income	93,680,481	21,655,000	57,895,000
Expense			
Administrative expense:			
Reimbursable expense	79,687	70,000	70,000
Nonreimbursable expense	15,931,459	18,606,000	20,476,000
Subtotal	16,011,146	18,676,000	20,546,000
Depreciation on furniture, fixtures and equipment	416,066	518,000	554,000
Total administrative expense	16,427,212	19,194,000	21,100,000
Cost of examining and supervising savings and loan associations:			
Reimbursable expense	65,590	-0-	-0-
Nonreimbursable expense	28,899,316	-0-	34,071,000
Subtotal	28,964,906	-0-	34,071,000
Depreciation on furniture, fixtures and equipment	28,706	-0-	34,000
Total cost of examining and supervising savings and loan associatons	28,993,612	-0-	34,105,000
Building operating expense	2,269,899	2,439,000	2,652,000
Depreciation on building and equipment and amortization of tenant improvements	848,565	939,000	946,000
Total building expense	3,118,464	3,378,000	3,598,000
Total expense	48,539,288	22,572,000	58,803,000
Assessments and fees in excess of expense	45,141,193	-917,000	-908,000

ANALYSIS OF DEFERRED AND UNDISTRIBUTED CREDITS

Deferred and undistributed credits, beginning of year	9,999,428	56,875,703	55,958,703
Adjustment due to write off of OES annual leave liability	1,735,082	-0-	-0-
Deferred and undistributed credits, end of year	56,875,703	55,958,703	55,050,703

Federal Home Loan Bank Board Revolving Fund
C. Statement of Financial Condition

ASSETS	1978 Actual	1979 Actual	1980 Estimate	1981 Estimate
Cash with U.S. Treasury.....	$ 490,675	$ -234,748	$ 400,000	$ 400,000
Accounts receivable.....	11,845,585	11,706,976	10,818,082	10,403,207
Fixed assets: Land and building, net.....	45,696,413	47,057,385	47,273,385	46,637,385
Furniture, fixtures and equipment, net.....	4,269,494	4,138,830	3,915,830	3,894,830
Total assets.....	62,302,167	62,668,443	62,407,297	61,335,422
LIABILITIES				
Current liabilities.....	52,302,739	5,792,740	6,448,594	6,284,719
Deferred and undistributed credits.....	9,999,428	11,875,703	10,958,703	10,050,703
Paid in capital FHLBB bldg...	-0-	45,000,000	45,000,000	45,000,000
Total liabilities.....	62,302,167	62,668,443	62,407,297	61,335,422

Federal Home Loan Bank Board

BOARD AND STAFF OFFICES

SUMMARY

The 1981 estimates of administrative expenses of the Board and Staff Offices, the revised estimates for the current fiscal year, and actual expenses for 1979 are summarized in the following table:

Description	1979 Actual	1980 Budget Estimate	1980 Current Estimate	1981 Estimate	Increase or Decrease(-)
Positions	495	462	462	495	33
Work-Years	458	456	456	489	33
Personnel Compensation	$11,748,731	$12,170,000	$12,710,000	$14,003,000	$1,293,000
Personnel Benefits	1,117,532	1,195,000	1,250,000	1,415,000	165,000
Sub-Total	12,866,263	13,365,000	13,960,000	15,418,000	1,458,000
Contractual Services and Supplies	3,085,894	4,551,000	4,666,000	5,063,000	397,000
Acquisition of Capital Assets	475,055	513,000	568,000	619,000	51,000
Total Gross Expenses	16,427,212	18,429,000	19,194,000	21,100,000	1,906,000
Reimbursements	-79,687	-70,000	-70,000	-70,000	.....
Total Net Expenses	16,347,525	18,359,000	19,124,000	21,030,000	1,906,000
Estimated Savings	1,695,475	.....	.....	.....	.....
Proposed Supplemental Due to Increased Pay Costs	.....	.....	-765,000	.....	765,000
Actual, Authorization, & Estimate	18,043,000	18,359,000	18,359,000	21,030,000	2,671,000

The increase of $765,000 in the 1980 current estimate over the 1980 budget estimate is our proposed 1980 supplemental covering increased pay costs resulting from the October 1979 pay raise. Individual line-item differences between the budget and current estimates for 1980 are discussed in subsequent sections of this part dealing with the Board and Staff Offices.

The 1981 estimate shows an increase of 33 in authorized positions from 462 to 495. In connection with the reestablishment of the Office of Examinations and Supervision as a unified office the funding for the 33 positions and other expenses for the OES Washington Office will be included in Board and Staff Offices account as they were in fiscal year 1979. The previous reorganization transferred the examination function to FSLIC and the supervision function to the Board's Office of District Banks.

Federal Home Loan Bank Board

BOARD AND STAFF OFFICES

Most ($1,317,000) of the $1,906,000 increase in expenses for 1981 is attributable to the OES Washington Office. (Comparative costs for 1980, included in the FSLIC limitation account, total $1,282,000.) The balance ($589,000) is attributable primarily to increases in pay and benefits and general price increases for other goods and services.

The total net increase of $1,906,000 by category of expense, is shown below.

Item	Increased Amount
Personnel Compensation	$1,293,000
Personnel Benefits	165,000
Travel and Transportation of Persons	65,000
Transportation of Things	9,000
Rent, Communications, and Utilities	131,000
Printing and Reproduction	36,000
Other Services	79,000
Supplies and Materials	77,000
Acquisition of Capital Assets	51,000
Total	$1,906,000

Reimbursements - A table showing reimbursements to the Board for services rendered will be found on page C-22.

SOURCES OF FUNDS

The funds used to pay the administrative expenses of the Board are derived from the following sources:

Sources	1979 Actual	1980 Estimate	1981 Estimate
By Assessments upon:			
Federal Home Loan Banks	$ 6,586,418	$ 7,705,060	$ 8,472,987
Federal Savings and Loan Insurance Corporation	9,761,107	11,418,940	12,557,013
Total Funds	$16,347,525	$19,124,000	$21,030,000

Distribution of the 1981 expenses among the two sources shown is based upon the following formula: The Insurance Corporation will pay 21% of the administrative expenses of the Board as a direct charge for services rendered by the Board Staff Offices and Divisions in its behalf. The remainder of the administrative expenses will be distributed by assessment of 49% to the Insurance Corporation, and 51% to the Banks. The respective percentages for the Insurance Corporation and the Banks are based on the ratio of the membership of each one to the combined membership of the Insurance Corporation and the Bank System at September 30, 1979.

ANALYSIS OF EXPENSES - DETAIL

A comparative summary of administrative expenses for the Bank Board and Staff Offices for fiscal year 1979, 1980, and 1981, followed by an outline of personal services, other object classifications by type of expense, and including analyses and justification of the need for all such expenses, begins on the following page.

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Federal Home Loan Bank Board
COMPARATIVE SUMMARY OF ADMINISTRATIVE EXPSENSES

	1979 Actual			1980 Estimate			1981 Estimate		
	Gross Positions	Net Work-Years	Amount	Gross Positions	Net Work-Years	Amount	Gross Positions	Net Work-Years	Amount
Personal Services and Benefits:									
Personnel Compensation:									
Office of the Chairman	7	5.6	$ 191,096	7	7.0	$ 250,000	7	7.0	$ 255,000
Office of Board Member Vacant	4	4.0	129,504	4	4.0	142,000	4	4.0	142,000
Office of Board Member DiPrete	4	1.4	49,368	4	4.0	136,000	4	4.0	139,000
Administration Office	5	5.5	177,310	5	5.0	195,000	5	5.0	196,000
Administrative Services Division	42	41.1	967,467	41	41.0	1,040,000	41	40.0	1,045,000
Budget Staff	8	7.9	225,542	8	8.0	244,000	8	8.0	245,000
Controller's Division	40	39.9	616,618	41	40.0	681,000	41	41.0	698,000
Information Systems Division	47	45.7	1,151,959	47	47.0	1,296,000	47	46.0	1,315,000
Communications Office	16	15.1	379,514	16	16.0	429,000	16	15.0	426,000
Congressional Relations Office	3	2.5	69,172	3	3.0	90,000	3	3.0	95,000
Equal Employment Opportunity Office	4	3.9	115,747	4	4.0	126,000	4	4.0	135,000
Internal Review Office	14	9.3	228,068	14	14.0	371,000	14	14.0	384,000
Personnel Management Office	21	19.8	489,693	21	21.0	516,000	21	20.0	517,000
Secretariat	22	22.0	362,793	22	21.0	382,000	22	22.0	405,000
Office of Community Investment	26	16.5	488,299	26	24.0	715,000	26	26.0	765,000
Office of District Banks	48	45.7	1,277,102	48	47.0	1,422,000	12 (2)	12.0	306,000
Office of Economic Research	29	27.5	901,519	29	29.0	1,016,000	29	28.0	1,015,000
Office of Examinations and Supervision	33	31.0	847,359	-0- (1)	-0-	-0- (1)	69 (2)	69.0	2,199,000
Office of General Counsel	79	71.7	2,071,864	79	78.0	2,493,000	79	78.0	2,533,000
Office of Industry Development	43	41.5	1,008,737	43	43.0	1,166,000	43	43.0	1,188,000
TOTAL PERSONNEL COMPENSATION	495	457.6	11,748,731	462	456.0	12,710,000	495	489.0	14,003,000
Personnel Benefits:									
Federal Employees Compensation Benefits			80,452			95,000			110,000
Health Benefits			209,188			228,000			264,000
Life Insurance			27,322			35,000			44,500
Moving and Related Expenses			85			5,000			13,000
Retirement			772,220			840,000			933,500
Social Security Tax (FICA)			27,516			30,000			33,000
Severance Pay			-0-			16,000			16,000
Uniform Allowances			749			1,000			1,000
TOTAL PERSONNEL BENEFITS			1,117,532			1,250,000			1,415,000
TOTAL PERSONAL SERVICES AND BENEFITS			12,866,263			13,960,000			15,418,000

Federal Home Loan Bank Board
COMPARATIVE SUMMARY OF ADMINISTRATIVE EXPENSES
(Continued)

	1979 Actual			1980 Estimate			1981 Estimate		
	Gross Positions	Net Work-Years	Amount	Gross Positions	Net Work-Years	Amount	Gross Positions	Net Work-Years	Amount
Contractual Services and Supplies:									
Travel and Transportation of Persons.			$ 365,942			$ 510,000			$ 575,000
Transportation of Things			15,745			15,000			24,000
Rent, Communications and Utilities			1,006,607			1,187,000			1,318,000
Printing and Reproduction			266,825			439,000			475,000
Other Services			1,051,305			2,025,000			2,104,000
Supplies and Materials			379,469			490,000			567,000
TOTAL CONTRACTUAL SERVICES AND SUPPLIES			3,085,894			4,666,000			5,063,000
Acquisition of Capital Assets:									
Equipment			475,055			568,000			619,000
TOTAL GROSS EXPENSES			16,427,212			19,194,000			21,100,000
Reimbursements from Other Accounts			-79,687			-70,000			-70,000
TOTAL NET EXPENSES			16,347,525			19,124,000			21,030,000
Estimated Savings			1,695,475			-0-			-0-
Proposed Supplemental Due to Increased Pay Costs			-0-			-765,000			-0-
ACTUAL, AUTHORIZATION, AND ESTIMATE			18,043,000			18,359,000			21,030,000

(1) In Fiscal Year 1980 the 33 positions and related expenses for the examination function of the former Office of Examinations & Supervision-Washington are included under the FSLIC Administrative Expense Limitation. See Comparative Expense Summary on page F-16.

(2) In Fiscal Year 1981 the former Office of Examinations and Supervision will be reconstituted as a separate office under the Bank Board. The positions and related funds for the OES Washington Office will be consolidated under the Bank Board Administrative Expense Limitation. The 919 positions and related funds for the OES Field Offices will be covered under a separate limitation account. See Comparative Expense Summary on page E-7.

Federal Home Loan Bank Board
COMPARATIVE SUMMARY OF ADMINISTRATIVE EXPENSES

	1979 Actual	1980 Estimate OES - Wash. 1/	1980 Estimate FHLBB	1980 Estimate Total	1981 Estimate OES - Wash.	1981 Estimate FHLBB	1981 Estimate Total
Personal Services and Benefits:							
Gross Positions	495	33	462	495	33	462	495
Net Work-Years	457.6	33.0	456.0	489.0	33.0	456.0	489.0
TOTAL PERSONNEL COMPENSATION	$11,748,731	$ 1,038,000	$12,710,000	$13,738,000	$ 1,065,000	$12,938,000	$14,003,000
Personnel Benefits:							
Federal Employees Compensation Benefits	80,452	-0-	95,000	95,000	-0-	110,000	110,000
Health Benefits	209,188	18,000	228,000	246,000	19,000	245,000	264,000
Life Insurance	27,312	3,000	35,000	38,000	3,500	41,000	44,500
Moving and Related Expenses	85	6,000	5,000	11,000	8,000	5,000	13,000
Retirement	772,220	71,000	840,000	911,000	72,500	861,000	933,500
Severance Pay	-0-	-0-	16,000	16,000	-0-	16,000	16,000
Social Security Tax (FICA)	27,516	1,000	30,000	31,000	1,000	32,000	33,000
Uniform Allowances	749	-0-	1,000	1,000	-0-	1,000	1,000
TOTAL PERSONNEL BENEFITS	1,117,532	99,000	1,250,000	1,349,000	104,000	1,311,000	1,415,000
TOTAL PERSONAL SERVICES AND BENEFITS	12,866,263	1,137,000	13,960,000	15,087,000	1,169,000	14,249,000	15,418,000
Contractual Services and Supplies:							
Travel and Transportation of Persons	369,943	74,000	510,000	584,000	80,000	495,000	575,000
Transportation of Things	15,743	3,000	15,000	18,000	4,000	20,000	24,000
Rent, Communications, and Utilities	1,006,607	37,000	1,187,000	1,224,000	40,000	1,278,000	1,318,000
Printing and Reproduction	266,825	-0-	439,000	439,000	-0-	473,000	473,000
Other Services	1,051,305	20,000	2,025,000	2,045,000	21,000	2,083,000	2,104,000
Supplies and Materials	379,469	19,000	490,000	509,000	21,000	546,000	567,000
TOTAL CONTRACTUAL SERVICES AND SUPPLIES	3,085,894	153,000	4,666,000	4,819,000	164,000	4,897,000	5,061,000
Acquisition of Capital Assets:							
Equipment	475,055	2,000	568,000	570,000	2,000	617,000	619,000
TOTAL GROSS EXPENSE	16,427,212	1,292,000	19,194,000	20,476,000	1,335,000	19,763,000	21,100,000
Reimbursements From Other Accounts	-79,687	-0-	-70,000	-70,000	-0-	-70,000	-70,000
TOTAL NET EXPENSES	16,347,525	1,292,000	19,124,000	20,406,000	1,335,000	19,713,000	21,030,000
ESTIMATED SAVINGS	1,695,475	-0-	-0-	-0-	-0-	-0-	-0-
Proposed Supplemental Due to Increased Pay Costs	-0-	-55,000	-765,000	-820,000	-0-	-0-	-0-
ACTUAL, AUTHORIZATION, AND ESTIMATE	18,043,000	1,237,000	18,359,000	19,586,000	1,335,000	19,713,000	21,030,000

1/ Shown for comparative purposes only. The positions and related funds for the Washington Office of the Office of Examinations and Supervision are included under the FSLIC administrative expense limitation for 1980. (See page F-16)

Federal Home Loan Bank Board

PERSONNEL COMPENSATION

	1979 Actual	1980 Budget Estimate	1980 Current Estimate	1981 Estimate	Increase or Decrease(-)
POSITIONS:					
Office of the Chairman	7	7	7	7	-0-
Office of Board Member (Vacant)	4	4	4	4	-0-
Office of Board Member DiPrete	4	4	4	4	-0-
Administration Office	5	5	5	5	-0-
Administrative Services Division	42	30	41	41	-0-
Budget Staff	8	-0-	8	8	-0-
Controller's Division	40	50	41	41	-0-
Information Systems Division	47	46	47	47	-0-
Internal Operations Division	-0-	12	-0-	-0-	-0-
Communications Office	16	17	16	16	-0-
Congressional Relations Office	3	3	3	3	-0-
Equal Employment Opportunity Office	4	4	4	4	-0-
Internal Review Office	14	14	14	14	-0-
Personnel Management Office	21	21	21	21	-0-
Secretariat	22	24	22	22	-0-
Office of Community Investment	26	27	26	26	-0-
Office of District Banks	48	47	48	12	-36
Office of Economic Research	29	26	29	29	-0-
Office of Examinations and Supervision	33	-0-	-0-	69	69
Office of General Counsel	79	77	79	79	-0-
Office of Industry Development	43	44	43	43	-0-
Total Positions	495	462	462	495	33
Work-years	458	456	456	489	33
Gross Salary ($000)	$11,749	$12,095	$12,710	$14,003	$1,293

The functions, responsibilities, and justifications of the staffing level for each of the above units are presented under the activities section of this document beginning on page C-23.

The above schedule shows total positions of 495 for 1981, an increase of 33 positions from the 1980 estimate. In 1981, as indicated previously, we intend to reestablish the Office of Examinations and Supervision as a unified office under the Board with a total of 69 positions in the Washington Office. The supervision function and 36 related positions will be transferred from the Board's Office of District Banks. The examination function and 33 related positions will be transferred from the FSLIC's Department of Examinations - Washington Office and that department will be abolished.

In fiscal year 1979 the Internal Operations Division was abolished and its functions of procurement and management analysis were assumed by the Administrative Services Division. In addition, the Budget Staff was separated from the Controller's Division and established as a separate organizational unit reporting directly to the Director of Administration.

Federal Home Loan Bank Board

PERSONNEL BENEFITS

	1979 Actual	1980 Budget Estimate	1980 Current Estimate	1981 Estimate	Increase or Decrease(-)
Federal Employees' Compensation Act..	$ 80,452	$ 95,000	$ 95,000	$ 110,000	$ 15,000
Health Benefits.....	209,188	177,000	228,000	264,000	36,000
Life Insurance.....	27,322	57,000	35,000	44,500	9,500
Retirement.....	772,220	818,000	840,000	933,500	93,500
Social Security Taxes (FICA).....	27,516	26,000	30,000	33,000	3,000
Severance Pay.....	-0-	16,000	16,000	16,000	-0-
Uniform Allowances..	749	1,000	1,000	1,000	-0-
Moving and Related Expenses.....	85	5,000	5,000	13,000	8,000
Total.....	1,117,532	1,195,000	1,250,000	1,415,000	165,000

FEDERAL EMPLOYEES' COMPENSATION ACT

The 1981 estimate of $110,000 provides for reimbursement to the Department of Labor, Office of Workers' Compensation Programs, for benefits and other payments made to Bank Board employees in fiscal 1981 under Section 209 of Public Law 86-767, approved September 13, 1960.

HEALTH BENEFITS

The 1981 estimate of $264,000 provides for the Bank Board's (Employer) share of the cost of the Federal Employees' Health Benefits Act of 1959 (Public Law 86-382); it is based upon actual cost in the current year.

LIFE INSURANCE

The 1981 estimate of $44,500 represents the Bank Board's (Employer) portion of the premiums payable under the Federal Employees' Group Life Insurance Act of 1954; it is based upon the number of employees expected to be on the payroll in fiscal year 1981.

RETIREMENT

The 1981 estimate of $933,500 provides for the Bank Board's (Employer) share of mandatory contributions to the Civil Service Retirement and Disability Fund pursuant to Section 102(A) of Public Law 91-93, approved October 20, 1969; it is at the rate of 7% of employees' basic salaries. The figure is based upon the number of employees expected to be on the payroll in fiscal 1981.

SOCIAL SECURITY TAXES

The 1981 estimate of $33,000 provides for the Bank Board's (Employer) share of contributions under the Federal Insurance Contributions Act. Payment is made for all employees who do not contribute to the Civil Service Retirement and Disability Fund.

SEVERANCE PAY

The 1981 estimate of $16,000 provides pay for employees whose services are involuntarily terminated and who are eligible for such payments.

UNIFORM ALLOWANCES

The 1981 estimate of $1,000 provides for uniform allowances for Bank Board employees in accordance with law (5 U.S.C. 5901-5902).

MOVING AND RELATED EXPENSES

The 1981 estimate of $13,000 provides for the payment of certain moving and related expenses as provided for in Public Law 89-516. Included in this category are reimbursements to employees for subsistence and temporary expenses incurred in moving from one location to another, real estate costs in connection with selling the residence at the old official station and purchasing a new home at the new official station, and certain miscellaneous moving expenses.

TRAVEL AND TRANSPORTATION OF PERSONS

	1979 Actual	1980 Budget Estimate	1980 Current Estimate	1981 Estimate	Increase or Decrease(-)
Office of the Chairman	$ 10,821	$ 17,000	$ 17,000	$ 16,000	$ -1,000
Office of Board Member DiPrete	2,821	10,000	10,000	10,000	-0-
Office of Board Member (Vacant)	19,865	10,000	10,000	10,000	-0-
Administration Office	1,395	4,000	3,000	2,000	-1,000
Administrative Services Division	21,660	18,000	25,000	24,000	-1,000
Budget Staff	-0-	-0-	1,000	1,000	-0-
Controller's Division	3,142	9,000	6,000	5,000	-1,000
Information Systems Division	13,581	25,000	22,000	21,000	-1,000
Internal Operations Division	205	2,000	-0-	-0-	-0-
Communications Office	5,310	25,000	15,000	14,000	-1,000
Congressional Relations Office	709	3,000	3,000	2,000	-1,000
Equal Employment Opportunity Office	3,604	23,000	23,000	22,000	-1,000
Internal Review Office	5,094	45,000	25,000	23,000	-2,000
Personnel Management Office	7,637	13,000	13,000	12,000	-1,000
Secretariat	494	3,000	3,000	2,000	-1,000
Office of Community Investment	43,237	121,000	90,000	90,000	-0-
Office of District Banks	17,695	44,000	36,000	35,000	-1,000
Office of Economic Research	35,852	40,000	35,000	35,000	-0-
Office of Examinations and Supervision	43,933	-0-	-0-	80,000	80,000
Office of General Counsel	85,425	95,000	106,000	104,000	-2,000
Office of Industry Development	22,216	40,000	45,000	45,000	-0-
Advisory Council	21,246	22,000	22,000	22,000	-0-
Total	365,942	569,000	510,000	575,000	65,000

The current 1980 travel estimate for the OES Washington Office, included in the FSLIC limitation for 1980, is $74,000.

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TRANSPORTATION OF THINGS

1979 Actual	1980 Budget Estimate	1980 Current Estimate	1981 Estimate	Increase or Decrease (-)
$15,745	$15,000	$15,000	$24,000	$9,000

This item provides for the cost of shipment of supplies and equipment to and from the Bank Board, and the moving of furniture and personal effects of employees transferred to or from the Bank Board. It provides for five transfers at an average cost of $1,500 each.

RENT, COMMUNICATIONS, AND UTILITIES

	1979 Actual	1980 Budget Estimate	1980 Current Estimate	1981 Estimate	Increase or Decrease(-)
Rent and Utilities:					
Office and Storage Space	$ 4,807	$ -0-	$ 5,000	$ 5,000	$ -0-
Equipment	357,648	440,000	402,000	447,500	45,500
Sub-total	362,455	440,000	407,000	452,500	45,500
Communications:					
Switchboard and Other Fixed Charges	196,261	196,000	165,000	202,500	37,500
Long Distance Calls	246,693	267,000	295,000	342,000	47,000
Telegrams and Teletype	15,028	26,000	20,000	21,000	1,000
Postage	186,170	325,000	300,000	300,000	-0-
Sub-total	644,152	814,000	780,000	865,500	85,500
Grand Total	1,006,607	1,254,000	1,187,000	1,318,000	131,000

The total decrease of $67,000 in the 1980 current estimate over the 1980 budget estimate is attributable mostly to reduced estimates on cost of communication equipment installation charges, and postage costs.

The 1981 estimate includes $40,000 for equipment rental and communication costs attributable to the OES Washington Office. Such estimated costs in 1980, totaling $37,000, are included in the FSLIC limitation.

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RENT AND UTILITIES

Equipment

The estimate of $447,500 provides for rental of the following equipment:

Description	Annual Rental
44 Terminals and Accessory Equipment	$ 140,000
1 IBM 1403 Printer	19,000
24 Automatic Copying Machines and Accessory Equipment	130,000
37 Word Processing Machines and Accessory Equipment	136,500
Miscellaneous	22,000
Total	447,500

Following is an explanation of the use of each type of equipment shown above.

$140,000 is needed for the rental of 44 computer terminals for multi-purpose use at the Bank Board. Much terminal support is needed to provide the staff with time-sharing and remote batch processing at our in-house and out-of-house computer sites.

$19,000 is needed to pay for the rental of an IBM 1403 high quality printer needed to speed-up computer processing and hard copy output. In addition, this printer produces high quality, sharp invoices to the industry for annual insurance premiums and assessments, thus minimizing erroneous payments due to illegible copies.

$130,000 is estimated to cover the expense associated with 24 automatic copying machines.

The rental of 37 word processing machines for $136,500 is required for work in areas where many perfect-copy letters are needed, and they are used extensively in text editing.

Miscellaneous rentals are budgeted at $22,000. This is for equipment to aid the data processing effort such as key punch and key verifying machines, and a sorter. The estimate also covers rental of a film processor, labeling machines, and special communications equipment associated with our in-house time-sharing computer.

COMMUNICATIONS

The estimate shows a total increase of $131,000 over the current year, practically all of which are uncontrollable increases. Increased cost of operating the FTS network allocated to the Bank Board by GSA will increase by $47,000, and we anticipate a substantial increase of about $37,500 in local communication costs and installation charges. The 1981 estimate includes $40,000 for equipment rental and communication costs attributable to the OES Washington Office. Such estimated costs in 1980, totaling $37,000, are included in the FSLIC limitation.

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PRINTING AND REPRODUCTION

	1979 Actual	1980 Budget Estimate	1980 Current Estimate	1981 Estimate	Increase or Decrease (-)
FHLBB Journal and Annual Report	$118,349	$105,000	$100,000	$120,000	$20,000
Economic Quarterly	-0-	-0-	45,000	45,000	-0-
FHLBB Annotated Manual	41,908	150,000	125,000	125,000	-0-
Federal Register	49,924	-0-	92,000	100,000	8,000
Forms and Other	56,644	77,000	77,000	85,000	8,000
Total	266,825	332,000	439,000	475,000	36,000

The item of $120,000 which represents an increase of $20,000 over the amount provided for in the current fiscal year is for the Federal Home Loan Bank Board Journal and Annual Report. Provision is made in the estimate for increased costs and expansion of Bank Board activities to be reported in the Journal and Report.

The item of $45,000 covers the cost of printing a proposed economic quarterly publication. As indicated, this item was not originally included in the 1980 budget.

The item of $125,000 is for the purpose of updating the Federal Home Loan Bank Board Manual of statutes, regulations, policy statements, rulings and general counsel opinions relating to the Board's function. We are making every effort to hold these updates to the absolute minimum.

The item of $100,000 provides for the cost of printing regulatory amendments, notices, etc., in the Federal Register, which costs we started assuming in 1979, as shown. We believe such costs will be substantially higher in 1980 and 1981 due to increased printing costs and activity.

The item of $85,000 which represents an increase of $8,000 over the current year provision, is for the printing of statistical data forms used in connection with data processing work carried on by the Information Systems Division.

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OTHER SERVICES

	1979 Actual	1980 Budget Estimate	1980 Current Estimate	1981 Estimate	Increase or Decrease (-)
ADP SERVICES:					
Telecommunications.	$ 58,063	$ 80,000	$ 80,000	$ 90,000	$ 10,000
Computer Time.....	-4,805	108,000	108,000	108,000	-0-
Data Conversion....	112,480	170,000	150,000	178,000	28,000
Programming.....	30,130	260,000	260,000	150,000	-110,000
Maintenance.....	176,968	190,000	190,000	182,000	-8,000
Software Lease.....	95,711	70,000	70,000	74,000	4,000
Sub-total.....	468,547	878,000	858,000	782,000	-76,000
Federal Fin. Inst. Exam. Council.....	47,465	-0-	57,000	70,000	13,000
Special Studies.....	82,566	376,000	364,000	400,000	36,000
Training Program.....	101,843	194,000	190,000	233,000	43,000
Contract Audits.....	120,050	250,000	250,000	300,000	50,000
Reporting Services - Hearings.....	51,522	60,000	60,000	75,000	15,000
Health Service Program.....	30,095	55,000	55,000	60,000	5,000
Repairs to Furniture, Fixtures, and Equipment.....	46,012	37,000	40,000	51,000	11,000
News Gathering Service.....	27,500	15,000	22,000	25,000	3,000
Security Investigations.....	4,250	9,000	6,000	10,000	4,000
Labor - Intra-Agency Moving.....	1,680	3,000	2,000	4,000	2,000
Reception and Representation.....	472	500	500	2,000	1,500
Miscellaneous.....	69,303	90,500	120,500	92,000	-28,500
Total.....	1,051,305	1,968,000	2,025,000	2,104,000	79,000

Federal Home Loan Bank Board

The 1981 estimate of $2,104,000 represents a net increase of $79,000 from the 1980 estimate, which increase is partly attributable to the inclusion of $21,000 of training and other costs associated with the OES Washington Office. Following is a discussion of the major items included in this category.

ADP SERVICES

Telecommunications

These funds will be used to provide the Bank Board access to commercial nationwide networks, for the processing of the recurring savings and loan surveys through our District Banks.

Computer Time

The estimate of $108,000 for computer time is as follows:

General Research ($58,000) - This research is of a general type to mainly support short-term projects that result from unplanned requests from the Office of Economic Research for various analyses.

Outside Contingency ($50,000) - These funds will be used only if our in-house machine has extensive downtime during critical production or development periods.

Data Conversion

These funds will be used to convert data collected from saving and loan institutions to machine readable form. This input is used to drive the systems required to monitor the savings and loan industry.

Programming

An amount of $150,000 is requested for programming services to cover the cost of programming and systems development which cannot be handled by our in-house staff.

Maintenance

The preventive maintenance costs for 1981 are estimated at $182,000. Preventive maintenance is necessary to assure computer reliability so that it meets the data processing needs of the Bank Board.

FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL

The 1981 estimate of $70,000 covers the Bank Board's 20% share of the 1981 operating expenses of the Federal Financial Institutions Examination Council pursuant to Public Law 95-630, approved November 10, 1978.

SPECIAL STUDIES

The 1981 budget includes $400,000 to cover the estimated cost of special studies. Below is a summary of the major currently planned studies followed by a brief description of each.

List of Studies	Approximate Budget
1. Major Loan Information System	$40,000
2. RAM Demonstration Projects	40,000
3. Franchise Approach to S&L Valuation	55,000
4. Analysis of the Riskiness of Mortgages as Shown by Secondary Market Transactions	20,000
5. Analysis of Tax Issues for S&Ls	25,000
6. Deregulation	20,000
7. Capital Adequacy and Capital Instruments	20,000
8. Investment Demand for Housing	25,000
9. Liability Management Issues Confronting S&Ls.	65,000
10. Research Seminars and Forecasting Conference.	25,000
11. Publications Assessment	15,000
12. Market Value Appraisal Project	50,000
Total	$400,000

1. Major Loan Information System

This research project will investigate the causes of major loan defaults and delinquencies. Major loans are those on income-producing properties. One of the potential uses of the research will be the development of a credit scoring system that examiners can use to assess the riskiness of the S&L's major loans on its books. The research has several phases, one of which is to recommend continuing reporting requirements so that the major loans can be continually monitored and their riskiness evaluated.

2. RAM Demonstration Projects

In order for the Bank Board to promote actively the use of reverse annuity mortgages, it is necessary for the Bank Board to be the leader in developing prototype RAMs. Three or four states will be selected, based on the percentage of the RAM-eligible population residing therein, and several types of RAMs will be developed. The demonstration projects will require the coordinated efforts of lenders, insurance companies, state and local governments, and citizen groups. With this project, the Bank Board can act as a catalyst in promoting the use and usefulness of the RAM.

3. Franchise Approach to S&L Valuation

Currently, all valuation appraisals of candidate S&Ls to convert from the mutual to the stock form of organization are based on the price/earnings valuation approach. For those S&Ls whose earnings record is stable (or growing steadily) and well established, this method of valuation is perhaps the best approach. However, for young S&Ls or S&Ls with volatile or negative earnings histories, this approach to valuation becomes tenuous at best. The success of the Bank Board's mutual-to-stock conversion program depends very much on permitting all types of S&Ls the opportunity to convert. Thus, another valuation method must be developed for those S&Ls for which the P/E approach is untenable and the "franchise" approach appears to be the leading alternative method that may apply to these S&Ls. But no individual appraiser can afford to develop the technique because (1) the research required would be too costly, and (2) once it is developed, the procedure becomes a "public good" in that anyone can use it without paying for its development. Therefore, it is incumbent on the Bank Board to invest in the development of the franchise appraisal technique.

4. Analysis of the Riskiness of Mortgages as Shown by Secondary Market Transactions

This research project investigates the information embodied in secondary market transactions of home mortgages to discover the determinants of risk in mortgages. A theoretical analysis will model the secondary mortgage market participants and establish the appropriate econometric approaches for the empirical analysis. On-site interviews with participants in the secondary market will reinforce the analyses.

5. Analysis of Tax Issues for S&Ls

The objective of this research is to complete the research on development of a comprehensive model for analysis of tax policy changes on the housing and mortgage finance markets and the implications for S&Ls resulting from such changes. The tax policy changes may be either statutory or regulatory. This comprehensive system should enable Bank Board staff to identify effects on S&L profitability, assets, net worth, likelihood of problems cases and competitive effects with respect to other financial institutions resulting from tax changes. Much of this work has already been initiated and completion of this project should enable the Bank Board to generate short-run analyses of tax proposals as they arise. It could also serve as the basis for recommended changes in tax policies affecting S&Ls.

6. Deregulation

This project will complete the work initiated in the previous fiscal year. Building on the work already underway, this project will assess the desirability and the mechanics of reducing the role of the Bank Board in member operations by establishing a self-policing approach to regulations in the S&L industry. The specific areas where the Bank Board can reduce its role on member operations and the implications of such changes will be the focus of this part of the project and will build on previous research on this area. As has been the case with the initial research, implementation of this phase of the project will require substantial assistance from the FSLIC and Office of District Banks.

7. Capital Adequacy and Capital Instruments

This area of research focuses on three specific areas: (1) how should the level of capital requirements for S&Ls be determined?, (2) is it viable to design an external source of capital for mutual S&Ls?, and (3) do capital instruments other than common stock have a role in providing adequate capital for stock S&Ls.

8. Investment Demand for Housing

Part of the current high level of housing activity is claimed to be due to the investment demand for housing. Since house prices have been appreciating rapidly and homebuyers can achieve high degrees of leverage, prospective homebuyers are placing a premium on this type of investment and bidding up the price of this asset. This project will attempt to assess the magnitude of the investment demand for housing.

This research will examine a panel of recent movers from a household data base. This data base includes demographic data and information on the house purchased. The hypothesis is that households of similar demographic characteristics will be willing to pay more for a house in an area of expected price appreciation. Various tests of this hypothesis will be conducted.

The empirical results should indicate the magnitude of this investment.

9. Liability Management Issues Confronting S&Ls

This project will identify and analyze the relevant issues in liability management confronting S&Ls as private financial institutions. This will involve identifying the instruments of discretionary fund management, potential implications of liability management for liquidity, profitability and safety of S&Ls and potential gains in financial sector efficiency from such liability management techniques.

10. Research Seminars and Forecasting Conferences

The objective of this special research project category is to support conferences and fund meetings with researchers involved with projects of special interest to Office of Economic Research in particular, and the Federal Home Loan Bank System and the Bank Board in general. This will include annual housing forecast conferences and meetings in specialized topics in housing and mortgage finance. The benefits from these meetings and conferences stem from the expertise provided by outside researchers involved with projects of interest to the Bank Board thereby furthering the research efforts and productivity of Bank Board personnel.

11. Publications Assessment

Consulting contract for analysis, redesign and editorial assessment of the FHLBB monthly Journal, and a similar study related to the development of a new, scholarly economic quarterly.

12. Market Value Appraisal Project

The Market Value Appraisal Project is a demonstration designed to test a process for assisting appraisers in calculating differences in market value related to the locational factors present in urban neighborhoods. The project will be carried out on an interagency cooperative basis. Other agencies participating include HUD and the Department of Commerce.

As currently planned the project will be implemented in two stages. Stage one includes the following components. (1) creating an advisory group apprised of representatives drawn from the federal bank regulators; secondary mortgage market purchasers; the Neighborhood Reinvestment Corporation; the appraisal, lending, building, real estate and insurance industries; local government; academia and consumer/community groups; (2) formulating a final demonstration design; (3) selecting a demonstration site; and (4) conducting a local demonstration involving an appraisal panel and a broader representative community panel asked to establish market values for specific property, plus an analysis of appraisal, socio-economic and other data to see if these data bear out the values determined by the panel.

Assuming that the demonstration results appear valid and useful, possible stage two components include the following: (1) designing a "process" model including data base construction and how it can be implemented at the local level; (2) disseminating information on the model; (3) securing appraisal society endorsement for the model and assistance in replicating it in other localities; and (4) monitoring demonstration results.

TRAINING

The item of $233,000 will enable the Bank Board to provide its employees with the highest quality training at the least possible cost. Types of training will include executive development, formal seminars and university courses, on-the-job training, in-house courses, cross-training, career counseling, rotational assignments, and self-development through programmed instruction, college-level correspondence courses, and video-cassette programs. The objectives of the training are:

(1) to fulfill the Bank Board's mission;

(2) to increase the Bank Board's organizational effectiveness;

(3) to adequately prepare Bank Board personnel to meet future needs; and

(4) to provide for growth of Bank Board employees.

To monitor the budget and maintain the training commitment of each Bank Board office, the Bank Board is using comprehensive training and development plans. Collectively, these plans will meet several broad objectives. The first is to modify and expand the Bank Board's appraisal system by providing training for supervisors and managers in appraising individual results and in employees counseling. Further emphasis will be placed on planning and executive development so the Bank Board has a skilled reserve of managers from which to draw. Second, training will be provided to increase employees' technical competence in carrying out the responsibilities set forth by the Congress and to keep current with advances in the industry. Third, the Bank Board is committed to encouraging Upward Mobility which means providing training opportunities for employees to perform at their highest potential and advance according to their abilities. The training briefly outlined above is required in order for the Federal Home Loan Bank Board to meet its obligations to the public and to its own employees.

CONTRACT AUDITS

For 1981, $160,000 is provided for the annual financial audits of the twelve Federal Home Loan Banks, and the Office of Finance's Consolidated Securities Fund and Combined Cash and Securities Accounts. In addition, $65,000 is estimated for audits by independent firms to examine the Banks for compliance with Board delegated authority and special studies and review of Bank operations.

$75,000 is being provided to retain outside consultants and auditors to support the activities of the Internal Review Office. Included in this amount are fees for audits of Bank Board lessees and technical assistance in the area of data processing. The Internal Review Office also anticipates retaining experts in different fields to assist it in performing operational audits of program areas.

REPORTING SERVICES - HEARINGS

The 1981 estimate of $75,000 will provide funds for the cost of taking depositions and obtaining transcripts of hearings mostly in connection with investigations and other proceedings relating to problem institutions.

HEALTH SERVICE PROGRAM

The $60,000 Health Service Program funds are needed to:

1. Comply with the Presidential directive to the Civil Service Commission on improving employee health services and the Office of Management and Budget (OMB), Circular A-72. The funds allow a continuation of the programs set up with executive health examiners to provide employee health examinations.

2. Maintain a health unit in accordance with Public Law 658 and Circular A-72.

3. Fund the Health Maintenance Program (e.g., hearing tests, glaucoma tests, flu shots, etc.).

SUPPLIES AND MATERIALS

	1979 Actual	1980 Budget Estimate	1980 Current Estimate	1981 Estimate	Increase or Decrease(-)
General Office Supplies	$179,998	$296,000	$258,000	$310,000	$52,000
Print Shop and Copying Supplies	150,259	152,000	170,000	189,000	19,000
Law Library Books	28,994	38,000	35,000	38,000	3,000
Research Library Books	20,218	27,000	27,000	30,000	3,000
Total	$379,469	$513,000	$490,000	$567,000	$77,000

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The 1981 estimate of $567,000 represents an inflationary increase of $77,000 over the 1980 current estimate. Following is a brief description of each of the items comprising supplies and materials:

1. The item of $310,000 provides for keeping general supplies inventory at its normal level and for the purchase of supplies not kept in stock. The increase of $52,000 allows for increased costs in fiscal year 1981.

2. The item of $189,000 provides for the purchase of supplies and materials, including copying supplies, used by the Printing and Reproduction Section of the Administrative Services Division in rendering services to the Office of Federal Savings and Loan Insurance Corporation, and to the staff of the Bank Board.

3. The item of $38,000 provides for the purchase of law books, recompiled volumes, new editions, pocket parts, and/or supplementals, necessary to keep the Law Library up-to-date. The cost of such items has increased sharply.

4. The item of $30,000 provides for the purchase of books for the Research Library; it also provides for subscriptions to newspapers and periodicals, and for the binding of selected periodicals.

ACQUISITION OF CAPITAL ASSETS - EQUIPMENT

1979 Actual	1980 Budget Estimate	1980 Current Estimate	1981 Estimate	Increase or Decrease (-)
$475,055	$513,000	$568,000	$619,000	$51,000

It is the policy of the Bank Board to amortize the cost of furniture, fixtures, and equipment over an average life of ten years. Provision is therefore made in this category to cover the fixed depreciation expense on furniture, fixtures, and equipment currently owned, plus additional purchases anticipated during the current year and fiscal 1981.

Of the $619,000 provided for fiscal 1981, $554,000 represents depreciation expense; the remaining $65,000 covers noncapitalized items included in this classification.

REIMBURSEMENTS FROM OTHER ACCOUNTS

	1979 Actual	1980 Budget Estimate	1980 Current Estimate	1981 Estimate	Increase or Decrease (-)
Agency for International Development	$ 48,938	$55,000	$55,000	$55,000	$ -0-
Other Agencies	30,749	15,000	15,000	15,000	-0-
Total	79,687	70,000	70,000	70,000	-0-

The 1981 estimate provides for reimbursements to the Bank Board of $55,000 from the Agency for International Development to cover the estimated annual costs to be incurred by the Bank Board for providing AID with technical support services, training and other functions performed by Bank Board personnel in connection with foreign assistance programs dealing with savings and home financing in foreign countries.

The estimate also provides for reimbursements of $15,000 to the Bank Board from other agencies for the cost of printing, reproduction, and other services furnished by the Bank Board.

AUTHORIZATION LANGUAGE

The proposed language for 1981 reestablishes a separate nonadministrative expense limitation under the Bank Board for field expenses of examination and supervision of Federal and State-chartered savings institutions. This change was made as the result of the reestablishment of the Office of Examinations and Supervision as a unified office under the Board. The language also provides for an increase in the reception and representation allowance from $500 to $2,000. Certain other technical changes have been proposed to make the language more correct and more understandable.

PROGRAMS AND ACTIVITIES

An analysis of administrative expenses by activities for the three years included in the Budget is shown in the table on the following page and is followed by an outline of each activity in the order shown.

ADMINISTRATIVE EXPENSES (GROSS) ACTIVITIES
(Dollars in thousands)

	Total	Examination and Supervision of Federal Home Loan Banks	Chartering Federal and Insuring Savings and Loan Associations	Executive Direction and Staff Services	Analysis of Operations	Administrative Services
Fiscal Year 1981						
Positions	495	12	43	269	76	95
Work-Years	489	12	43	266	74	94
Personnel Compensation	$14,003	$306	$1,188	$ 7,995	$2,330	$2,184
Personnel Benefits	1,415	31	120	808	235	221
All Other Expenses	5,682	130	243	2,747	1,796	766
Total 1981	$21,100	$467	$1,551	$11,550	$4,361	$3,171
Fiscal Year 1980						
Positions	462	48	43	200	76	95
Work-Years	456	48	43	197	74	94
Personnel Compensation	$12,710	$1,422	$1,166	$5,650	$2,312	$2,160
Personnel Benefits	1,250	139	114	557	227	213
All Other Expenses	5,234	297	233	2,271	1,708	725
Total 1980	$19,194	$1,858	$1,513	$8,478	$4,247	$3,098
Fiscal Year 1979						
Positions	495	47	44	235	74	95
Work-Years	464	47	42	210	72	93
Personnel Compensation	$11,749	$1,277	$1,009	$5,422	$2,054	$1,987
Personnel Benefits	1,117	121	96	516	195	189
All Other Expenses	3,561	158	161	1,550	1,027	665
Total 1979	$16,427	$1,556	$1,266	$7,488	$3,276	$2,841

Federal Home Loan Bank Board

EXAMINATION AND SUPERVISION OF FEDERAL HOME LOAN BANKS

The function of supervising the 12 Federal Home Loan Banks is the responsibility of the Office of District Banks. The Office of Internal Review has responsibility for arranging financial audits of the District Banks utilizing the services of certified public accounting firms.

The twelve Federal Home Loan Banks constitute a national credit reservoir available to thrift and home-financing institutions. The Banks provide a source of funds available for normal housing credit demands and unusual savings withdrawals.

The Banks obtain their funds primarily from capital stock subscribed by member institutions, borrowings from the public in the form of consolidated obligations, and to a lesser degree, earnings, member deposits, and inter-bank deposits.

OPERATING HIGHLIGHTS (Federal Home Loan Banks)

Description	Sept. 30, 1977	Sept. 30, 1978	Sept. 30, 1979
		(In Thousands)	
Assets	$25,103,344	$35,917,018	$44,951,924
Liabilities	21,116,596	31,031,176	38,963,549
Capital Stock	3,225,802	3,925,171	4,766,766
Legal Reserve	402,550	471,710	572,680
Net-Income for Year	181,948	345,788	504,859
Investments (at Par)	5,220,015	3,912,004	3,067,581

During fiscal year 1979, assets increased by $9.0 billion reflecting a decrease of $844 million in investments and an increase of $9.4 billion in advances to members. Liabilities, consisting primarily of consolidated obligations, increased by $7.9 billion.

CAPITAL STOCK

The capital stock of the twelve Banks, $4.8 billion as of September 30, 1979 representing an increase of 21% over the amount at September 30, 1978 is totally owned by the member institutions. The United States Government had provided the original capital of the Banks by investing $124.7 million over a period of years. This investment was retired as of July 2, 1951, by the Banks at a rate in excess of the statutory requirements.

CONSOLIDATED OBLIGATIONS - BONDS

All issues of consolidated obligations-bonds are the joint and several obligations of the Banks. The following table shows the amount and number of offerings for the years indicated.

Fiscal Year	Number of Offerings	Amount in Millions
1971	14	$ 4,915
1972	7	1,510
1973	11	5,800
1974	22	10,300
1975	15	7,800
1976	6	3,100
TQ	2	1,200
1977	8	3,600
1978	9	7,900
1979	12	9,100

As indicated, the Federal Home Loan Banks made twelve bond offerings of consolidated obligations totaling $9.1 billion during fiscal 1979. Maturities of all twelve issues were one year or longer. The coupon rate ranged from 9.00% to 10.00% and compares with the 1978 range of 7.27% to 8.68%. The total amount of the bond offering represented an increase of $1.2 billion, or 15% above the $7.9 billion amount offered during fiscal 1978. In addition to bonds, the Banks offered $7.1 billion in short-term discount notes. The proceeds from all offerings were used to meet the demands of the membership for housing credit and to repay maturing issues.

The following table shows cumulative totals of Consolidated Obligations - bond issues, retired, and outstanding as of September 30, 1977, 1978 and 1979.

Description	Sept. 30, 1977	Sept. 30, 1978	Sept. 30, 1979
		(In Thousands)	
Issued.....	$96,582,250	$104,482,250	$113,582,250
Retired.....	79,895,610	82,902,655	88,124,475
Outstanding.....	$16,686,640	$ 21,579,595	$ 25,457,775

The $25.5 billion balance outstanding as of September 30, 1979 represents an increase of $3.9 billion or 18% from the comparable total as of September 30, 1978.

ADVANCES TO MEMBERS

The following table illustrates the trend in advances to member institutions, repayments, and balances outstanding for fiscal years indicated.

Fiscal Year	Advances	Repayments	Outstanding
		(In Millions)	
1971	$ 1,653.7	$ 4,648.7	$ 7,241.4
1972	3,652.8	4,819.4	6,074.8
1973	8,002.0	2,931.6	11,145.2
1974	10,986.6	4,489.8	17,642.0
1975	8,798.9	9,638.3	16,802.6
1976	6,575.5	8,104.3	15,273.8
TQ	3,033.1	2,245.1	16,061.8
1977	10,256.7	9,265.0	17,053.5
1978	23,883.3	11.779.0	29,157.8
1979	27,743.3	18,305.1	38,596.0

Advances made to member institutions during fiscal year 1979 aggregated $27.7 billion, an increase of $3.8 billion over the $23.9 billion advances made during 1978. The balance outstanding aggregated $38.6 billion, an increase over the previous fiscal year of $9.4 billion or 32%; repayments were $18.3 billion in 1979 as compared to $11.8 billion in 1978, an increase of $6.5 billion.

FINANCIAL CONDITION

Beginning on the following pages, the financial statements of the Banks, as of September 30, 1979 and 1978, are presented as listed below:

1. Combined Statement of Condition
2. Combined Statement of Income and Expense
3. Combined Statement of Income and Disposition of Net Income

Federal Home Loan Bank Board
Federal Home Loan Banks

COMBINED STATEMENT OF CONDITION
AS OF DATES INDICATED
(In Thousands)

ASSETS	September 30, 1979	September 30, 1978	Increase or Decrease (-)
CASH	$ 179,885	$ 126,759	$ 53,126
INVESTMENTS			
Securities (par)			
U.S. Treasury	8,200	17,200	(9,000)
Government Agencies	-0-	-0-	-0-
Other	2,959,381	3,794,804	(835,423)
Sub-Total	2,967,581	3,812,004	(844,423)
FHL Mortgage Corporation Stock	100,000	100,000	-0-
Total Investment	3,067,581	3,912,004	(844,423)
ADVANCES OUTSTANDING			
To members	38,596,049	29,157,878	9,438,171
To FHL Mortgage Corporation	2,698,600	2,298,750	399,850
Total Advances	41,294,649	31,456,628	9,838,021
LOANS OUTSTANDING			
To Agency for International Development, Net	90,987	75,791	15,196
To Other Federal Home Loan Banks	15,250	58,600	(43,350)
Total Loans	106,237	134,391	(28,154)
ACCOUNTS RECEIVABLE	224,234	204,045	20,189
BANK PREMISES AND EQUIPMENT (NET)	12,039	13,521	(1,482)
DEFERRED CHARGES	67,299	69,670	(2,371)
Total Assets	$44,951,924	$35,917,018	$9,034,906
LIABILITIES AND CAPITAL			
DEPOSITS AND BORROWING MEMBERS	8,289,045	5,684,113	2,604,932
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	517,491	375,640	141,851
DEFERRED CREDITS	11,401	20,307	(8,906)
CONSOLIDATED OBLIGATIONS 1/	30,145,612	24,951,116	5,194,496
Total Liabilities	38,963,549	31,031,176	7,932,373
TOTAL CAPITAL STOCK	4,766,766	3,925,171	841,595
RETAINED EARNINGS			
Legal Reserve	572,680	471,710	100,970
Dividend Stabilization	27,976	-0-	27,976
Undivided profits	620,953	488,961	131,992
Total Retained Earnings	1,221,609	960,671	260,938
Total Capital	5,988,375	4,885,842	1,102,533
Total Liabilities and Capital	$44,951,924	$35,917,018	$9,034,906

1/ Consolidated Federal Home Loan Bank Obligations issued by the Federal Home Loan Bank Board and now outstanding are the joint and several obligations of all Federal Home Loan Banks. Includes short-term discount notes totaling $4,687,837,000 and $3,371,521,000 at September 30, 1979, and September 30, 1978, respectively.

Federal Home Loan Bank Board
Federal Home Loan Banks

COMBINED STATEMENT OF INCOME AND EXPENSE
FOR THE 12 MONTHS ENDING SEPTEMBER 30, 1979 and SEPTEMBER 30, 1978
(In Thousands)

	1979		1978	
	Amount	Percent	Amount	Percent
EARNED INCOME				
Interest on Advances	$2,887,087	85.9	$1,742,890	82.7
Income From Investments	439,867	13.1	309,309	14.7
Interest and Fees on AID Loans	11,507	0.3	5,712	0.2
Income from Other Services	22,062	0.7	50,161	2.4
Total Income	$3,360,523	100.0	$2,108,072	100.0
EXPENSES				
INTEREST AND OTHER COSTS				
Interest and Concessions - Consolidated Obligations	2,122,400	63.1	1,402,008	66.5
Assessments-Federal Home Loan Bank Board	9,551	0.3	8,741	0.4
Assessments-Office of Finance	2,608	0.1	2,729	0.1
Interest on Deposits	675,247	20.1	296,133	14.1
Other Interest	571	-0-	49	-0-
Total Interest and Other Cost	2,810,377	83.6	1,709,660	81.1
OTHER OPERATING EXPENSES				
Salaries and benefits	25,180	0.8	27,199	1.3
Fees and Professional Services	1,864	0.1	1,958	0.1
Travel Expense	1,535	0.1	1,559	0.1
Telephone and Transmission Costs	1,106	-0-	3,245	0.1
Stationery and Supplies	4,845	0.1	4,863	0.2
Cost of Quarters (Net)	3,746	0.1	4,308	0.2
Depreciation-Furniture and Equipment	574	-0-	1,356	0.1
Equipment Rental and Expense	4,610	0.1	6,468	0.3
Other	1,827	0.1	1,668	0.1
Total Other Operating Expenses	45,287	1.4	52,624	2.5
TOTAL EXPENSES	2,855,664	85.0	1,762,284	83.6
NET INCOME	504,859	15.0	345,788	16.4

Federal Home Loan Bank Board
Federal Home Loan Banks

COMBINED STATEMENT OF INCOME AND DISPOSITION OF NET INCOME
FROM BEGINNING OF OPERATIONS THROUGH SEPTEMBER 30, 1979
(In Thousands)

	Combined	
	Amount	Percent
INCOME	$18,582,533	100.0
CHARGES AGAINST INCOME	15,719,255	84.6
Net Income	2,863,278	15.4
DISPOSITION OF NET INCOME		
Retained Earnings as of September 30, 1979:		
Legal Reserve	572,680	20.0
Dividend Stabilization	27,976	1.0
Undivided Profits	620,953	21.7
Total Retained Earnings	1,221,609	42.7
Dividends Paid:		
U.S. Government	26,176	0.9
Member Institutions	1,611,944	56.3
Total Dividends Paid	1,638,120	57.2
Transfer to Retirement Fund	3,530	0.1
Organization Expense - Spokane Bank	19	-0-
TOTAL	2,863,278	100.0

SUPERVISION

The responsibilities of the Bank Board and its staff units in supervising the Federal Home Loan Banks include:

1. Issuance of regulations and policy guidelines covering the operations of the Federal Home Loan Banks.

2. Appointment of six public interest members of each District Bank's Board of Directors and the conduct of the annual election of the industry members of each Board.

3. Review, analysis, and approval of the operating and capital expenditures budgets of each Bank.

EXAMINATION

The Internal Review Office has responsibility for arranging financial audits of the District Banks to determine that the Banks are adhering to sound financial principles and the Bank Board's operating policies. Certified public accounting (CPA) firms are used by the Office to perform the annual financial audits of the Banks. Specific costs for Internal Review Office are found on page C-21.

Compliance and performance audits of the Banks are performed by each Bank's Internal Auditor. The Internal Review Office provides guidance and assistance to the internal auditors; coordinates the internal audit activities; and reviews copies of the internal audit reports.

Following is a more detailed description of the functions and responsibilities of the Office of District Banks relating to the examination and supervision of the Federal Home Loan Banks.

OFFICE OF DISTRICT BANKS

The Office of District Banks has the general responsibility to provide the Bank Board with an overview of the management of each of the Federal Home Loan Banks. The Office has specific responsibility for:

1. Reviewing Bank operations and formulating policy statements and recommendations concerning Bank operations, budgets, and financial matters.

2. Evaluating banking functions and member services provided by the Banks.

3. Interfacing communications and coordinating with other Bank Board offices on matters relating to the Banks.

4. Conducting the election of Federal Home Loan Bank directors.

Reviewing Bank operations and formulating policy recommendations

Review of Bank operations is accomplished through analysis of publications and reports such as: (1) each Bank's statements of goals and objectives; (2) each Bank's budget; (3) progress reports; (4) financial statements and operating reports; (5) organization charts; and (6) manpower reports. Evaluation of a Bank's performance toward the achievement of its stated goals and objectives is related to the effective utilization of resources.

The Office provides the Bank Board with policy options and specific recommendations on Bank System activities. The most important areas are (1) goals and objectives and related budget policies; (2) policies on advances, dividends, deposits and other financial operations; and (3) individual bank operations and management reviews including:

a. appointment and promotion of Bank officers and appointment of public interest directors;

b. organizational structure, staffing, salary guidelines; and

c. accounting policies.

Evaluating banking functions and member services provided by the Banks

The credit policies and lending programs of the twelve District Banks are monitored by the Office, as they relate to the volume of funds available to member institutions for housing credit. Federal Home Loan Bank advances outstanding to savings and loan members as of September 1979 amounted to $38.6 billion and are projected to be $41 billion and $37 billion for fiscal years 1980 and 1981 respectively. These advances include community investment fund advances, which are made under a special program to members meeting eligibility criteria. CIF advances are designed to encourage active association involvement in programs for preserving and revitalizing older communities and are priced at a preferential rate which is 50 basis points below the estimated cost of issuing consolidated obligations of comparable maturities. The target is to advance $2 billion per year under this program.

Emphasis is placed on enhancing the member services provided by each individual Bank. Efforts are specifically directed toward improving and expanding the services currently provided by the Banks which include demand and time deposits, investment and safekeeping, and economic forecasting.

Communications

The Office provides the interface between the Banks and the Bank Board. The Banks are provided with interpretations of and changes in Bank Board policy. The Banks are represented in meetings with the Federal Home Loan Bank Board, The Federal Reserve Board and other Federal agencies.

The Office of District Banks also coordinates with other Bank Board offices on matters concerning the Banks and the Bank System. Additional Office functions include the planning of monthly bank presidents' conferences and coordination of joint research projects undertaken by the Banks and the Bank Board.

Conducting the election of Federal Home Loan Bank directors

The Office is responsible for conducting the annual election of Federal Home Loan Bank directors. This includes determining the number of directorships to be designated for each State, preparing and sending to each institution eligible to participate a certificate of nomination, determining if those nominated are eligible to be candidates and wish to have their names placed on the ballot, sending ballots to each institution eligible to vote, determining the results of the election, and notifing the membership of the results.

Federal Home Loan Bank Board

CHARTERING FEDERAL AND INSURING SAVINGS AND LOAN ASSOCIATIONS

This activity is carried on by the Office of Industry Development which includes 43 positions, one less than in our previous submission.

CHARTERING FEDERAL SAVINGS AND LOAN ASSOCIATIONS

Section 5(a) of the Home Owners' Loan Act of 1933 authorizes the Board to provide for the organization, incorporation, charter issuance, examination, operation, and regulation of associations to be known as Federal savings and loan associations.

These associations provide thrift and home-mortgage lending facilities in communities where such facilities are unavailable or inadequate. They are established by granting of charters to newly created associations anywhere in the United States or its Territories. State-chartered associations may also apply and, if approved, convert to a Federal charter.

The savings or share account of each saver in Federal savings and loan associations is insured up to $40,000 by the Federal Savings and Loan Insurance Corporation. The associations are subject to periodic examination by the Federal Home Loan Bank Board and are members of the Federal Home Loan Bank System.

The following table shows membership, aggregate assets, and reserves and undivided profits of Federal associations for the years indicated:

Fiscal Year-End	Member-ship	Assets in Billions	Reserves and Undivided Profits (In Millions)
1950	1,515	$ 7.9	$ 513
1955	1,656	18.5	1,184
1960	1,856	36.4	2,493
1965	1,993	64.3	4,342
1970	2,079	90.4	6,403
1975	2,059	182.7	10,610
1976	2,035	211.8	11,636
1977	2,014	254.3	13,500
1978	2,006	290.0	15,580
1979	1,996	319.8	17,402

As shown, a steadily increasing upward trend in assets is reflected. In the last four years they have increased by 75% from $182.7 billion at June 30, 1975 to $319.8 billion at Sept. 30, 1979. Similarly, reserves and undivided profits for the same period have kept pace with this growth, increasing from $10.6 billion to $17.4 billion, an increase of $6.8 billion or 64%.

INSURING SAVINGS AND LOAN ASSOCIATIONS

Insurance protection is obligatory for all Federally-chartered associations. State-chartered institutions of the savings and loan type which apply for insurance and meet the Corporation's requirements are also insured.

In the underwriting process, the Office of Industry Development analyzes all factors bearing upon the financial condition and other aspects of applicant associations. Included among these are: Capital structure, assets, liabilities, reserve position, operating income and expense ratios, liquidity position, etc. Other considerations are character of management and directorate, and soundness of all policies and practices pursued in appraising and lending. All factors are evaluated in light of local economic conditions and the trends and prospects of the general economy.

Public demand for protection of its savings makes it advisable for uninsured savings and loan associations throughout the country to seek insurance of the accounts of their savings and investors. The following table shows the number of insured institutions at the end of the fiscal years indicated and the net increase each year:

Fiscal Year-End	Number of Insured Associations	Net Increase
1950	2,799	-
1955	3,472	673
1960	4,044	572
1965	4,483	439
1966	4,514	31
1970	4,406	-108
1975	4,110	-296
1976	4,049	-61
1977	4,069	20
1978	4,053	-16
1979	4,043	-10
1980*	4,033	-10
1981*	4,023	-10

*Estimate

As indicated, the 1979 figure is expected to decrease by 10 associations in fiscal 1980 and 10 more during fiscal 1981, bringing the total at September 30, 1981 to 4,023. The number of associations has been declining since 1966 mainly as a result of mergers and acquisitions of generally small uneconomic institutions.

Following is a more detailed description of the functions and responsibilities of the Office of Industry Development stressing the importance of the office, not only in the processing of applications but also in areas of program development and expansion techniques.

OFFICE OF INDUSTRY DEVELOPMENT

The Office of Industry Development has the primary responsibility of providing recommendations to the Bank Board for development and implementation of sound, responsive regulations, policies, and procedures, as well as innovative and informative programs designed to (1) encourage the safe and sound growth and expansion of the savings and loan industry, and (2) promote competition to provide a broad range of convenient, economical savings, home-financing and related services so that the savings and loan industry is responsive to the housing finance needs of the American public. In order to carry out this responsibility, the Office of Industry Development has three primary functions:

1. The Office processes, reviews, evaluates and presents to the Bank Board applications from savings and loan associations for various activities and actions which, by statute or regulation, require approval by the Federal Home Loan Bank Board. This involves developing new policies and regulations, providing instructions to the industry and Federal Home Loan Banks, devising and evaluating application procedures, analyzing and evaluating, including legal review of, information provided by applicants, and making recommendations to the Bank Board for appropriate action on applications. Within the Offices' delegated authority, specified officials of the Office may also approve or deny certain types of applications.

Applications processed during calendar year 1978 by the Office of Industry Development included: 228 facility office applications, 16 applications for permission to organize a new Federal association, 32 requests for insurance of accounts by the Federal Savings and Loan Insurance Corporation, 46 mergers, 20 remote service unit requests and 245 miscellaneous applications, for a total of 587 applications. Additionally, another 568 facility office applications and 8 merger applications were reviewed by the Office of Industry Development after action by the Federal Home Loan Banks' Supervisory Agents who are authorized agents of the Bank Board.

During FY 1979, the Office substantially modified its application processing procedures to conform with the requirements of the Community Reinvestment Act of 1977. The Office also received authority to process unsecured short-term note applications. For FY 1980, the Office's major new efforts in the application area will include implementation of new, simplified regulations for the establishment of facility offices by Federal associations, and development of streamlined procedures for processing facility applications. The Office also has been authorized to process applications from state-chartered mutual savings banks seeking to convert to a Federal charter. Congress granted the Bank Board the authority to charter Federal mutual savings banks as part of the Financial Institutions Regulatory and Interest Rate Control Act of 1978.

2. The Office undertakes a variety of studies and projects designed to develop sound regulations, policies, procedures and programs which promote competition, encourage the extension of a broad range of savings and loan services to the American public and stimulate the safe and sound growth of the savings and loan industry. An important aspect of this function is the Office's responsibility to encourage the expansion of convenient, economical savings and home-financing services in accordance with the needs of communities which the savings and loan industry serves.

In connection with its program activities, the Office of Industry Development also has primary responsibility within the Bank Board for evaluation of all aspects of electronic fund transfer systems and remote service units. During the past six years, this function has entailed processing of applications for remote service unit activities, in-depth study of all facets of operating funds transfer systems, coordination with the National Commission on Electronic Funds Transfer, formulation of the first Federal regulations in this area to incorporate consumer protection provisions, and coordination with the Federal Reserve Board and other financial regulatory agencies on implementation of the Electronic Funds Transfer Act of 1978. In FY 1980, the Office will continue its role in the implementation of the Electronic Funds Transfer Act. The Office also will be significantly involved in the development of legislation which will permit Federal associations to continue to operate remote service units after January 1, 1980.

During FY 1979, the Office of Industry Development developed recommendations for simplification and elimination of a broad range of regulations and procedures and, in particular, completed a major project involving the consolidation and revision of the various regulations governing the establishment of branch offices by Federal associations. The Office also assisted in the development of new regulations and procedures to implement the Community Reinvestment Act of 1977 and the Financial Institutions Regulatory and Interest Rate Control Act of 1978. Other major program activities of the Office included development of recommendations in a number of policy areas, including revision of the Rules and Regulations for Insurance of Accounts, the Bank Board's merger policy and service corporation activities. Additionally, the Office represented the Bank Board on the White House Task Force on Small Business and the President's Task Force on Women.

In FY 1980, the Office will continue to play an active role in making recommendations for regulatory, policy and procedural changes which will enable the savings and loan industry to better meet the needs of local communities. To this end, the Office of Industry Development plans to initiate or expand its research and program activities in a number of areas. These efforts will be directed towards expansion of consumer services, including study of the various payment system alternatives, development of alternative expansion mechanisms and new sources of capital for savings and loan associations, development of consumer and industry education programs, and implementation of the Bank Board's regulatory simplification and responsiveness goals.

3. The Office of Industry Development is responsible for designing and implementing specific programs to encourage the establishment, growth and expansion, safety and soundness, of minority-owned and-operated savings and loan associations. In this connection, the Office is responsible for development, coordination and implementation, in conjunction with the Federal Home Loan Banks, other government agencies and the various trade organizations, of a broad range of programs designed to provide technical assistance, educational seminars, counseling services and investment funds for new and existing minority-managed associations. Minority-managed associations are savings and loans controlled at least 51 percent by socially or economically disadvantaged Americans. Currently, 72 insured associations qualify as minority-managed and-owned.

During FY 1979, the Office of Industry Development, working closely with government, District Bank and industry officials, developed plans for several innovative new programs that will provide assistance to minority-managed savings and loans. The Department of Commerce has provided seed funds for four projects and additional operational capital will be provided by the District Banks and the Small Business Administration. These programs, which will be implemented during FY 1980, provide for the following: (a) development of a model Operations Review Program to

assist in strengthening minority-managed associations' operations; (b) development of a manual to assist directors of minority-managed savings and loan associations in executing their duties and responsibilities; (c) use of private consulting firms to provide direct management and "on-site" technical assistae in various aspects of savings and loan operations for minority-managed savings and loans; and (d) organization of a 301(d) Small Business Investment Company for the purpose of funding a long-range program to assist minority-managed associations. The MESBIC will provide capital infusion for lending and technical assistance for minority-managed savings and loan associations.

Workload and Personnel Requirements

Although FY 1979 reflected a stabilization in application volume, the effect on the Office's workload has been negligible due to its changing functional responsibilities. Since competition for savings capital has become more intense, new ways must be found to channel a fair share of such capital into savings and loan associations, which represent the Nation's largest supplier of funds for residential housing. To achieve this end in the current fiscal year and thereafter, the Office of Industry Development must commit a significant portion of its resources for research and evaluation of a broad range of industry developement programs. Since research and development of programs, including programs to assist minority-managed associations, has become an increasingly important aspect of the Office's functions, existing staff will be reassigned as available to work in these new areas. Additionally, the Housing and Community Development Act of 1977 and the Financial Institutions Regulatory and Interest Rate Control Act of 1978 have and will continue to have a significant impact on the Office's workload. For example, implementation of regulations stemming from the Community Reinvestment Act required major changes in the Office's application processing and evaluation procedures. Similarly, modification of our application processing procedures must again be made to provide for a new type of application: Conversion to a Federal Mutual Savings Bank Charter. Additionally, implementation of the Electronic Funds Transfer Act of 1978 will have broad implications on the Office's involvement in this area.

In addition to the increasing need to pursue new programs, the continued growth of the savings and loan industry directly imposes an increased workload on the Office. The rapid expansion of the savings and loan industry in recent years has come about through a high volume of facility office applications. The workload of the Office has been somewhat alleviated by delegating authority to the 12 Federal Home Loan Banks to approve certain kinds of applications. While this has had the beneficial effect of expediting the decision making process and has relieved the Washington staff to devote more time to concentrate on the development of new programs, it has also increased the importance of our post-audit procedure. As branching techniques become more sophisticated and geographic areas approach levels of office saturation, the Office's responsibility to review thoroughly all facility-type applications after approval under delegated authority takes on added significance to assure uniform application of Bank Board policy.

The Office of Industry Development anticipates that its responsibilities can be accomplished with its existing staff of 43.

Federal Home Loan Bank Board

EXECUTIVE DIRECTION AND STAFF SERVICES

The following offices and positions are included in this joint activity for fiscal 1981. Offices of the Chairman and Board Members (15); Communications Office (16); Congressional Relations Office (3); Equal Employment Opportunity Office (4); Internal Review Office (14); Personnel Management Office (21); Secretariat (22); Office of Community Investment (26); Office of General Counsel (79); and Office of Examinations and Supervision (69).

There are a total of 269 positions assigned to the joint activity, an increase of 67 over our previous submission. This increase is due primarily to the establishment of the Washington Office of the Office of Examinations and Supervision as a separate office in the Bank Board.

EXECUTIVE DIRECTION

The Board establishes the policies for all operations. It supervises the operations of the 12 regional Federal Home Loan Banks and the examination of each Bank at least annually.

It approves applications and issues charters for Federal savings and loan associations and prescribes regulations relating to their lending and other activities.

It is responsible for examination and supervision of all member institutions insured by the Federal Savings and Loan Insurance Corporation. It is the final authority for the administration of the Insurance system, including approval or disapproval of applications for insurance and of requests from insured institutions to permit mergers, purchase of assets, consolidations, etc. It makes final determination of the course of action to be taken by the Insurance Corporation to prevent default in an insured institution as well as the method of settlement when an insured institution is declared in default.

STAFF SERVICES

Supporting functions including manpower utilization, legal services, public relations, and internal and operational audits are provided to the Bank Board and to the Insurance Corporation. Such services are furnished by Communications, Congressional Relations, Equal Employment Opportunity, Internal Review, Personnel Management, Secretariat, Office of Community Investment, Office of General Counsel, and Office of Examinations and Supervision.

Other services furnished by the Bank Board's staff are fiscal and housekeeping services; these are treated and discussed in this submission as a separate activity under the caption "Administrative Services".

Following are more detailed descriptions of the functions and responsibilities of the offices involved in this activity.

OFFICES OF THE CHAIRMAN AND BOARD MEMBERS

The Federal Home Loan Bank Board, a bi-partisan Board of three members, was established as the successor agency to the Home Loan Bank Board, pursuant to the provisions of an Act cited as the "Housing Amendments of 1955" (69 Stat. 635). It supervises the Federal Home Loan Bank System, the System of Federal Savings and Loan Associations, the Federal Savings and Loan Insurance Corporation (FSLIC), and the Federal Home Loan Mortgage Corporation.

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Federal Home Loan Bank Board

Under Reorganization Plan No. 6 of 1961, effective August 12, 1961, the Chairman is chief executive officer of the Board. Subject to the general policies of the Board, he is responsible for the overall management, functioning, and organization of the Agency; the appointment, removal, and direction of personnel; and the preparation, review, presentation, and justification of budget estimates.

Some of the major duties and functions of the Board Members include the establishment of policies for all the Board operations. They supervise the operations of the twelve Federal Home Loan Banks, including the establishment of certain regulations for the guidance of the boards of directors and officers of such Banks. They are responsible for annual examinations of the twelve Banks.

The Board approves the issuance of charters for the organization of Federal savings and loan associations. It is responsible for their examination and supervision and prescribes certain regulations governing their lending and other activities.

In addition, it is responsible for examination and supervision of all Federal Savings and Loan Insurance Corporation insured State-chartered institutions. It passes on and approves, where acceptable, all applications for insurance by the Federal Savings and Loan Insurance Corporation, and other applications related to the Insurance Corporation's activities.

The Emergency Home Finance Act of 1970 (Public Law 91-351) authorized the establishment of a Federal Home Loan Mortgage Corporation (FHLMC) which buys and sells mortgages, both conventional and guaranteed or insured. The three members of the Board constitute the Board of Directors of the Corporation.

COMMUNICATIONS

Communications presents policies, announcements and actions to: the public; Bank Board offices; the savings and loan industry; other Government agencies; and all media. Public understanding and trust in insured savings and loan associations is essential to the success of Bank Board operations. Industry and government support are important to the Board's goals, as is the support of the financial community.

This information is disseminated in various ways: press releases; Federal Home Loan Bank Board Journal (monthly); press conferences; answering correspondence and phone calls; Spotmaster recordings; speeches; interviews for radio, television, magazines (general, trade, and professional); newspapers; guest column contributions; and other articles signed by the Chairman, Board Members or senior staff members.

Existing activities

1. Publications of the Bank Board Journal, Across the Board (a bi-monthly internal news-letter for employees), and an annual report.

2. Issuance of monthly statistics on mortgage rates, interest costs, and savings flows; press releases; articles; columns; and interviews for radio and television.

3. Answering of queries from the media, public, industry, Government, academia, and other elements interested in the Bank Board, the Federal Home Loan Mortgage Corporation, the Federal Savings and Loan Insurance Corporation, the Fiscal Agent, and the savings and loan industry.

4. Maintenance of an agency speaker's bureau to provide knowledgeable and professional career personnel who will be available upon requests from citizens' groups and national organizations concerned with issues of housing and home finance.

5. Circulation of a bi-monthly clipsheet (a digest of financial and housing news from the Nation's press).

6. Coordination of a public information service on Bank Board activities with the twelve Federal home loan banks.

7. Preparation of programs and projects for the Board's personnel orientation and development programs.

CONGRESSIONAL RELATIONS OFFICE

The Board's Congressional Relations function is centered in the Chairman's Office for assisting and advising the Chairman in the development, coordination, and maintenance of the Federal Home Loan Bank Board relationships with the Congress. This function is responsible for keeping abreast of all legislative programs as they pertain to the Federal Home Loan Bank Board, Federal Savings and Loan Insurance Corporation, and savings and loan industry in general, and for advising the Board on the status, prospects for enactment, and interpretation of such legislative and other pertinent Congressional action.

EQUAL EMPLOYMENT OPPORTUNITY OFFICE

In October, 1977 the Equal Opportunity function was established as part of the Chairman's Office, to oversee the development and implementation of the Bank Board's internal EEO Program. In addition, this Office is also responsible for overseeing the Bank Board's goal to promote EEO within the S&L industry, and for insuring Bank Board compliance with the Minority Contracts and Small Disadvantaged Business Program. In April, 1978 the additional function of long range planning was added, to coordinate the development and implementation of long range Bank Board goals.

INTERNAL REVIEW OFFICE

The Office provides the Chairman and Members of the Board and top management independent professional reviews of the financial and operational activities of the Federal Home Loan Bank Board, the Federal Savings and Loan Insurance Corporation, and the Office of Finance. In addition, the Internal Review Office supervises the internal audit staffs of each of the 12 Federal home loan banks and coordinates the services of certified public accounting firms who perform the financial audits of these Banks.

In accordance with the Office of Inspector General legislation, the office performs audits of Bank Board programs and activities deemed most vulnerable to waste, fraud, and error.

It also conducts reviews and reports on the extent and nature of internal compliance with management's policies, plans and procedures as well as with applicable legal and external regulatory requirements in accordance with Standards for Audits of Government Organizations, Programs Activities and Functions published by the U.S. General Accounting Office. Emphasis is placed in the audit on recognition of possibilities for improving operations and opportunities for greater efficiency and economy.

Internal Review makes every effort to facilitate and expedite the external audit activities of the above entities performed by the United States General Accounting Office.

Examinations of District Banks

The Office administers the contract for the annual financial audits of the District Banks. The CPA firms:

1. Examine the financial statements in accordance with generally accepted auditing standards.

2. Report and express an opinion on the fairness of presentation of financial statements prepared in conformance with generally accepted accounting principles, applied on a consistent basis.

3. Report on weaknesses in internal accounting control and make recommendations for improving operations.

4. Report on compliance with significant financial regulations and policies of the Board.

5. Render timely audit reports.

The Office provides liaison and coordination services between the CPA firms and the Board; receives and reviews their reports; and provides necessary follow-up on any recommendations contained in such reports.

Compliance and performance audits of the Banks are performed by each Bank's internal auditor. The Office provides guidance and assistance to the internal auditors; coordinates the internal audit activities; and reviews copies of the internal audit reports examining and reporting on:

1. Compliance with regulations and policies of the Federal Home Loan Bank Board.

2. Efficiency and economy in specific operational areas or individual programs.

3. Specific matters of administration and program results as requested by the Federal Home Loan Bank Board and the Board of Directors of each Bank.

4. Unusual financial and operating matters developed by continuous and preaudit financial analysis.

5. Deviations from authorized budgets.

The Director for Internal Review is responsible only to the Chairman and Members of the Board and, therefore, is independent of the officials responsible for the operations he reviews. In F.Y. 1981 this office will consist of 14. employees.

PERSONNEL MANAGEMENT OFFICE

Personnel Management serves the Board by designing and implementing an effective Personnel Management Program. This program encompasses the following responsibilities:

1. Office ceiling authorizations or staff power allocations.

2. Recruiting, staffing, and development.

3. Employee performance and evaluation.

4. Employee recognition and incentive awards.

5. Position classification and administration.

6. Personnel records maintenance, reporting, and program evaluation.

7. Implementation of civil rights and labor relations programs.

8. Formulation and issuance of personnel policies.

Personnel Management operations are to an extent controlled by statutes, Executive Orders and Civil Service Regulations.

SECRETARIAT

The Secretariat is the central point for the receipt of formal matters addressed to the Bank Board. The Secretary, in the name of the Bank Board, is responsible for the promulgation of its rules, regulations, and decisions and also is the Secretary to the Federal Savings and Loan Insurance Corporation, the Federal Home Loan Mortgage Corporation, and acts as Executive Secretary to the Federal Savings and Loan Advisory Council.

The Secretariat coordinates staff transmission to the Board, schedules and arranges Board meetings, organizes the agenda, insures the provisions of the "Government in the Sunshine Act" are complied with, coordinates with the Office of the General Counsel and other staff offices on release of information under the Public Information Act and the Privacy Act, prepares minutes on each meeting, recording decisions made, maintains liaison on unfinished business, and acts as advisor to the Board on procedural matters. The Secretariat also prepares, distributes and records Federal savings and loan association charters, insurance certificates, Bank membership certificates, and certificates of appointment and election of directors of the Federal Home Loan Banks. The Secretariat is custodian of the Bank Board's permanent files, including the Minutes of the Federal Home Loan Bank Board, the former Home Owners' Loan Corporation, the directives of the former Federal Home Loan Bank Administration, and its constitutent agencies.

The Secretary serves as Liaison Officer with the Office of the Federal Register.

Workload

During the fiscal year 1979, the Board met 112 times on Federal Home Loan Bank Board business. During these meetings, the Board adopted 804 resolutions and recorded 322 minute entries. A total of 5 notices of Holding Company proposals to acquire insured associations were published in the Federal Register by the Secretary to the Board, and 12 Chairman's Orders were issued. Also, 39 proposed/final amendments were published in the Federal Register. In addition, the Secretary to the Board recorded for the Federal Home Loan Mortgage Corporation 27 meetings of the Board of Directors during which 43 resolutions were adopted and 26 minute entries were recorded.

Docket, Index and Micrographics Branch

The Docket Branch maintains and services 7,131 files of the members of the Federal Home Loan Bank System, of which 4,243 are active and 2,888 are inactive, including associations insured by the Federal Savings and Loan Insurance Corporation (FSLIC); files of 604 service corporations; files of 191 savings and loan holding companies registered with and regulated by the Board; 140 exhibit B folders; Electronic Funds Transfer System - through remote Service Unit folders; and 225 non-member files. In addition to maintenance and storage, this section is responsible for the loan, retrieval and general security of the files.

Files and Docket activities records received, classified and filed, 382,021; requests for records, 24,800; internal requests, 132,600; public request for inspection of records, 481; public request for copies of records, 476; documents microfilmed, 618,000; and microfilm jackets made, 260,000.

OFFICE OF COMMUNITY INVESTMENT

This Office is concerned with developing programs and policies in the area of housing and community development which support the Bank Board's efforts and goals relating to not only the prevention of disinvestment, but to stimulate investment in communities throughout the nation.

This Office provides training and technical assistance to the industry to assist it in developing economically sound business opportunities while at the same time fulfilling its moral and legal obligation to our nation's communities.

The Office of Community Investment works together with national, regional and local interest groups to develop and institutionalize sound policies and programs for our communities, with the assistance of a network of Community Investment Officers located in the 12 District Federal Home Loan Banks.

The Office identifies and analyzes problems characteristic of urban and rural areas, studies the nature and extent of current savings and loan industry activity in these areas, and proposes methods and programs to enable the savings and loan industry to deal more effectively with these urban and rural needs and problems. The Office also coordinates the Bank Board's handling of consumer and discrimination complaints, and maintains records to permit analysis and review of such complaints.

The Office represents the Bank Board on the Interagency Fair Housing Task Force, which includes representatives of other financial regulatory agencies, the Department of Housing and Urban Development and the Department of Justice. The Office also coordinates the Bank Board's activities under the Home Mortgage Disclosure Act of 1975, including oversight of a major HMDA study currently being sponsored jointly by the Bank Board and the FDIC, and represents the Bank Board on the CRA Data Subcommittee. The Office of Community Investment is coordinating the regulatory agencies' efforts to test updated census data for use in CRA-compliance aspects of the examination process.

OFFICE OF EXAMINATIONS AND SUPERVISION - WASHINGTON OFFICE

The Office of Examinations and Supervision consists of an office in Washington, D.C., and field offices in each of the twelve Federal Home Loan Bank Districts.

The Washington Office advises and makes recommendations to the Board regarding new or revised policies and procedures and such amendments of statutes and regulations as are necessary or desirable by experience, public interest, the welfare of the business, or changing economic conditions. It carries out the Board's decisions and actions on such matters with and through the staff of the Office, the Supervisory Agents, and other officers of the Board.

1. Directs and advises the District Directors in the examining work, including examinations of affiliates and examinations of savings and loan holding companies and their subsidiaries, in the twelve Federal Home Loan Bank Districts. It also directs and advises the twelve Federal Home Loan Bank presidents and other officers, who are designated as Supervisory Agents for the Board, in the supervisory work in the field.

2. Reviews and analyzes examination and other reports (a) to insure the quality and effectiveness of examinations and examination procedures; (b) to evaluate and contribute to the promptness, quality and effectiveness of supervisory efforts; and (c) to achieve uniformity in general terms, in approach, in techniques, and in philosophy of the functions.

3. Recommends to the Board that actions under cease and desist authority or removal of officers and directors be initiated in pursuit of preventive supervision, or that insurance of accounts be terminated, or that the institution be ordered to show cause why insurance should not be terminated.

4. Recommends to the Board whether institutions found to be impaired, or close to impairment, should be liquidated or assisted and made whole by a contribution or purchase of assets. If the latter, the Office recommends the amount of the contribution or purchase, the terms and conditions, and requirements as to future management and policies.

5. Recommends to the Board whether institutions should be required to take remedial action with respect to individuals to correct the conditions resulting from violations of the various consumer laws and regulations, such as the Fair Housing Act, Equal Credit Opportunity Act, Truth-in-Lending, and the Equal Employment Opportunity Act.

6. Confers with the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the National Credit Union Administration, and the Federal Reserve Board regarding matters of mutual interest and concern, and with Members of Congress regarding inquiries made by them or through them from their constituents; meets with groups of directors and officers of associations regarding local problems of general interest; attends and addresses State, regional, and national conventions of trade organizations and meetings of State supervisory authorities.

For fiscal year 1981, the Washington Office will consist of 69 positions.

OFFICE OF GENERAL COUNSEL

This Office serves as the legal arm of the Board (including the FSLIC of which the Board is the operating head) in connection with the Board's functions and responsibilities in administering three basic statutes: the Federal Home Loan Bank Act, the Home Owners' Loan Act of 1933 and Title IV of the National Housing Act, all as amended. The workload of the Office is divided among seven divisions.

Legislation Division

This Division is responsible for the drafting of all legislation submitted by the Bank Board to the Congress. The Division also prepares all major Bank Board policy statements in the form of testimony to be presented at Congressional hearings. It also analyzes and monitors all bills pertinent to the Bank Board and prepares reports of the Bank Board's views on pending legislation. The Division also compiles and analyzes the legislative history of laws which the Bank Board must implement.

The workload of the Division during fiscal years 1978 and 1979 has been at an especially high level because of the volume of legislative proposals directly relating to housing finance and the regulation of financial institutions. The Division has prepared various legislative proposals for the first session of the 96th Congress and the Division is actively involved in the implementation of the Financial Institutions Regulatory and Interest Rate Control Act of 1978, as well as in preparing proposed technical amendments to that Act. As a further matter, the Division is working on ways to enable the Bank Board and the S&L industry to promote energy-efficient housing and on ways to improve the capital adequacy of savings and loan associations.

Regulations Division

This Division, in cooperation with appropriate operating offices, drafts regulations, policy statements and rulings implementing the statutes under which the Bank Board carries on its duties and responsibilities.

Due to changing economic conditions and additional statutory enactments, new regulations and amendments to existing regulations have greatly increased in number, with commensurate increase in the workload of the Regulations Division in recent years.

During fiscal year 1979, regulatory activity remained at a high level. During the present fiscal year, additional regulatory amendments will be required to continue meeting the necessary changes in operational programs.

There is every indication that the regulatory workload of the Office will expand through fiscal years 1980 and 1981 as the magnitude, momentum and complexities of the savings and loan industry increase.

During fiscal years 1979 and 1980, a major project of the Regulations Division was to shorten, simplify, and otherwise improve virtually all of the Board's regulations. With completion of this project, the Division will begin the even more difficult and tedious job of deregulation and other needed substantive changes of the Board's regulations. It is anticipated that reasonable progress on this project may require that additional resources be made available to the Division.

As a result of the excellent productivity of the Regulations Division, the backlog of work in the Division is at an acceptable level.

Opinions Division

This Division has the primary responsibility for interpreting the statutes and regulations under which the Bank Board operates. In recent years a substantial increase in the variety and complexity of the problems presented to this Division has resulted from changes in the basic legislation and implementing regulations regarding the investment and lending powers of Federal associations and regarding their savings and borrowing operations.

Lending powers of Federal associations have been broadened to include such specialized fields as student loans, loans to finance the acquisition and development of land, loans to provide housing facilities for the aging, loans to business development credit corporations, loans to State housing corporations, and loans for mobile home and home equipment financing. Additional lending powers are also provided in the recently enacted Financial Institutions Regulatory and Interest Rate Control Act of 1978.

Such additional investment authority, coupled with extensions of lending authority geographically, both as to whole and participation loans, have resulted in the submission of more complex operational plans and programs for legal review.

In addition, the enactment of the Holding Company Amendments of 1967 concerning investments by, and the operation of, savings and loan holding companies and their affiliates resulted in the creation of a substantial new body of law to be administered by the Board. Due to the complexity of holding company transactions and operations, opinions regarding these Amendments are particularly difficult and require special care and research.

Most of the questions on which opinions are sought result from direct inquiries from savings and loan institutions, the various operating offices of the Bank Board, and the general public.

The Opinions Division also coordinates the Board's activities under the Flood Disaster Protection Act of 1973 and consumer protection legislation such as the Truth in Lending Act, the Fair Credit Reporting Act, the Real Estate Settlement Procedures Act of 1974, and the Equal Credit Opportunity Act.

The Opinions Division also maintains in a current status an Annotated Manual of the statutes, regulations, policy statements, rulings and General Counsel's opinions relating to the Bank Board's functions. The Annotated Manual has been a popular item of sale at the Government Printing Office and has become a vital and time-saving tool among the members of the Bank Board's staff. In addition, the Division administers compliance with the provisions of the Freedom of Information Act, including the publication of appropriate material in the Federal Register and the making available of information to the public. This latter responsibility includes the maintenance of a public index. The Division also administers compliance with the provisions of the Privacy and Government in the Sunshine Acts.

All of the foregoing indicate that the workload of the Opinions Division will continue at a high level during this fiscal year and in fiscal year 1981.

Litigation Division

The Litigation Division carries out two basic functions: (1) responsibility for the defense in judicial proceedings of all challenges to the authority of the Bank Board and the FSLIC; and (2) handling of all legal questions which relate to the employment and administration of the FSLIC's default prevention activities under Section 406(f) of the National Housing Act, and advising the FSLIC in connection with its duties and responsibilities as receiver for defunct savings and loan associations.

Such litigation may arise as a result of the grant or denial by the Board of applications for charters, branches, mobile facilities, conversions, electronic funds transfer system terminals, and mergers of Federal savings and loan associations, and the grant or denial by the Board, as the operating head of the FSLIC, of holding company applications and applications for insurance of accounts. The Board also participates in lawsuits which involve challenges to the validity of Board regulations or to the exclusive nature of the Board's authority over Federally-chartered savings and loans.

During fiscal year 1979, the Litigation Division directly handled 47 lawsuits against the Board, the FSLIC and/or the Board's staff, including 20 new suits instituted during fiscal year 1979. Based upon past experience, it can be reasonably anticipated that new suits in this area will be filed against the Board or the FSLIC during fiscal years 1980 and 1981. Since the agency is a defendant in such cases, the specific number of such suits cannot be estimated.

At times, the Board, through the Litigation Division, appears as a friend of the court in connection with legal issues raised in matters which directly affect the interpretation or application of statutes or regulations which the Board or the FSLIC administer. The Litigation Division represented the Board in three such cases during fiscal year 1979.

The Litigation Division also prepares legal opinions and otherwise advises the Board with respect to difficult and complex controversies involving Federal or State-chartered savings and loan associations which involve or are likely to lead to court litigation. In addition, the Division coordinates and works with the Department of Justice with respect to certain litigation matters involving savings and loan associations and prepares legal opinions and memoranda for the use of that Department in connection with such matters.

The Litigation Division represents the FSLIC in all matters involving the exercise of its authority under Section 406(f) of the National Housing Act, as amended, to make loans or contributions to, or purchase the assets of, insured institutions in order to prevent a default in the institution. This function requires investigations, negotiations and the drafting of complex agreements and other instruments, the rendition of opinions on the many technical and other problems arising in the administration and implementation of such agreements.

In addition, the Litigation Division advises and renders legal assistance to the FSLIC in connection with its duties and responsibilities as receiver for defunct savings and loan associations. The Litigation Division also gives overall direction to and supervises the conduct of litigation by private fee counsel for the FSLIC (appointed by the receivership court of the FSLIC) in its prosecution or defense of monetary claims by or against the FSLIC, including mismanagement suits aginst officers and directors of defunct institutions, claims on fidelity bonds carried by defunct institutions which have been assigned to the FSLIC, and claims by or against the FSLIC in its capacity as receiver of institutions in default.

General Division

The General Division is responsible for advising the Office of Industry Development (OID) in connection with non-routine applications for permission to organize Federal associations and establish branch and satellite offices and mobile and limited facilities, and with proposals to effect mergers and dissolutions. In addition, the Division advises OID on service corporation applications, conversions (other than routine ones from State to Federal charters), electronic transfer remote service unit applications, and other miscellaneous types of applications. Substantial activity has occurred in the area of mergers and remote service units over the past year and is expected to continue.

This Division also handles various legal problems of the Office of the District Banks and Office of Finance and those arising out of the housekeeping functions of the Bank Board and the FSLIC. The latter activity includes legal review of the Board's Government contracts, which is quite demanding and specialized work. It also works on clearance of Home Owners' Loan Corporation titles.

Because of eligibility and other requirements in the regulations governing insurance of accounts, the chartering of new Federals and the establishment of branch and satellite offices and mobile and limited facilities, the Division prepares a legal opinion on each application presenting novel or unusual issues. At the present time, in excess of 200 applications of this type are being received annually by OID of which approximately 10% require review by this Division. When necessary, opinions with respect to such applications are drafted with the cooperation of the Litigation Division.

Approximately ten opinions are now being prepared each month on electronic funds transfer remote service units, and approximately five remote service unit applications, each requiring approximately ten work days, involving complex antitrust questions, are prepared annually in the General Division.

Approximately 20 legal antitrust evaluations in connection with merger and holding company applications, each requiring approximately ten work days also are prepared annually in the Division. Each evaluation requires a thorough examination of detailed information, primarily statistical, which the applicants are required to submit. Examinations of such data, which require approximately three work days, is designed to disclose the salient points and any deficiencies in the submission so that additional information can be sought before the analysis itself is commenced. The evaluation involving an analysis of competitive overlap, degree of market concentration produced, and amount of competition eliminated, requires approximately four work days, which time includes the actual writing of the evaluation.

The workload of the Division has been increased by the preparation of letter opinions on all charter, merger, and insurance disapprovals, which have added about four two-day attorney assignments each month and two hours of secretarial work per assignment. In addition, the recent enactment of the Community Reinvestment Act of 1977, and the Financial Institutions Regulatory and Interest Rate Control Act of 1978, especially Titles II (Changes in Control) and XII (Mutual Savings Bank Charters) will also increase the workload of this Division since those Acts envision additional analysis and the submission and legal review of additional applications.

Compliance Division

This Division is responsible for the investigation, preparation, and litigation of all administrative and judicial enforcement actions brought by the Bank Board and the FSLIC. This includes cases involving the issuance of cease and desist orders, removal of officers and directors from office and termination of insured status commenced under the Financial Institutions Supervisory Act, the Financial Institutions Regulatory and the Interest Rate Control Act of 1978, and all litigation arising out of violations of the Federal Home Loan Bank Act and the Savings and Loan Holding Company Act.

In addition, where an association has failed to meet or maintain its reserve requirements and supervisory negotiations have resulted in an agreement as to the corrective action to be taken by the association, the Compliance Division is responsible for drafting the formal agreement.

The Division also is responsible for preparing all criminal reference letters sent to the Department of Justice and providing such assistance as may be requested by that Department, in regard to these references. Criminal reference letters are sent to the Justice Department where evidence obtained during an examination of an insured savings and loan association indicates that a crime may have been committed.

Moreover, the Division is responsible for the administrative processing of claims against the United States under the Federal Tort Claims Act which arises out of automobile accidents or other tortious conduct by employees of the Bank Board and the FSLIC. Finally, the Division has the responsibility for investigating serious incidents of alleged irregularities involving employees, property, funds or programs of either the Bank Board or the FSLIC.

Securities Division

The Securities Division is responsible for processing conversion applications of insured institutions from the mutual to the stock form of organization pursuant to Section 402(j)(3) of Title IV of the National Housing Act and Section 5 of the Home Owners' Loan Act of 1933. It advises and renders opinions on mortgage backed bonds, subordinated debt security applications and questions involving Holding Companies; studies and processes applications for the sale of certain securities to meet capital requirements; processes Annual Reports submitted under the conflict of interest regulations; administers and enforces certain sections of the Securities Exchange Act of 1934, as these sections apply to registered savings and loan associations; and it provides other support and legal functions relative to securities matters as the need arises.

Federal Home Loan Bank Board

OPERATIONS AND ECONOMIC ANALYSIS

This joint activity is executed by the Information Systems Division and the Office of Economic Research. It involves the design of statistical and data processing procedures, and the collection, evaluation and processing of large amounts of data for use of the Bank Board, other Government entities, the industry, and the public.

There are 76 positions assigned to this activity, 4 more than in our previous submission. The Office of Economic Research, has been increased by 3 positions, and the Information System Division increased by one position.

Following is a more detailed description of the functions and responsibilities of the offices involved in this joint activity.

ANALYSIS OF OPERATIONS - INFORMATION SYSTEMS DIVISION

This part of the joint activity is executed by the Information Systems Division. The Division provides a wide variety of data processing services to the Bank Board, its staff, the savings and loan industry, the public, the financial community, and selected Government agencies. Services range from the collection, correction and processing of both savings and loan survey and Bank Board administrative data, to information retrieval and analysis for special studies and inquiries.

Two of its continuing objectives are the implementation of cost effective administrative and financial systems for efficient Bank Board resource management, and comprehensive savings and loan survey systems with rapid data availability to support the Bank Board's efforts to promote the growth and economic viability of the savings and loan industry. Realization of these objectives provides management and operational areas with the information to evaluate, plan for and control:

1. Manpower requirements to carry out the agency mission.

2. The Federal Home Loan Banks' status and performance.

3. Insured member association financial operations.

4. The housing market served by the Federal Home Loan Bank System.

5. External factors affecting the agency mission and operation.

To insure that the objectives above are fully supported by the Information Systems Division, the following ongoing activities will be conducted:

1. Support the practical application of advanced computer techniques.

2. Improve the timeliness and quality of services and existing systems.

3. Continue the development of systems to increase the effectiveness of internal agency administration.

4. Insure that response to unscheduled requests for ADP services meet user needs in a timely manner.

5. Provide effective internal management and administration of the Division.

Workload

During the budget period, the ADP activity will provide support for maintenance and modification of over 60 recurring production systems, as well as furnish systems and programming for implementing ad hoc projects. New information systems will be developed to support the Board's policy making and supervisory functions and for adherence to legislative and statutory obligations. Stronger emphasis from the legislative and judicial branches has been focused on S&L lending patterns to identify possible discriminatory lending practices, and on full disclosure of information. Projects to support new information requirements include:

1. Federal Savings and Loan Insurance Corporation (FSLIC) - The FSLIC plans to convert two significant modeling activities now operating at a commercial service bureau to the Bank Board's DEC-10 computer. These models give the FSLIC the ability to research various options available to the corporation for situations affecting the S&L industry. They are written in the proprietary language of the service bureau and are very difficult to maintain and modify. In the process of converting the models to our computers, they will be rewritten in FORTRAN and enhancements will be made to make them more useful tools.

2. Office of Community Investment - Community Reinvestment Act - The Community Reinvestment Act (CRA) requires each insured institution to define its service area. Examiners from the staff of the Office of Examinations and Supervision are required to ascertain that institutions are meeting the credit needs of their area. Prior to the conduct of the 1980 Census of Housing and Population, extremely old data (1970 census) have been used to provide demographic information about neighborhoods to the examiners. With the availability of 1980 census data, more detailed and accurate analytical reports can be made available to assist in the CRA examination process.

3. Office of Examination and Supervision (OES) - Field Office Terminal System - The Information Systems Division has expended considerable effort to develop on-line time series files based on reports submitted to the Bank Board by insured institutions. By the beginning of FY 1981 time series files for all major reports will be readily accessible via computer terminals and the Bank Board's DEC-10 computers. For example, instantaneous ratio and trend analysis will be available for the 12 most recent reporting periods of semi-annual data or the 60 most recent periods of monthly data. Subsequent to the conduct of a pilot study, all this data will be made available at the OES field offices to further assist in the scoping of examinations and in monitoring the activities of specific institutions.

ECONOMIC ANALYSIS - OFFICE OF ECONOMIC RESEARCH

This Office is responsible for economic analysis in the areas of general economic developments, capital and mortgage markets, housing, the savings and loan industry and competing financial intermediaries, and matters relating to legislation, regulation, and policies of the Bank Board.

The Office has many specific as well as general functions:

1. The development and maintenance of a program in basic and applied research designed to increase the understanding of the savings and loan industry and of the savings and mortgage markets in which it operates.

2. The development and maintenance of a statistical and econometric program to provide current information to the Bank Board and to make it possible to perform both current and effective research.

3. Economic analyses and critiques of on-going and proposed Bank Board policies, regulations, and legislation for Bank Board use. The Office collaborates with other offices through intra-agency committees and other means in designing and formulating new policies, regulations, and legislation.

4. Advising the Board and Bank Board offices of this Office's views on specific matters having economic ramifications, such as the anticompetitive aspects of mergers and holding company acquisitions.

5. Monitoring general economic and financial development so as to provide the Bank Board with an adequate updated knowledge of the economic environment necessary for the formulation and execution of policy. This includes the preparation of general economic reports basically concerned with the housing, savings, and mortgage markets.

6. Maintenance of working relationships informally and through interagency committees with other agencies including the Treasury Department, Council of Economic Advisers, Federal Reserve System, Office of Management and Budget, and the Department of Housing and Urban Development; activities with the Federal Home Loan Banks on research and policy projects; and liaison with universities and other public and private organizations.

7. Responsibilities for publications arising out of the Office's work and analyses. These include selected chapters of the Annual Report of the Bank Board, articles and statistical tables for the Bank Board Journal, and articles and monographs published as working papers, including the preparation of statistical data for periodic Bank Board publication.

8. Overseeing the Bank Board's contract with the Agency for International Development (AID) and the Federal Home Loan Banks' participation in the AID Housing Guarantee Program. This also involves developing a program in international housing research.

9. Providing research support and advice to other Bank Board offices. This includes providing technical assistance for the development of both internal and contracted research.

Workload and Personnel Requirements

The research activities of the Office of Economic Research encompass a wide range of economic, financial, regulatory and policy areas. The Office of Economic Research conducts both short-run policy oriented research and long-term research on various aspects of Savings and Loan operations and the housing and mortgage finance system. Additionally, the Statistical Division in the Office of Economic Research is responsible for collecting and monitoring reports for the Savings and Loan industry and for producing statistical reports and special reports on selected aspects of Savings and Loan operations.

The staff of this Office is quite small in relation to other Federal agencies and in terms of the very large size and widespread impact of the thrift industry upon the general economy. The large projected increase in housing needs over the coming decade makes it all the more imperative that the Bank Board have adequate intelligence designed to improve its role and performance. The Office will consist of 29 positions in Fiscal Year 1980 and 1981, an increase of 3 positions over Fiscal Year 1979.

Federal Home Loan Bank Board

ADMINISTRATIVE SERVICES

The following offices and positions are included in this activity for fiscal year 1981: Administration Office (5); Controller's Division (41); Administrative Services Division (41); and the Budget Staff (8).

Following is a more detailed description of the functions and responsibilities of the offices involved in performing administrative services.

ADMINISTRATION OFFICE

The Director of Administration has direct responsibility for administration, coordination, and management of the following four activities which provide service to all offices of the Bank Board and the Federal Savings and Loan Insurance Corporation (1) Administrative Services Division; (2) Controller's Division; (3) Budget Staff; and (4) Information Systems Division, which for activity purposes, is included under Operations and Economic Analysis.

Controller's Division

The Controller's Division plans, develops, and executes the financial and fiscal policies of the Bank Board and the Federal Savings and Loan Insurance Corporation (FSLIC). The Division consists of three branches: Travel Management, Accounting Services, and Operations.

The primary responsibility of the Travel Management Branch is to handle all matters related to the Bank Board and FSLIC travel. This responsibility includes:

1) acting as a central coordinator for all travel matters. This includes the preparation, for higher level approval, of the Bank Board and FSLIC travel policies and making recommendations to higher management for improving travel practices.

2) providing record keeping and physical maintenance of all Government Transportation Requests used by Bank Board and FSLIC employees.

3) providing assistance to all employees relocating to new duty stations.

4) verifying, auditing, and/or approving all travel vouchers and travel advances.

The primary responsibility of the Accounting Services Branch is to plan, develop and maintain the accounting systems and methods to reflect the results of all Bank Board and FSLIC transactions. The functions include:

1) receiving and recording all receipts consisting primarily of examination fees, general assessments, insurance premiums, receipts from asset disposal, Freedom of Information billings, and rental income.

2) maintaining all requested accounting records. These involve expenses ledgers, general ledgers, investment ledgers, and cash receipts and inventory purchase journals.

3) preparing financial reports for internal management services and for other Federal agencies.

4) analyzing and recommending assessments to be made on the Federal Home Loan Banks and on the FSLIC.

The Operations Branch is responsible for the payroll and bill paying functions of the Bank Board and the FSLIC. The responsibilities include:

1) preparing the agency payroll and associated payroll, earnings and leave reports.

2) processing all invoices and disbursement vouchers associated with the normal day to day operations of the Bank Board and FSLIC.

3) conducting special studies of employee activities related to leave, earnings and other pay related matters.

4) providing coordination and control over all bill paying activities in order to make proper disbursement.

Workload

The Division continues its long range program to improve and further automate and integrate the Bank Board's and FSLIC's accounting systems. In fiscal year 1979 on-line computer terminals were installed to expedite the updating of information for payroll preparation. The Division has also implemented cash improvements resulting from the President's Reorganization Project for Cash Management. An automated on-line system for Payment of Insurance was developed, tested and adopted to facilitate quicker disbursement to savers in the event of a default. In addition the Division was extensively involved in making changes to the automated accounting systems in order to accommodate the reorganizational changes in the Bank Board and the FSLIC.

During fiscal year 1980 additional on-line terminals will be installed to expedite the updating of the accounts payable and the accounts receivable billing systems. These changes as well as some others have enabled the Division to handle an increased workload without having to add additional staff.

Budget Staff

The primary responsibilities of the Budget Staff are to plan and control the annual budgets. The functions include:

1) supervising the preparation and publication of the Bank Board's and FSLIC's budget estimates to the OMB and to the Congress.

2) reviewing and analyzing budget estimates and supporting justification for reasonableness, accuracy, completeness, propriety, and conformance with Bank Board policies and programs.

3) advance approval of major expenditures and position control.

4) preparing budget variance reports including analysis of current actual versus budget estimates, and preparation of quarterly apportionments of approved budget for OMB approval.

5) developing and maintaining manuals of budget procedures, policies, and practices.

Administrative Services Division

The Administrative Services Division, through its three Branches - Procurement Management, Facilities and Special Services, and Management Analysis - provides support services for all Headquarters and Field Offices of the Bank Board. The Division's responsibilities include operation and maintenance of the Headquarters building, all contracting and procurement activity, property management, internal management studies and productivity measurement, the Agency Print Shop and the Research Library.

The Division Director is responsible for the development of Federally mandated programs for energy conservation, occupational safety and health, security, and emergency preparedness. He has direct responsibility for all Headquarters building management activity including building plant operation and maintenance, commercial leasing, new construction, and interior space allocation. These activities are handled through a commercial management contractor, whose operations are monitored by Division staff.

The Director serves as the Agency's Contracting Officer with responsibility for all contracting and small procurement including adherance to FPR's, CFR's, OMB Circular No. A-76 and the Agency Program for Socially and Economically Disadvantaged Small Business Contracts.

Procurement Management Branch

The Procurement Management Branch, through the Contracts and Procurement Sections, is responsible for procuring necessary goods and services in a proper and timely fashion at the least possible cost. The Branch insures adherance to all applicable Federal statutes, Executive Orders, and OMB Circulars; proper property management procedures; and maintains the Agency Furniture, Fixtures and Equipment.

The Contracts Section prepares and executes all contracts for goods and services on behalf of the Bank Board, appoints and monitors the performance of Contract Administrators, maintains the Agency's Official Contract Files and insures that necessary internal funding approvals are obtained prior to the execution of contracts.

The Procurement Section prepares and issues all purchase orders, insures property accountability through maintenance of the furniture and equipment inventory and other procedures, operates the Agency Stock Room, effects repairs to furniture and equipment, and processes and pays vouchers submitted against the Imprest (petty cash) Fund.

Facilities and Special Services Branch

The Facilities and Special Services Branch is comprised of the Building Management Section, the Printing and Distribution Section, and the Research Library.

The Building Management Section has responsibility for all aspects of Headquarters building operation which includes administration of the contract with the Building Management firm (HVAC maintenance and operation, custodial service, building repairs, retail space leasing, plumbing and electrical systems, etc). The Branch is also responsible for building security, interior and exterior landscaping, parking, the Safety and Materials Recovery Programs, the Agency automobile fleet, the Energy Management Program, leased space for field offices, the issuance of Government Bills of Lading, the movement and minor repair of building furniture, receipt and delivery to users of goods delivered to the building, storage, classified information security, emergency preparedness plans, and the building's telecommunications system.

The Printing and Distribution Section operates the Agency Print Shop, mail distribution service, driver pool, and copier rentals and maintenance. The Print Shop provides services to the Headquarters staff through the operation of offset presses, collating machines, power paper cutters, drilling and punching equipment and copying and binding machines. It is also responsible for copier rentals and supplies for the Bank Board's twelve district and nineteen branch offices.

The Research Library provides a general reference service for all Bank Board offices including newspapers, periodicals and books. Library materials deal, for the most part, with economics and savings and loan industry related matters. It serves as a source of secondary research material for all offices, primarily the Office of Economic Research. It also serves as a depository for Bank Board publications - reports, industry analysis, etc.

Federal Home Loan Bank Board

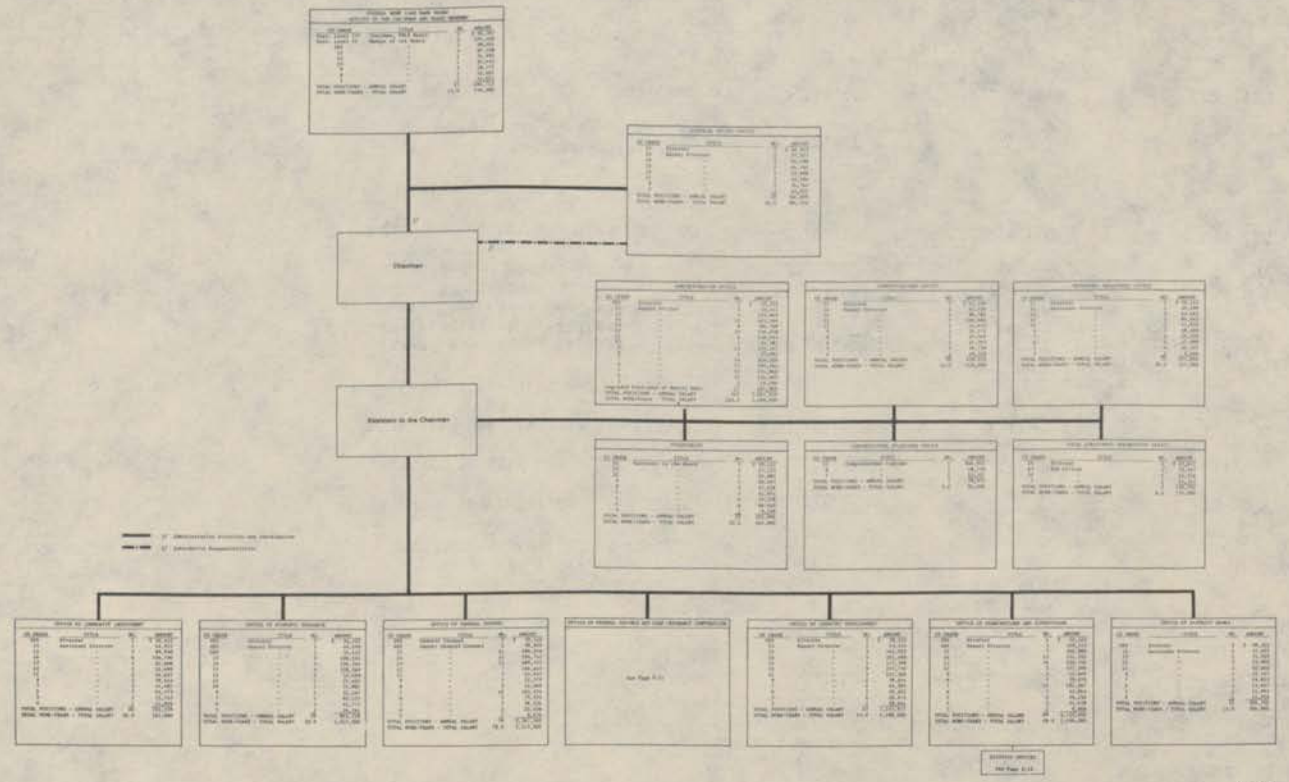
Management Analysis Branch

The Management Analysis Branch conducts management studies carried out through methods and procedures analysis and organization and manpower utilization surveys. It develops and operates the Records Management Program that includes records, directives, correspondence, forms and report management, paperwork reduction, and file maintenance. These responsibilities encompass the Privacy Act and Productivity Programs for the Bank Board. The Branch publishes the Bank Board's organizational manual, responds to requests from the GAO and OMB on administrative reports, and updates administrative material in the Federal Register.

Federal Home Loan Bank Board

Board and Staff Offices

PERSONAL SERVICES DATA BY ORGANIZATIONAL UNIT - 1981



Federal Home Loan Bank Board
COMPARATIVE SUMMARY OF NONADMINISTRATIVE EXPENSES*

	1979 Actual	1980 Estimates	1981 Estimates
Personal Services and Benefits:			
Positions:			
Gross	5	5	5
Net Work-Years	5	5	5
PERSONNEL COMPENSATION	$ 131,285	$ 120,000	$ 120,000
PERSONNEL BENEFITS	12,498	11,000	11,000
TOTAL PERSONAL SERVICES AND BENEFITS	143,783	131,000	131,000
Contractual Services and Supplies:			
Travel and Transportation of Persons	191	-0-	-0-
Transportation of Things	72	-0-	-0-
Rent, Communications, and Utilities	565,235	715,000	795,000
Other Services	1,513,047	1,518,000	1,651,000
Supplies and Materials	24,594	25,000	25,000
TOTAL CONTRACTUAL SERVICES AND SUPPLIES	2,103,139	2,258,000	2,471,000
Acquisition of Capital Assets:			
Depreciation and Noncapitalized Equipment	871,542	989,000	996,000
TOTAL EXPENSES	3,118,464	3,378,000	3,598,000

*Building Operations is the only type of Nonadministrative Expense budgeted.

Federal Home Loan Bank Board

Non-Administrative Expenses - Building Operations

The budget estimates for 1980 and 1981 and actual expenses for 1979 for the major Building Operations Expenses are summarized below:

RENT, COMMUNICATIONS, AND UTILITIES

	1979 Actual	1980 Estimate	1981 Estimate	Increase or Decrease(-)
Electricity	$471,697	$550,000	$600,000	$ 50,000
Steam	113,700	165,000	195,000	30,000
Storage	(21,088)	-0-	-0-	-0-
Water & Sewage	-0-	-0-	-0-	-0-
Miscellaneous	926	-0-	-0-	-0-
Total	$565,235	$715,000	$795,000	$ 80,000

OTHER SERVICES

	1979 Actual	1980 Estimate	1981 Estimate	Increase or Decrease(-)
Advertising	$ -0-	$ 6,000	$ -0-	$ -6,000
Building Maintenance	610,700	532,000	588,000	56,000
Building Repairs	114,386	95,000	98,000	3,000
Custodial Service	251,787	340,000	398,000	58,000
Guard Services	274,272	296,000	325,000	29,000
Insurance	39,685	43,000	46,000	3,000
Management Fee and Other Professional Services	218,462	191,000	176,000	-15,000
Miscellaneous	3,755	15,000	20,000	5,000
Total	$1,513,047	$1,518,000	$1,651,000	$ 133,000

Federal Home Loan Bank Board
Office of Examinations and Supervision - District Offices

PROGRAM HIGHLIGHTS

The Office of Examinations and Supervision has the major role in fulfilling the Federal Home Loan Bank Board's statutory responsibility for monitoring and regulating the $557 billion savings and loan industry. This Office, and in particular the field staff in the twelve Federal Home Loan Bank Districts, examines and, when necessary, supervises all savings and loan associations to assure the American public of a system of safe insured savings, accessible credit, and economic home ownership.

The Office of Examinations and Supervision is the reservoir of public professional expertise in the savings and loan industry. As such, it serves as the primary tool of the Federal Savings and Loan Insurance Corporation (FSLIC) for protecting FSLIC assets against depletion caused by the financial failure of any of the savings and loan associations which FSLIC insures. The Office monitors savings and loan associations through continual analysis of operating policies and financial reports submitted by the associations and by public auditors, through regularly scheduled examinations, and through occasional special examinations. The purpose of these monitoring processes is to determine compliance with Federal Home Loan Bank Board regulations and to ascertain the quality of management and the financial soundness of the member associations. If the Office of Examinations and Supervision detects actual or potentially unsafe or unsound practices in associations insured by the Federal Savings and Loan Insurance Corporation, Supervisory Agents from the Federal home loan banks work with the associations to prevent the development or the continuance of poor financial or management performance.

FUNCTIONS AND RESPONSIBILITIES OF THE DISTRICT OFFICES

The twelve District Offices conduct regular periodic and special supervisory examinations of all Federal savings and loan associations, State-chartered institutions whose accounts are insured by the Federal Savings and Loan Insurance Corporation, and members of the Federal Home Loan Bank System. Authority was expanded by the Financial Institutions Supervisory Act of 1966 to include examination of affiliates of insured associations. Authority to examine savings and loan holding companies and their subsidiaries is provided by the Savings and Loan Holding Company Amendments of 1967.

Uninsured member institutions of the Federal Home Loan Bank System are examined if they are not subject to State examination and supervision or have not been examined by the State authorities. The District Offices also examine applicant savings and home-financing institutions to determine their eligibility for membership in the Bank System, insurance of savings or share accounts, or conversion from State to Federal charter.

To achieve the functions and responsibilities, the Office has:

(1) recruited and trained a staff of highly qualified professional field examiners;

(2) improved management control system for optimum utilization of resources;

(3) updated and refined examination manuals, programs, and procedures to reduce on-site examination time;

(4) revised financial reporting system for monitoring and analysis of industry performance;

(5) realigned staff activity for better utilization of personnel;

(6) further developed a fully funded training program for State Examiners.

Federal Home Loan Bank Board
Office of Examinations and Supervision - District Offices

The Office will continue to meet the workload requirements imposed by new legislation and activities, adequately examine the operations of the insured institutions and their service corporation affiliates, perform the requisite special examinations in those instances where the insured institution is not responsive to supervisory efforts, and try to more closely monitor and analyze industry financial and operating data between examinations to identify developing problems in a timely manner.

ORGANIZATION OF OFFICE OF EXAMINATIONS AND SUPERVISION

The Office of Examinations and Supervision consists of a Washington Office staff and district offices in each of the 12 Federal Home Loan Bank Districts.

WORKLOAD AND PERSONNEL REQUIREMENTS - DISTRICT OFFICES

The work-days required in fiscal 1981 for examinations in each of the classifications shown in the Workload Table on page E-4 total 133,775. General administration and training increase the total workload to 178,350 work-days. It is estimated that each examiner will have an average of 222 available work-days in 1981. Dividing 222 into the total workload of 178,350 work-days, a need for 803 field examiners, including 12 District Directors, is shown. Adding 108 clerical work-years to the 803 professional work-years results in a total of 911 work-years for 1981.

To summarize, the field estimate provides for 919 positions. Of this number 797 positions are for field examiners, including the 12 District Directors; there are 13 real estate appraiser positions; the remaining 109 positions are for the clerical staff. The table shown on the following page reflects a distribution of these positions by District Office.

The table shown below shows the number of positions allocated to the Washington and District Offices for fiscal years 1979, 1980, and 1981.

WASHINGTON AND DISTRICT OFFICE POSITIONS

POSITIONS	1979 ACTUAL	1980 ESTIMATE	1981 ESTIMATE
WASHINGTON OFFICE			
Director	1	1	1
Deputy Directors	3	3	3
Assistant Deputy Directors	3	3	3
Financial Analysis and Supervision	28	28	28
Field Operations	3	3	3
Policy and Programs	12	12	12
Clerical	19	19	19
TOTAL WASHINGTON OFFICE	69	69	69
DISTRICT OFFICES (12)			
District Directors	12	12	12
Assistant District Directors	45	45	45
Civil Rights Specialists	12	12	12
Real Estate Appraisers	13	13	13
Field Managers	90	90	90
Examiners	638	638	638
Clerical	109	109	109
TOTAL OFFICES	919	919	919
GRAND TOTAL	988	988	988

Federal Home Loan Bank Board
Office of Examinations and Supervision - District Offices

The tables below show a breakdown of field positions between professional and clerical, and the assignment of such positions to the various district offices.

DISTRICT OFFICE PROFESSIONAL AND CLERICAL POSITIONS

Grade	Minimum Salary	Title	1979 Actual	1980 Estimate	1981 Estimate
15	$40,832	District Director	12	12	12
14	34,713	Assistant District Director	45	45	45
14	34,713	Appraiser	9	7	7
13	29,375	Examiner	139	141	141
13	29,375	Appraiser	2	5	5
12	24,703	Examiner	229	262	262
12	24,703	Appraiser	2	1	1
11	20,611	Examiner	138	147	147
9	17,035	Examiner	95	91	91
7	13,925	Examiner	91	84	84
5	11,243	Examiner	45	14	14
4	10,049	Examiner Tech. & Student Trainee	3	3	3
		Total Professional	810	810	810
7	13,925	Clerical	9	9	9
6	12,531	Clerical	20	20	20
5	11,243	Clerical	49	48	48
4	10,049	Clerical	17	18	18
3	8,952	Clerical	12	10	10
2	8,128	Clerical	2	2	2
		Total Clerical	109	109	109
		Total Field Positions	919	919	919

PROFESSIONAL AND CLERICAL POSITIONS BY DISTRICT

District	1978 Actual			1980 Estimate			1981 Estimate		
	Prof.	Cler.	Total	Prof.	Cler.	Total	Prof.	Cler.	Total
Boston	32	4	36	32	4	36	32	4	36
New York	67	10	77	67	10	77	67	10	77
Pittsburgh	54	9	63	54	9	63	54	9	63
Atlanta	109	13	122	109	13	122	109	13	122
Cincinnati	88	12	100	88	10	98	88	10	98
Indianapolis	43	8	51	43	8	51	43	8	51
Chicago	83	12	95	83	13	96	83	13	96
Des Moines	50	7	57	50	8	58	50	8	58
Little Rock	107	14	121	106	14	120	106	14	120
Topeka	47	6	53	47	6	53	47	6	53
San Francisco	90	10	100	90	10	100	90	10	100
Seattle	40	4	44	41	4	45	41	4	45
Total	810	109	919	810	109	919	810	109	919

Federal Home Loan Bank Board
Office of Examinations and Supervision - District Offices

EXAMINATION WORKLOAD

	1979 ACTUAL	1980 ESTIMATE	1981 ESTIMATE
Reimbursable Staff-Days			
Supervisory			
Federal and State Associations			
Examinations Completed	2,001	1,855	1,744
Average Staff-Days per Examination	39.8	43.0	45.2
Staff-Days Required	79,628	79,760	78,835
Joint Insured State Associations			
Examinations Completed	1,336	1,300	1,250
Average Staff-Days per Examination	31.4	32.0	33.0
Staff-Days Required	41,923	41,600	41,250
Eligibility			
Examinations Completed	4	3	3
Average Staff-Days per Examination	29.0	30.0	30.0
Staff-Days Required	116	90	90
Affiliates of Insured Institutions			
Examinations Completed	17	10	10
Average Staff-Days per Examination	7.3	4.0	4.0
Staff-Days Required	124	40	40
Holding Companies			
Examinations Completed	55	56	56
Average Staff-Days per Examination	9.2	10.0	10.0
Staff-Days Required	507	560	560
Service Corporations			
Examinations Completed	1,574	1,500	1,500
Average Staff-Days per Examination	3.4	4.0	4.0
Staff-Days Required	5,378	6,000	6,000
Special Examinations			
Examinations Completed	276	274	274
Average Staff-Days per Examination	22.6	23.0	23.0
Staff-Days Required	6,232	6,300	6,300
Other Services			
Staff-Days Required	581	700	700
Total Reimbursable	134,489	135,050	133,775
Non-Reimbursable			
Overhead			
Personnel Management and Training Administration	2,521	2,150	2,175
General Administration	32,849	34,500	34,450
Sub-Total: District Offices Staff-Days Required	35,370	36,650	36,625
Training and Development of Examiners			
Staff-Days Required	5,845	7,500	7,950
Summary: Examining Personnel Required			
Total Staff-Days Required	175,704	179,200	178,350
Available Staff-Days per Examination	221	223	222
Staff-Years (Examining Personnel) Required	795	803	803

Federal Home Loan Bank Board
Office of Examinations and Supervision - District Offices

BUDGET OF THE DISTRICT OFFICES - OFFICE OF EXAMINATIONS AND SUPERVISION

The fiscal year 1981 budget of the District Offices of the Office of Examinations and Supervision is compared to fiscal year 1979 and 1980 in the table below.

Description	1979 Actual	1980 Budget Estimate	1980 Current Estimate	1981 Estimate	Increase or Decrease(-)
Positions	919	919	919	919	-0-
Work-Years	899	914	911	911	-0-
Personnel Compensation	$20,348,568	$21,095,000	$22,798,000	$23,709,000	$ 911,000
Personnel Benefits	1,960,463	2,131,000	2,190,000	2,296,000	106,000
Total Personal Services and Benefits	22,309,031	23,226,000	24,988,000	26,005,000	1,017,000
Contractual Services and Supplies	6,635,369	8,020,000	7,466,000	8,025,000	559,000
Acquisition of Capital Assets	49,212	47,000	35,000	75,000	40,000
Total Gross Expenses	28,993,612	31,293,000	32,489,000	34,105,000	1,616,000
Reimbursements from Other Accounts	-65,590	.....	.....	.....	.....
Total Net Expenses	28,928,022	31,293,000	32,489,000	34,105,000	1,616,000
Estimated Savings	1,666,978	.....	.....	.....	.....
Proposed Supplemental due to increased Pay Costs	.....	.....	-1,215,000	.....	1,215,000
Actual, Authorization, and Estimate	30,595,000	31,293,000	31,274,000	34,105,000	2,831,000

The difference of $1,196,000 between the 1980 budget and current estimates is attributable to the proposed supplemental resulting from the October 1979 general pay increase ($1,215,000), and minor ($19,000) revisions between the OES and FSLIC estimates which, for 1980, are combined under one limitation. (See page F-16.)

The 1981 estimate of $34,105,000 represents an increase of $1,616,000, or 5%, over the current 1980 estimate. This increase is attributable primarily to the annualization of the October 1979 general pay increase, within-grade step increases, and other pay adjustments, and benefits ($1,017,000); increased travel costs ($313,000); and provisions for general price increases. The total net increase, by category of expense, is shown in the following table.

Item	Increased Amount
Personnel Compensation	$911,000
Personnel Benefits	106,000
Travel and Transportation of Persons	313,000
Transportation of Things	14,000
Rent, Communications, and Utilities	175,000
Printing and Reproduction	1,000
Other Services	42,000
Supplies and Materials	14,000
Acquisition of Capital Assets	40,000
Total	1,616,000

Federal Home Loan Bank Board
Office of Examinations and Supervision - District Offices

On the following page there is a more detailed comparative summary of District Offices examination expenses and this summary is followed by an explanation and justification of the individual line items.

Federal Home Loan Bank Board
Office of Examinations and Supervision
COMPARATIVE SUMMARY OF NONADMINISTRATIVE EXPENSES

	1979 Actual			1980 Estimate			1981 Estimate		
	Gross Positions	Net Work-Years	Amount	Gross Positions	Net Work-Years	Amount	Gross Positions	Net Work-Years	Amount
Personal Services and Benefits:									
Personnel Compensation:									
Field Offices:									
Boston	36	35.6	$ 826,480	36	36.0	$ 938,000	36	36.0	$ 970,000
New York	77	75.2	1,615,821	77	76.0	1,823,000	77	76.0	1,909,000
Pittsburgh	63	61.6	1,406,658	63	62.8	1,563,000	63	62.0	1,628,000
Atlanta	122	118.3	2,490,170	122	121.0	2,838,000	122	120.0	2,946,000
Cincinnati	100	97.2	2,248,268	98	97.0	2,471,000	98	97.0	2,578,000
Indianapolis	51	50.4	1,123,434	51	51.0	1,257,000	51	51.0	1,298,000
Chicago	95	93.9	2,098,455	96	95.0	2,392,000	96	95.0	2,469,000
Des Moines	57	56.0	1,254,217	58	57.0	1,409,000	58	59.0	1,488,000
Little Rock	121	116.1	2,574,337	120	119.0	2,914,000	120	119.0	3,034,000
Topeka	53	52.3	1,235,393	53	53.0	1,377,000	53	53.0	1,425,000
San Francisco	100	98.6	2,438,010	100	99.0	2,648,000	100	99.0	2,755,000
Seattle	44	43.8	1,037,325	45	45.0	1,168,000	45	45.0	1,209,000
TOTAL PERSONNEL COMPENSATION	919	899.0	20,348,568	919	911.0	22,798,000	919	911.0	23,709,000
Personnel Benefits:									
Health Benefits			423,141			450,000			475,000
Life Insurance			64,135			70,000			82,000
Moving and Related Expenses			62,578			95,000			105,000
Retirement			1,406,425			1,565,000			1,624,000
Social Security Tax(FICA)			4,184			5,000			5,000
Severance Pay			-0-			5,000			5,000
TOTAL PERSONNEL BENEFITS			1,960,463			2,190,000			2,296,000
TOTAL PERSONAL SERVICES AND BENEFITS			22,309,031			24,988,000			26,005,000

Federal Home Loan Bank Board
Office of Examinations and Supervision
COMPARATIVE SUMMARY OF NONADMINISTRATIVE EXPENSES
(continued)

	1979 Actual			1980 Estimate			1981 Estimate		
	Gross Positions	Net Work-Years	Amount	Gross Positions	Net Work-Years	Amount	Gross Positions	Net Work-Years	Amount
Contractual Services and Supplies:									
Travel and Transportation of Persons..			$ 4,805,421			$ 5,262,000			$ 5,575,000
Transportation of Things.....			50,903			51,000			65,000
Rent, Communications and Utilities....			1,340,204			1,616,000			1,791,000
Printing and Reproduction.....			849			2,000			3,000
Other Services.....			344,839			414,000			456,000
Supplies and Materials.....			93,153			121,000			135,000
TOTAL CONTRACTUAL SERVICES AND SUPPLIES.....			6,635,369			7,466,000			8,025,000
Acquisition of Capital Assets:									
Equipment.....			49,212			35,000			75,000
TOTAL GROSS EXPENSES.....			28,993,612			32,489,000			34,105,000
Reimbursements from other Accounts....			-65,590			-0-			-0-
TOTAL NET EXPENSES.....			28,928,022			32,489,000			34,105,000
Estimated Savings.....			1,666,978			-0-			-0-
Proposed Supplemental Due to Increased Pay Costs.....			-0-			-1,215,000			-0-
ACTUAL, AUTHORIZATION AND ESTIMATE.....			30,595,000			31,274,000 (1)			34,105,000

(1) Included for comparative purposes only. OES field office expenses are actually covered under the FSLIC administrative expense limitation for FY 1980. See FSLIC comparative expense summary on page F-16.

Federal Home Loan Bank Board
Office of Examinations and Supervision - District Offices

PERSONNEL COMPENSATION

Description	1979 Actual	1980 Budget Estimate	1980 Current Estimate	1981 Estimate	Increase or Decrease(-)
Positions.....	919	919	919	919	-0-
Work-years.....	899	914	911	911	-0-
Net Salary.....	$20,348,568	$21,095,000	$22,798,000	$23,709,000	$911,000

The above table shows an increase of $1,703,000 in the current 1980 estimate compared with the budget estimate, attributable primarily to the October 1979 general pay increase. We are requesting a supplemental of $1,215,000 for 1980 to help finance these increased costs.

The 1981 estimate shows an increase of $911,000 over the current 1980 estimate. The increase is attributable to the annualization of the October 1979 pay raise, within-grade increases, and other pay adjustments.

PERSONNEL BENEFITS

Description	1979 Actual	1980 Budget Estimate	1980 Current Estimate	1981 Estimate	Increase or Decrease(-)
Health Benefits.....	$ 423,141	$ 428,000	$ 450,000	$ 475,000	$ 25,000
Life Insurance.....	64,135	101,000	70,000	82,000	12,000
Moving and Related Expenses.....	62,578	95,000	95,000	105,000	10,000
Retirement.....	1,406,425	1,497,000	1,565,000	1,624,000	59,000
Severance Pay.....	-0-	5,000	5,000	5,000	-0-
Social Security Taxes (FICA).....	4,184	5,000	5,000	5,000	-0-
Total.....	$1,960,463	$2,131,000	$2,190,000	$2,296,000	$106,000

The net difference of $59,000 between the fiscal 1980 budget and current estimates is attributable primarily to increased retirement costs resulting from the October 1979 pay raise.

HEALTH BENEFITS

The 1981 estimate of $475,000 provides for the Bank Board's (Employer) share of the cost of the Federal Employees' Health Benefits Act of 1959 (Public Law 86-382).

LIFE INSURANCE

The 1981 estimate of $82,000 represents the Bank Board's (Employer) portion of the premiums payable under the Federal Employees' Life Insurance Act of 1954; it is based upon the number of employees expected to be on the payroll in fiscal 1981.

Federal Home Loan Bank Board
Office of Examination and Supervision - District Offices

MOVING AND RELATED EXPENSES

The 1981 estimate of $105,000 provides for the payment of certain moving and related expenses as provided for in Public Law 89-516. Included in this category are reimbursements to employees for subsistence and temporary expenses incurred in moving from one location to another, real estate costs in connection with selling the residence at the old official station and purchasing a new home at the new official station, and certain miscellaneous moving expenses.

RETIREMENT

The 1981 estimate of $1,624,000 provides for the Bank Board's (Employer) share of mandatory contributions to the Civil Service Retirement and Disability Fund pursuant to Section 102(A) of Public Law 91-93, approved October 20, 1969; it is at the rate of 7% of employees' basic salaries. The figure is based upon the number of employees expected to be on the payroll in fiscal 1981.

SEVERANCE PAY

The 1981 estimate of $5,000 provides for pay to employees whose services are involuntarily terminated and who are eligible for such payments.

SOCIAL SECURITY TAXES

The 1981 estimate of $5,000 provides for payment of the Bank Board's (Employer) share of contributions under the Federal Insurance Contributions Act. Payment is made for all employees who do not contribute to the Civil Service Retirement and Disability Fund.

TRAVEL AND TRANSPORTATION OF PERSONS

1979 Actual	1980 Budget Estimate	1980 Current Estimate	1981 Estimate	Increase or Decrease (-)
$4,805,421	$5,650,000	$5,262,000	$5,575,000	$313,000

The 1981 estimate of $5,575,000 represents an increase of $313,000 over the current 1980 estimate. The 1980 current estimate of $5,262,000 is substantially lower than the 1980 budget estimate due to the 8% travel reduction imposed upon the Bank Board by OMB pursuant to Public Law 96-86, approved October 12, 1979. This amount has become a line item ceiling. It may be inadequate to cover the cost of examiner travel for the year and, therefore, it may become necessary for us to cut back on examinations to avoid exceeding that ceiling. Each of the 1980 and 1981 budgets include $250,000 to pay transportation and subsistence expenses of state examiners to continue the training program approved by the Congress.

TRANSPORTATION OF THINGS

1979 Actual	1980 Budget Estimate	1980 Current Estimate	1981 Estimate	Increase or Decrease (-)
$50,903	$45,000	$51,000	$65,000	$14,000

This item provides for the shipment of supplies, equipment, and the moving of furniture and personal effects to and from the respective District Offices and the Home Office in Washington, D.C. The estimate includes $30,000 for the moving of furniture and personal effects of field examiners transferred from one District to another or to the Home Office in Washington, D.C.

Federal Home Loan Bank Board
Office of Examination and Supervision - District Offices

RENT, COMMUNICATIONS, AND UTILITIES

Description	1979 Actual	1980 Budget Estimate	1980 Current Estimate	1981 Estimate	Increase or Decrease (-)
Rent and Utilities:					
Office and Storage Space	$ 783,677	$ 890,000	$ 890,000	$ 985,000	$ 95,000
Equipment	137,571	240,000	228,000	256,000	28,000
Sub-total	921,248	1,130,000	1,118,000	1,241,000	123,000
Communications					
Switchboard & Other Fixed Charges	103,572	125,000	120,000	125,000	5,000
Long Distance Calls	156,217	153,000	177,000	204,000	27,000
Telegrams and Teletype	-0-	20,000	1,000	1,000	-0-
Postage	159,167	220,000	209,000	220,000	20,000
Sub-total	418,956	518,000	498,000	550,000	52,000
GRAND TOTAL	$1,340,204	$1,648,000	$1,616,000	$1,791,000	$175,000

RENT AND UTILITIES

Office and Storage Space

The 1981 estimate of $985,000 includes the rental of 95,734 square feet of office and storage space, at varying rates, which average $10.10 per square foot in 43 field offices totaling $967,000. This compares with 93,441 square feet of office and storage space in fiscal 1980 (revised) at an estimated cost of $875,000. The additional $92,000 will provide for needed expansion of some offices to relieve overcrowding; and will allow for anticipated rate increases in 1981.

Equipment

The 1981 estimate of $256,000 covers the following types of rental equipment located in the various district offices.

	Description	Annual Rental
36	Automatic Copying Machines and Accessory Equipment	$111,000
42	Terminals and Accessory Equipment	68,000
26	Word Processing Machines and Accessory Equipment (required for work in areas where many perfect copy letters are needed and for text editing)	67,000
	Miscellaneous	10,000
	Total	256,000

Federal Home Loan Bank Board
Office of Examinations and Supervision - District Offices

COMMUNICATIONS

The $550,000 estimate for 1981 represents a $52,000 increase over the current estimate for 1980 caused by anticipated higher switchboard rates as well as the Bank Board's share of the added cost of running the FTS network by GSA, and higher penalty mail costs.

PRINTING AND REPRODUCTION

1979 Actual	1980 Budget Estimate	1980 Current Estimate	1981 Estimate	Increase or Decrease (-)
$849	$6,000	$2,000	$3,000	$1,000

Provision is made for the printing of letterheads, envelopes, and other printed matter. The estimate also provides for the reproduction of examination reports in most of the District Offices.

OTHER SERVICES

Description	1979 Actual	1980 Budget Estimate	1980 Current Estimate	1981 Estimate	Increase or Decrease (-)
Personnel Development Program	$237,259	$400,000	$300,000	$325,000	$25,000
Health Service Program	18,981	55,000	45,000	55,000	10,000
Renovation and Rehabilitation	76,435	40,000	40,000	45,000	5,000
Repairs to Furniture, Fixtures, and Equipment	9,079	21,000	10,000	10,000	-0-
Security Investigations	-0-	1,000	1,000	1,000	-0-
Miscellaneous	3,085	24,000	18,000	20,000	2,000
Total	$344,839	$541,000	$414,000	$456,000	$42,000

The 1980 current estimate for personnel development is $100,000 less than the budget estimate. OMB required us to absorb a minimum of 40% of the October 1979 pay increase and this reduction is a part of our effort to comply with this requirement. We probably will have to cut back on proposed training of our examiners as well as the State examiners. The 1980 and 1981 estimates for personnel development include $150,000 for the purpose of training State examiners, as required by the Congress. (As indicated earlier, $250,000 was budgeted for travel expenses of State examiners for 1980 and 1981.)

Following is a description of the District Offices Personnel Development and Health programs which account for most of the expense in this category.

PERSONNEL DEVELOPMENT PROGRAM

A continuing objective of the Office of Examinations and Supervision is to make the most efficient use possible of all of its professional examination staff. To achieve that objective, the Office places a great emphasis on the continual assessment of employee training needs and preparation of training and career advancement programs.

Individual training plans are prepared by all employees with the assistance of their supervisor and the Assistant District Director for Personnel Development. Individual training programs may include Government-sponsored courses, professional organization-sponsored programs, and formal university programs.

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Federal Home Loan Bank Board
Office of Examinations and Supervision - District Offices

During fiscal year 1981 the personnel development staff will conduct the following professional development programs:

1. New Examiner Training School - The New Examiner Training School acquaints new field examiners with the Federal Home Loan Bank Board and its component systems and provides them with the basic examination techniques and skills. Subjects covered include examination procedures, financial analysis, appraisal methods, consumer protection legislation, and basic principles of the supervisory process.

2. District Training Programs - Each District has an Assistant District Director for Personnel Development who is responsible for assessing training needs, for conducting short training courses at the District-level, and for coordinating with the Washington Personnel Development Office. Typical topics covered in District-level courses are Examiner-in-Charge Preparation, Liquidity and Asset Management, Real Estate Appraising, and Present Value Analysis.

3. Special Courses - The unique situation in the field where examiners are geographically dispersed makes in-house or other Government-sponsored training programs impractical in some instances. In order to meet the objectives of the highest professional examiner performance, consideration is given to training of a specialized or professional nature to meet the needs of individual examiners. Among the types of training approved are courses sponsored by professional organizations and universities.

4. Professional Examiner Development - Special examiner development courses are organized when necessary to adapt to changing conditions in the savings and loan industry, when new professional techniques are developed, or when training deficiencies are identified. Investment Analysis and Real Estate Appraisal are examples of these professional examiner development courses.

5. Electronic Data Processing Training - The responsibility to review and evaluate an insured institution's system of electronic data processing (EDP) internal control is increasing as institutions reliance upon EDP systems expands. The examination staff must now be in a position to utilize a recently revised and expanded EDP section and exam program concerning EDP internal control. It is believed that the maximum level of expertise can be obtained via additional consultant assisted seminars.

6. Senior Examiner Training School - The Senior Examiner Training School will be in operation by mid fiscal year 1980. It will be designed to instruct field examiners in the more complex and advanced levels of the examination process.

Training materials and equipment are purchased to enable the Districts to provide thorough and efficient training to a staff whose work involves a great deal of travel, often precluding classroom group training as a practical means of disseminating information. During fiscal year 1981 purchases will include periodicals, textbooks, pre-recorded cassettes, a limited amount of training equipment, and the maintenance and repair of existing equipment.

Federal Home Loan Bank Board
Office of Examinations and Supervision - District Offices

Training of State Examiners

As directed by the Congress, the Board established a fully funded program for the training of State examiners. For 1979, the sum of $395,000 was allocated to this program. During 1979, 216 State examiners were provided nondiscrimination training, 49 attended the New Examiner Training School, 28 were provided training in appraisal practices and techniques, and 8 were provided with other career development training. The cost of these direct training activities during 1979 was $233,852. In addition, during 1979 a training course for State examiners in electronic data processing was commissioned at a cost of $130,555, the sum of $14,000 was expended for program planning and design, and there were 4 meetings of the Federal-State Joint Committee on Examinations at a cost of $5,092. Thus, of the $395,000 allocated for this purpose, $383,499 was expended or obligated for the training of State examiners.

Based on the experience of 1979, the sum of $400,000 has been allocated for 1980 and 1981 to continue this State examiner training program.

HEALTH SERVICE PROGRAM

The $55,000 Health Service Program funds are needed to:

1. Comply with the Presidential directive to the Civil Service Commission on improving employee health services and the OMB Circular A-72. The funds allow a continuation of the programs set up with executive health examiners to provide employee health examinations.

2. Fund the Bank Board's share of the cost of operating certain health units maintained near some of the District Offices and utilized by the District Offices' staff.

3. Fund the Health Maintenance Programs (e.g., hearing tests, glaucoma tests, flu shots, etc.).

SUPPLIES AND MATERIALS

1979 Actual	1980 Budget Estimate	1980 Current Estimate	1981 Estimate	Increase or Decrease (-)
$93,153	$130,000	$121,000	$135,000	$14,000

The 1981 estimate provides for supplies and materials for the District Offices. The estimate represents an increase of $14,000 over the current 1980 estimate of $121,000 and provides for anticipated price increases in 1981.

ACQUISITION OF CAPITAL ASSETS

1979 Actual	1980 Budget Estimate	1980 Current Estimate	1981 Estimate	Increase or Decrease (-)
$49,212	$47,000	$35,000	$75,000	$40,000

It is the policy of the Federal Home Loan Bank Board to amortize the cost of furniture, fixtures, and equipment over an average live of 10 years. Provision is therefore made in this category to cover the fixed depreciation expense of furniture, fixtures, and equipment currently owned, plus additional purchases anticipated during the current fiscal year and fiscal year 1981.

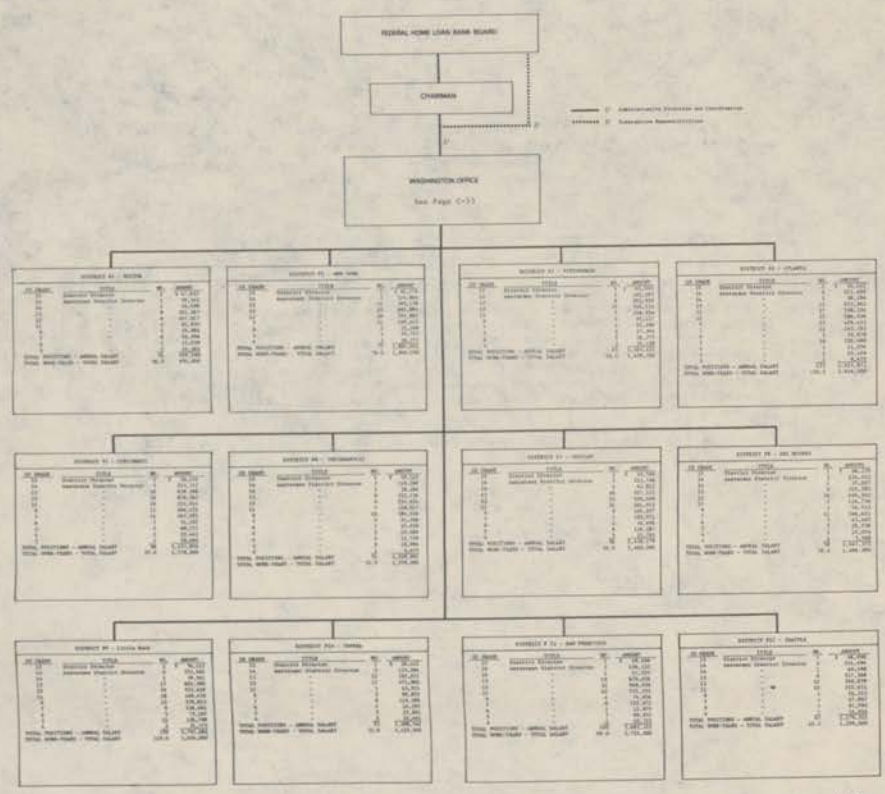
Federal Home Loan Bank Board
Office of Examinations and Supervision - District Offices

Of the $75,000 provided the District Offices for fiscal year 1981, $34,000 represents depreciation expense; the remaining $41,000 covers non-capitalized items included in this classification.

Federal Home Loan Bank Board

Office of Examinations and Supervision

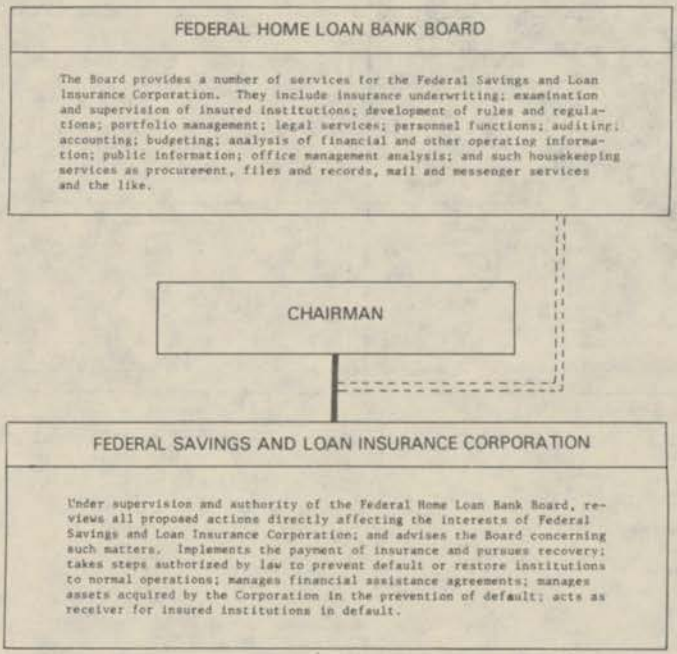
PERSONAL SERVICES DATA BY ORGANIZATIONAL UNIT - FISCAL YEAR 1981



FEDERAL HOME LOAN BANK BOARD

ORGANIZATION AND FUNCTION CHART OF THE OPERATIONS OF THE FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION

Created by Title IV of the National Housing Act, 1934, for the purpose of insuring savings in all Federal savings and loan associations and in all State-chartered savings and loan, building and loan, and homestead associations and cooperative banks which apply and qualify. The insurance coverage for each saver is limited to $40,000



Approved:

JAY JANIS
CHAIRMAN
JANUARY 21, 1980

Administrative Direction and Coordination

Substantive Responsibilities

Federal Home Loan Bank Board
Federal Savings and Loan Insurance Corporation
A. Statement of Sources and Applications of Funds

FUNDS APPLIED	1979 Actual	1980 Estimate	1981 Estimate
To operations			
Acquisition of assets:			
Assets purchased from insured institutions	$ 22,344,085	$ 11,000,000	$ 15,000,000
Furniture, fixtures and equipment	13,137	112,000	20,000
Loans to insured institutions	11,814,000	60,000,000	14,000,000
Contributions and provision for contributions to insured institutions	38,393,647	25,000,000	30,000,000
Expense	116,227,954	118,355,000	88,248,000
Refund of additional premium prepayments	110,218,753	107,601,000	120,000,000
Credit allowed on regular insurance premiums	103,290,778	111,221,500	121,777,000
Increase in selected working capital	-0-	20,875,000	-0-
Total applied to operations	402,302,354	454,164,500	389,045,000
To financing			
Increase in Treasury Cash	1,919	-0-	-0-
Increase in investments in U.S. securities (par)	489,134,000	477,973,000	601,963,000
Total applied to financing	489,135,919	477,923,000	601,963,000
Total funds applied	891,438,273	932,137,500	991,008,000
FUNDS PROVIDED			
By operations			
Realization on loans to insured institutions	4,413,363	6,092,000	5,177,000
Realization on assets acquired from insured institutions	9,671,519	7,200,000	12,000,000
Return on additional premiums - prepayments	69,140,553	67,733,000	55,841,000
Gain on assets acquired from insured institutions	162,943	500,000	500,000
Income	784,532,693	850,612,500	910,949,300
Decrease in selected working capital	23,517,202	-0-	6,540,700
Total funds provided	891,438,273	932,137,500	991,008,000
BUDGET EXPENDITURES			
Funds applied to operations	402,302,354	454,164,500	389,045,000
Funds provided by operations	-891,438,273	-932,137,500	-991,008,000
Net budget expenditures	-489,135,919	-477,973,000	-601,963,000

Federal Home Loan Bank Board
Federal Savings and Loan Insurance Corporation
B. Statement of Income and Expense

	1979 Actual	1980 Estimate	1981 Estimate
Income			
Examining fees and charges	$ -0-	$ 18,235,000	$ -0-
Insurance premium and admission fees earned	356,536,540	383,522,500	420,564,500
Interest on U.S. and Federal agency securities	407,361,558	442,803,000	484,734,000
Interest on loans	898,496	2,047,000	1,645,800
Income on assets acquired from insured institutions	19,553,281	4,000,000	4,000,000
Gain on assets acquired from insured institutions	162,944	500,000	500,000
Miscellaneous	182,818	5,000	5,000
Total income	784,695,637	851,112,500	911,449,300
Expense			
Administrative expense	744,686	34,736,000	1,115,000
Payments to the Federal Home Loan Bank Board for services and facilities	21,872,519	12,671,000	28,577,000
Liquidation and other expenses	2,080,182	3,215,000	2,715,000
Contributions and provision for contributions to insured institutions	38,393,647	25,000,000	30,000,000
Subtotal	63,091,034	75,622,000	62,407,000
Loss on sale/exchange of securities	22,390,014	-0-	-0-
Accrued return on additional premiums - prepayments	69,140,553	67,733,000	55,841,000
Provision for Losses on assets acquired	300,000	-0-	-0-
Depreciation on furniture, fixtures and equipment	14,092	45,113	17,000
Total expense	154,935,693	143,400,113	118,265,000
Net income for the year	629,759,944	707,712,387	793,184,300

ANALYSIS OF RETAINED EARNINGS*

Retained earnings, beginning of year	4,051,306,236	4,681,066,180	5,388,778,567
Retained earnings, end of year	4,681,066,180	5,388,778,567	6,181,962,867

*In addition to retained earnings which are credited to the primary reserve, additional premiums (prepayments) and return on additional premiums are credited to a secondary reserve. (see attachment C).

Federal Home Loan Bank Board
Federal Savings and Loan Insurance Corporation
C. Statement of Financial Condition

ASSETS	1978 Actual	1979 Actual	1980 Estimate	1981 Estimate
Cash with U.S. Treasury	$ 1,407	$ 3,326	$ 1,407	$ 1,407
Cash with Banks	29,630	52,410	16,090	16,090
Investments	5,072,047,700	5,561,181,700	6,039,154,700	6,641,117,700
Accounts receivable, net	82,343,015	84,475,130	93,617,255	88,644,267
Assets acquired from insured institutions, net	28,255,758	40,628,324	44,428,324	47,428,324
Loans to insured institutions, net	23,926,505	31,327,142	85,235,142	94,058,142
Deferred charges	1,786	4,863	20,000	20,000
Furniture, fixtures and equipment, net	96,582	95,627	162,514	165,514
Total assets	5,206,702,383	5,717,768,522	6,262,635,432	6,871,451,444
LIABILITIES				
Current liabilities	38,277,366	62,779,856	51,380,891	52,948,603
Deferred credits	4,019,962	5,192,646	4,837,553	4,837,553
Total liabilities	42,297,328	67,972,502	56,218,444	57,786,156
INSURANCE RESERVES				
Primary reserve	4,051,306,236	4,681,066,180	5,388,778,567	6,181,962,867
Secondary reserve (additional premiums)	1,053,737,825	919,576,378	767,429,755	590,712,809
Reserve for accrued return on additional premiums	59,360,994	49,153,462	50,208,666	40,989,612
Total insurance reserves	5,164,405,055	5,649,796,020	6,206,416,988	6,813,665,288
Total liabilities and insurance reserves	5,206,702,383	5,717,768,522	6,262,635,432	6,871,451,444

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Federal Home Loan Bank Board
Federal Savings and Loan Insurance Corporation

PROGRAM HIGHLIGHTS

The Federal Savings and Loan Insurance Corporation insures savings accounts up to $40,000 for each saver in Federal savings and loan associations and in approved State-chartered savings and loan or building and loan associations, known in some sections of the country as co-operative banks and homestead associations. Certain classes of deposits in the aforementioned depositiories, i.e. public unit, and IRA and Keogh retirement accounts are insured up to $100,000.

The budget program is designed to permit the Corporation to handle adequately and with dispatch its various insurance activities and to protect the savings of people invested in insured associations of the savings and loan type.

Description	Sept. 30, 1979 Actual	Sept. 30, 1980 Estimate	Sept. 30, 1981 Estimate
	(Dollars in Millions)		
Insured Institutions			
Number	4,043	4,033	4,023
Assets	$559,432	$600,100	$666,600
Potential liability	$429,677	$450,700	$505,600
Net worth	$ 30,871	$ 33,500	$ 38,000
Insurance Corporation:			
Reserve for Insurance losses	$ 5,650	$ 6,206	$ 6,813

CREATION AND GROWTH

The Corporation was created in 1934 to insure savings accounts up to $5,000 in all Federal savings and loan associations and in approved State-chartered savings and loan or building and loan associations, co-operative banks, and homestead associations. In 1950, the insurance limit was raised to $10,000 by Public Law 797, Eighty-first Congress. In 1966, the insurance limit was raised to $15,000 by Public Law 695, Eighty-ninth Congress. In 1969, the insurance limit was raised to $20,000 by Public Law 151, Ninety-first Congress. In 1974 the insurance limit was raised to $40,000 by Public Law 93-495, Ninety-third Congress.

As intended by Congress, the insuring of the accounts of individual investors creates an incentive for the investment of savings in institutions of the savings and loan type thus stimulating the flow of private credit for home-financing into institutions specifically created for home-financing. Insurance has also proved to be a stabilizing force in this segment of the financial structure of the Nation.

Public demand for protection of its savings has greatly increased the growth of insured institutions as reflected in the chart appearing on page F-7 showing the trend in assets of insured State-chartered and Federal savings and loan associations through September 30, 1979. This growth is also reflected in the following table showing the number, assets, and average size of insured institutions at the end of the fiscal years indicated.

Federal Home Loan Bank Board
Federal Savings and Loan Insurance Corporation

Fiscal Year-End	Number of Members	Assets in Billions	Average Size in Millions
1950	2,799	$ 12.5	$ 4.5
1955	3,472	31.6	9.1
1960	4,044	63.3	15.7
1965	4,483	119.7	26.7
1970	4,406	161.4	36.6
1975	4,110	310.3	75.5
1976	4,049	357.9	88.4
1977	4,069	435.3	107.0
1978	4,053	498.8	123.0
1979	4,043	559.4	138.0
1980*	4,033	600.1	149.0
1981*	4,023	666.6	166.0

*Estimate

As indicated, membership reached 4,043 at September 30, 1979, a decrease of 10 for the year. It is expected to decrease by 10 in the current fiscal year and 10 in fiscal 1981, bringing the total to 4,023 by September 30, 1981.

Assets of insured institutions aggregated $559.4 billion at September 30, 1979, an increase of $60.6 billion or 12.1%. An increase of $40.7 billion is expected in the current fiscal year, and $66.5 billion in fiscal 1981, bringing the total to $666.6 billion at September 30, 1981, an estimated increase of $107.2 billion or 19.1% in the two years.

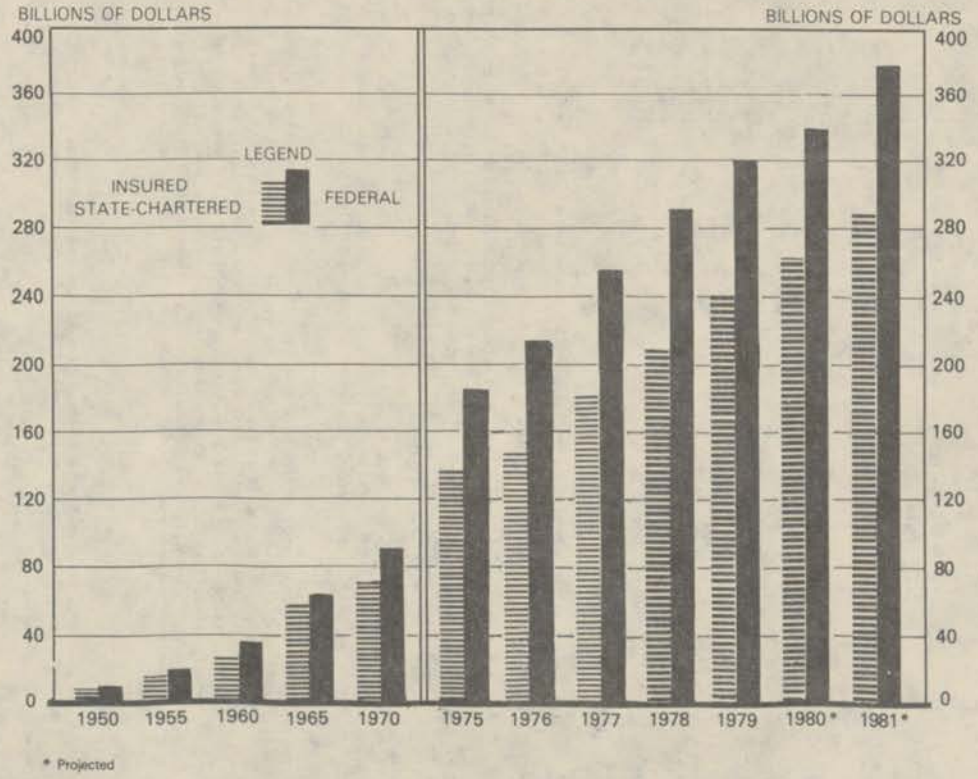
The average size of these insured institutions increased from $123.0 million at September 30, 1978, to $138.0 million at September 30, 1979, an increase of 12.1%. It is expected to reach $166.0 million by September 30, 1981, an increase of 20% over September 30, 1979.

The number of insured and uninsured savings and loan associations at September 30, 1979, was 4,714. Of this number, 4,043 or 85.7% were insured while 671 or 14.23% were not. Estimated assets of insured savings and loan associations at September 30, 1979, aggregated $559.4 billion. Assets of uninsured savings and loan associations on the same date aggregated $11.0 billion; percentage wise, insured associations held 98.1% of the assets while uninsured associations held 1.9%. In summary, insured associations represented 85.7% of all savings and loan associations and held 98.1% of the assets of all savings and loan associations.

INVESTORS

The table on page F-8 shows the number of insured investors, total savings, and size of the average insured account at year-end for the fiscal years indicated.

TREND IN ASSETS OF INSURED STATE-CHARTERED AND
FEDERAL SAVINGS AND LOAN ASSOCIATIONS
AT FISCAL YEAR END



* Projected

Federal Home Loan Bank Board
Federal Savings and Loan Insurance Corporation

Fiscal Year-End	Number of Insured Investors (In Thousands)	Savings in Billions	Size of Average Insured Account
1950	7,663	$ 10.6	$1,389
1955	14,700	27.0	1,837
1960	25,869	54.9	2,122
1965	37,407	102.0	2,727
1970	45,670	134.0	2,934
1975	64,300	262.1	4,076
1976	70,600	305.4	4,326
1977	78,500	369.3	4,704
1978	84,200	411.8	4,891
1979	89,000	453.2	5,092
1980*	93,800	477.9	5,095
1981*	100,400	539.0	5,368

*Estimate

The number of insured investors at September 30, 1979, showed an increase of 5.70% over the number at September 30, 1978. This figure is expected to increase by 5.3% in the current fiscal year, and reach 100,400,000 by September 30, 1981, an increase of 12.8% for the 24-month period.

Aggregate savings of investors totaled $453.2 billion at Sept. 30, 1979, an increase of $23.4 billion or 5.6% since September 30, 1978; an increase of $24.7 billion or 5.4% is expected during the current fiscal year. Aggregate savings are expected to reach $539.0 billion by September 30, 1981, an increase of $85.8 billion or 18.9% over September 30, 1979.

The size of the average insured account was $5,092 at Sept. 30, 1979. It is expected to reach $5,368 by September 30, 1981, an increase of 5.4% in the 24-month period.

RESERVES

The following table shows the reserves accumulated, by all insured institutions as well as by the Insurance Corporation, by fiscal years:

Fiscal Year-End	All Insured Institutions	FSLIC		
		Total	Primary (In Millions)	Secondary
1950	$ 874	$ 88	$ 88	$ ...
1955	2,090	171	171	...
1960	4,400	354	354	...
1965	8,122	1,487	690	797
1970	11,542	2,854	1,326	1,528
1975	18,414	3,933	2,566	1,367
1976	20,142	4,261	2,951	1,310
1977	23,700	4,744	3,519	1,225
1978	27,400	5,164	4,051	1,113
1979	30,871	5,650	4,681	969
1980*	33,500	6,206	5,389	817
1981*	38,000	6,813	6,182	631

*Estimate

Federal Home Loan Bank Board
Federal Savings and Loan Insurance Corporation

The reserves and undivided profits of insured institutions aggregated $30.8 billion at September 30, 1979, an increase of 12.6% over the figure at September 30, 1978. It is expected to reach $38.0 billion by September 30, 1981, an increase of 23.3% in the 24-month period.

RESERVES - LEGISLATIVE HISTORY

The Corporation's Reserve for Insurance Losses was $410 million at June 30, 1961. The basic law required the Corporation to build up a reserve until it was equal to 5% of all insured accounts plus all creditor obligations of all insured institutions. The enactment of Public Law 87-210, approved September 8, 1961, revised the reserve requirements. This law, effective January 1, 1962, required each insured institution to pay the Corporation annually an additional premium in the nature of a prepayment at a rate equal to 2% of the increase in savings for the previous calendar year less an amount equal to any requirement for the purchase of Federal Home Loan Bank stock during such period. The law further required the Corporation to establish a Primary Reserve, which is the general reserve of the Corporation, and a Secondary Reserve to which was credited the amounts of the prepayments made by the insured institutions. When the sum of these two reserves equaled 2% of total savings plus creditor obligations, the prepayments would cease and the Corporation would commence transferring the Secondary Reserve to the Primary Reserve by charging each insured association's accumulated prepayments with its regular annual premium liability. Finally, if the aggregate of the Secondary and Primary Reserves dropped below 1.75% of total savings plus creditor liabilities at the end of any calendar year, premium prepayments would resume and regular annual premiums would be paid by insured institutions until the aggregate of the Primary and Secondary Reserves again reached 2.0% as of the end of a calendar year.

Public Law 91-151, approved December 23, 1969, excluded creditor obligations from the above-mentioned calculations and provided that the condition under which prepayments were to cease and accumulated prepayments were to be credited toward regular premiums was deemed to have been met as of the close of December 31, 1969. Public Law 92-213, approved December 22, 1971, reduced the premium prepayment resumption trigger from 1.75% to 1.60%.

At December 31, 1972, the Corporation's reserves ratio dropped to below 1.60% of total savings in insured institutions. Public Law 93-100, approved August 16, 1973, permanently removed the requirement for premium prepayments and granted to the Board authority to determine each year the amount of members' annual premiums which would be paid in cash (the amount cannot be less than 30% nor more than 70%), and the amount which would be charged to the members' pro rata share of the Secondary Reserve. The law also provided that if the Corporation's aggregate reserves fall below 1.25% of total insured savings capital, regular annual premiums would be paid 100% in cash.

Public Law 93-495, approved October 28, 1974, provides for a phase-out of the Secondary Reserve over the first 10 minimum net reduction years occurring after December 31, 1973. In May of each year, the Corporation will reduce the amount of each insured institution's pro rata share of the Secondary Reserve as of the preceding December 31 by a cash refund of the difference between such pro rata share at that date and a prescribed percentage of its balance as of December 31, 1973.

As of September 30, 1979 the Primary and Secondary Reserves totaled $5,650 million, or 1.246% of total savings. If this ratio is still below 1.25% at December 31, 1979, the 1980 reserve phase-out installment would not be paid, and beginning in May 1980 insurance premiums would be paid 100% in cash. Based upon current projection, it is estimated that the total of the Primary and Secondary Reserves will reach $6,813 million by September 30, 1981, or 1.26% of total savings.

Section 110(d) of Public Law 89-117, effective August 10, 1965, enables the Corporation to obtain additional liquidity, if necessary, by calling upon insured institutions to make deposits in the Corporation up to one percent of their withdrawable savings. The Board has not found it necessary to use this authority to date.

Federal Home Loan Bank Board
Federal Savings and Loan Insurance Corporation

INSURANCE LIABILITY

The following table shows the potential liability of the Corporation as of the dates indicated:

Fiscal Year-End	Potential Liability in Billions 1/	Fiscal Year-End	Potential Liability in Billions 1/
1950	$ 10.5	1976	$296.2
1955	27.4	1977	369.3
1960	54.7	1978	392.0
1965	102.5	1979	429.6
1970	131.9	1980*	450.7
1975	256.9	1981*	505.6

*Estimate

1/ Creditor obligations included prior to 1969

The potential liability of the Corporation increased from $392.0 billion at September 30, 1978, to $429.6 billion at September 30, 1979, an increase of 9.5%. It is expected to be $450.7 billion by September 30, 1980, and $505.6 billion by September 30, 1981, an increase of 17.6% in the 24-month period.

INSURANCE CLAIMS

Since its inception through September 30, 1979, the Insurance Corporation has had a total of 124 settlement cases; 55 of these are current while 69 have been closed. Four new cases were added in fiscal 1979. Losses, including provision for losses have amounted to $281.9 million. Actual losses sustained at September 30, 1979 totaled $251.9 million.

Method of Settlement	Number	Number of Investors Protected	Actual Losses Sustained and Provision for Losses
Acquisition of Assets.....	13	75,782	$ 21,280,773
Acquisition of Assets and Contributions.....	18	119,925	70,954,040
Contribution.....	70	645,670	141,931,827
Contribution and Loan.....	3	14,440	807,569
Contribution, Loan, and Acquisition of Assets...	1	14,542	14,541,369
Purchase and Assumption...	1	27,457	15,000,000
Loan.....	4	137,383	2,134,709
Loan and Acquisition of Assets.....	1	26,137	3,683,682
Receivership and Acquisition of Assets.....	3	40,107	11,323,636
Receivership.....	10	50,467	309,557
Total.....	124	1,151,910	281,967,162

As indicated, contributions were made to 92 institutions; 13 institutions were placed in receivership and liquidated, and in 37 cases the corporation purchased assets. The losses, including provision for losses, represent approximately 4.5% of cumulative gross income through September 30, 1979.

BORROWING POSITION

Under Public Law 576, approved June 27, 1950, the Corporation is authorized to borrow from the United States Treasury such funds, not exceeding $750 million outstanding at any one time, as in the judgment of the Federal Home Loan Bank Board are required for insurance purposes. This authority has never been used.

RETIREMENT OF CAPITAL STOCK

Pursuant to Section 5(h) of Public Law 576, approved June 27, 1950, the Corporation on July 1, 1958, completed the retirement of its entire capital stock.

Retirement of the stock, amounting to $100 million, began in fiscal year 1951. The amount of the capital stock retired each year was equal to 50% of the Corporation's net income for the fiscal year.

During the life of the stock, the Corporation paid out in the form of a return in lieu of dividends $42,976,000; almost the entire amount was paid to the Secretary of the Treasury.

OFFICE OF FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION

FUNCTIONS AND RESPONSIBILITIES

The Office of Federal Savings and Loan Insurance Corporation operates under the general direction and supervision of the Federal Home Loan Bank Board. Its mission is to protect, at the least cost, savings of up to $40,000 per insured member of those insured institutions which are in default or are in danger of default. It advises the Board on all Corporation affairs and it works in close liaison with other offices of the Board on Corporation matters. It manages assets of the Corporation resulting from default and prevention-of-default actions. It represents the Corporation to savers in savings and loan associations, to the savings and loan industry, and the public generally, particularly with reference to matters relating to insurance coverage. It also develops policy guidelines for use by the Board and its staff in the disposition of matters affecting insurance interests.

The Corporation, pursuant to authority under the law, takes steps necessary to prevent default in an insured institution and to restore an insured institution to normal operations; if an insured institution is in default (i.e., when a receiver is legally appointed for the purpose of liquidation) it moves promptly to pay insurance in accordance with the Corporation's statutory responsibility. The Board, in circumstances where an accountholder is otherwise unable to withdraw his savings, may authorize the Corporation to pay insured accounts.

Following is a discussion of the responsibility of the four major divisions of the Office of FSLIC.

Asset Management Division

This Division is entrusted with the management and disposition of assets acquired in discharging its insurance functions.

Purchase of assets

One of the determinants of the number of personnel needed by the Asset Management Division is the volume of assets acquired by the Corporation in the resolution of problem cases. The volume is a useful criterion in identifying the magnitude of the management and disposition problems of the Division. Set forth on the following page is a table reflecting, at various fiscal year endings, the volume of such assets.

Federal Home Loan Bank Board
Federal Savings and Loan Insurance Corporation

Fiscal Year-End	Assets Managed ($ in Millions)	Fiscal Year-End	Assets Managed ($ in Millions)
1967	$ 129.7	1973	$ 83.9
1968	127.9	1974	56.7
1969	136.8	1975	83.6
1970	224.6	1976	70.0
1971	161.3	1977	32.1
1972	124.2	1978	38.0
		1979	52.6

Receiverships

During the period 1965-1971 the Corporation made insurance payments to savers in six savings and loans. In each instance the Corporation was subsequently appointed Receiver and assumed responsibility for the liquidation of the remaining assets. As of September 30, 1979 all six receiverships have been terminated.

Financial Assistance Division

The Financial Assistance Division has the responsibility for administering and supervising the assistance agreements. The Corporation, under standby contribution agreements, has the right of first refusal over asset sales. Thus, the Division personnel must be prepared on short notice to determine whether the best interest of the Corporation dictates a decision to exercise that right. At September 30, 1979, the right is applicable to assets aggregating $608 million on which losses are estimated to be $56.9 million.

Additional responsibilities of the Financial Assistance and Problem and Rehabilitation Divisions include an administrative function over $31.3 million in loans representing past rehabilitation actions to aid six threatened institutions.

Problem and Rehabilitation Division

During fiscal year 1979, the Corporation executed four standby contribution agreements on behalf of those problem associations which had ceased to be viable.

The program of problem and rehabilitation in today's economic climate requires continuing analyses by FSLIC personnel to deal with changing conditions and direct involvement in rehabilitative efforts. By a realignment of FSLIC staff, a support group staffed with individuals having multi-disciplined skills and experiences was formed to provide indepth analytical support. This group relies heavily upon sophisticated management science and computer techniques to satisfy the analytical needs of the Corporation.

Insurance Settlement Division

Insurance settlement and dissemination of insurance coverage information as stated above, are the functions of the Insurance Settlement Division. Repeating an earlier observation, the indeterminable number of problem cases deteriorating to the point of receivership for the purpose of liquidation makes it difficult to predict the insurance settlement activity of this Division. Notwithstanding the fact that a specific case of problem proportions may never reach the point of an insurance payout, careful and extensive preparation and detailed planning, difficult to measure in terms of workload, are needed and are devoted to such cases. Such effort is expended to preserve the Corporation's public image as a prompt payer of insurance.

Federal Home Loan Bank Board
Federal Savings and Loan Insurance Corporation

PROGRAMS AND ACTIVITIES

Due to the availability of the facilities of the Federal Home Loan Bank Board, the Corporation functions with a small staff. Following is an outline of the Insurable Interest and Insurance Settlement operations of the Corporation.

INSURABLE INTEREST AND INSURANCE SETTLEMENT OPERATIONS

This joint activity is carried on by the Office of the Federal Savings and Loan Insurance Corporation.

Insurable interests

This activity includes the reviewing of all proposed actions directly affecting the interests of the Corporation, advising the Board thereon, and the development of policy guidelines for use by the Board and staff units in the handling of matters affecting insurance interests.

Insurance settlement

This activity calls for steps, authorized by law, to be taken when required, to pay out insurance in event of default, to prevent default and to restore insured institutions to normal operations. The activity also includes directing the liquidation of assets acquired in default-prevention actions, and supervising liquidation of institutions where the Insurance Corporation is named receiver. Steps to be taken fall into the following categories:

Prevention of default

Section 406(f) of the National Housing Act authorizes the Corporation to purchase the assets of, make a contribution to, or make loans to an insured institution in or threatened with default; these functions are summarized below:

(1) Purchase of assets - To prevent default or to minimize losses, the Corporation may purchase all or a portion of the substandard assets of an impaired institution or one whose viability is threatened. In addition to recommending corrective measures designed to prevent recurrence of financial difficulties, a primary responsibility of the Corporation is the orderly liquidation of the assets acquired.

(2) Contribution - Whenever an insured institution is impaired, the Corporation may make, or commit itself to make, a cash contribution in an amount sufficient to cure the impairment. Throughout the life of such financial assistance agreements--generally five to seven years--the Corporation maintains close liaison with the institution involved, assisting in its rehabilitation and supervising the liquidation of risk assets.

(3) Loan - Another statutory power to forestall or minimize losses authorizes the Corporation to make loans to institutions in or threatened with default.

(4) Merger - When in the best interest of insured savings accountholders involved, and when such action is not in conflict with the best interests of the Corporation, the Corporation may act as sponsor and negotiate the merger of an institution threatened with default with a strong insured institution. Where insured State-chartered associations are involved, the co-operation of State authorities is necessary. Such mergers often involve a purchase of substandard assets by the Corporation and generally involve a contribution to the resulting entity.

Federal Home Loan Bank Board
Federal Savings and Loan Insurance Corporation

Receivership

When prevention of default is neither prudent nor economical and an insured institution is placed in receivership for liquidation, the Corporation, by law, must be appointed sole receiver if the association is operating under Federal charter. Pursuant to legislation enacted July 1, 1968, the Federal Home Loan Bank Board has independent authority to elect to appoint the Corporation as receiver under Federal law in those cases relating to State-chartered insured institutions where the State has appointed a receiver or custodian or the association is closed under State law. In any event, the Corporation must make prompt payment of insurance to savings accountholders in all instances, either in cash or by transferred account in another insured association. The Corporation has full responsibility for all phases of liquidation for which it is receiver and for maintaining vigilant liaison with other receivers for insured institutions in order to minimize the ultimate drain on the Corporation's resources.

ACTIVITY

During fiscal year 1979, the Corporation took financial action to protect depositors in four associations. The 125,726 depositors involved had savings balances of $522 million. In these cases all depositors were protected in full through financial assistance agreements. These agreements permitted the merger of two threatened institutions into two sound ones, and provided financial assistance for the revitalization of the other two.

At September 30, 1979, the Corporation was continuing to make recoveries or minimizing its losses in 56 cases involving insurance payouts or salvage agreements entered into prior to fiscal 1980.

The future projected insurance protection activity of the Corporation in today's climate is difficult to predict. Clearly, it will be involved from time-to-time in preventing the failure of certain institutions whose mortgage loan portfolios have been adversely affected by the changing economic conditions.

The continued increase in the growth and level of activity of the savings and loan business reflects itself in the workload. The aggregate assets of insured institutions, and the problems associated with a changing industry, all continue to maintain a high level. Insured membership decreased during fiscal 1979 by 10 reaching 4,043. Their assets on the same date aggregated $559.4 billion, an increase of $60.6 billion or 12.1%. They are expected to reach $666.6 billion by September 30, 1981, an increase of $107.2 billion or 19.1% in the 24-month period. Potential liability increased from $392.0 billion at September 30, 1978 to $429.6 billion at September 30, 1979, an increase of $37.6 billion or 9.5%.

BUDGET SUMMARY

The 1981 estimates of administrative expenses of the Federal Savings and Loan Insurance Corporation, the revised estimates for the current fiscal year, and actual expenses for fiscal 1979 are summarized in the following table:

Federal Home Loan Bank Board
Federal Savings and Loan Insurance Corporation

Description	1979 Actual	1980 Budget Estimate	1980 Current Estimate	1981 Estimate	Increase or Decrease (-)
Positions	20	20	20	20	-0-
Work-Years	17	20	19	19	-0-
Personnel Compensation	$457,535	$608,000	$583,000	$623,000	$ 40,000
Personnel Benefits	40,195	56,500	55,000	58,000	3,000
Total Personal Services and Benefits	497,730	664,500	638,000	681,000	43,000
Contractual Services and Supplies	257,609	355,500	325,000	431,000	106,000
Acquisition of Capital Assets	-10,653	2,000	2,000	3,000	1,000
Total Gross Expenses	744,686	1,022,000	965,000	1,115,000	150,000
Estimated Savings	195,314	.....	.....	.....	.....
Actual, Authorization, and Estimate	940,000	1,022,000	965,000	1,115,000	150,000

The 1981 estimate of $1,115,000 represents an increase of $150,000 or 15.5% over the current 1980 estimate. Most of this increase is represented by an increase of $100,000 (10.3%) in research studies which will be described in more detail under the "Other Services" category. The rest of the increase (5.2%) is attributable primarily to the annualization of the October 1979 general pay increase, within-grade step increases, other pay adjustments, related increased benefit costs, and provision for general price increases.

The 1981 estimate reflects no change in total authorized positions; it does show a net increase in funds of $150,000 from the estimate for the current fiscal year. The net increase, by category of expense, is shown below.

Item	Increased Amount
Personnel Compensation	$40,000
Personnel Benefits	3,000
Travel and Transportation of Persons	1,000
Transportation of Things	-2,000
Rent, Communications, and Utilities	3,000
Other Services	104,000
Supplies and Materials	-0-
Acquisition of Capital Assets	1,000
Total	150,000

On the following page is a more detailed comparative summary of expenses followed by an explanation and justification of the individual line items.

Federal Home Loan Bank Board
Office of Federal Savings and Loan Insurance Corporation
COMPARATIVE SUMMARY OF ADMINISTRATIVE EXPENSES

	1979 Actual				1980 Estimate				1981 Estimate		
	Office of Examinations		FSLIC		Department of Examinations		Department		Department of Examinations		Department
	Washington	District Offices	Admin	Total	Washington	District Offices	of Insurance	Total	Washington	District Offices	of Insurance
Personal Services and Benefits:	(1)	(2)							(3)	(3)	
Positions:											
Gross	33	919	20	972	33	919	20	972	---	---	20
Net Work-Years	31.0	899.0	17.0	947.0	33.0	911.0	19.0	963.0	---	---	19.0
PERSONNEL COMPENSATION	$ 847,359	$20,348,568	$ 457,535	$21,653,462	$ 1,028,000	$22,798,000	$ 583,000	$24,409,000	-0-	-0-	$ 623,000
Personnel Benefits:											
Health Benefits	17,886	423,141	7,351	448,378	18,000	450,000	9,500	477,500	-0-	-0-	10,500
Life Insurance	2,354	64,135	1,267	67,756	3,000	70,000	3,000	76,000	-0-	-0-	3,000
Moving and Related Expenses	-0-	62,578	-0-	62,578	6,000	95,000	2,000	103,000	-0-	-0-	-0-
Retirement	59,168	1,406,825	31,134	1,496,727	71,000	1,565,000	40,000	1,676,000	-0-	-0-	44,000
Severance Pay	-0-	-0-	-0-	-0-	-0-	5,000	-0-	5,000	-0-	-0-	-0-
Social Security Tax (FICA)	463	4,184	443	5,090	1,000	5,000	500	6,500	-0-	-0-	500
TOTAL PERSONNEL BENEFITS	79,871	1,960,463	40,195	2,080,529	99,000	2,190,000	55,000	2,344,000	-0-	-0-	58,000
TOTAL PERSONAL SERVICES AND BENEFITS	927,230	22,309,031	497,730	23,733,991	1,127,000	24,988,000	638,000	26,753,000	-0-	-0-	681,000
Contractual Services and Supplies:											
Travel & Transportation of Persons	43,933	4,805,471	17,270	4,866,624	74,000	5,267,000	22,000	5,363,000	-0-	-0-	28,000
Transportation of Things	964	90,903	31	91,898	3,000	91,000	2,000	96,000	-0-	-0-	-0-
Rent, Communication & Utilities	47,097	1,340,204	142,514	1,529,815	37,000	1,616,000	154,500	1,807,500	-0-	-0-	157,500
Printing and Reproduction	87	849	818	1,754	-0-	2,000	1,000	3,000	-0-	-0-	1,000
Other Services	17,306	344,039	96,390	458,535	20,000	414,000	135,500	569,500	-0-	-0-	230,500
Supplies & Materials	14,550	93,153	586	108,289	15,000	121,000	9,000	145,000	-0-	-0-	5,000
TOTAL CONTRACTUAL SERVICES AND SUPPLIES	123,937	6,639,369	257,609	7,016,915	153,000	7,466,000	325,000	7,944,000	-0-	-0-	431,000
Acquisition of Capital Assets:											
Equipment	778	89,212	-10,653	39,337	2,000	35,000	7,000	29,000	-0-	-0-	3,000
TOTAL EXPENSES	1,051,945	28,993,612	744,686	30,790,243	1,282,000	32,489,000	965,000	34,736,000	-0-	-0-	1,115,000
Reimbursements From Other Accounts	-0-	-65,590	-0-	-65,590	-0-	-0-	-0-	-0-	-0-	-0-	-0-
TOTAL NET EXPENSES	1,051,945	28,928,022	744,686	30,724,653	1,282,000	32,489,000	965,000	34,736,000	-0-	-0-	1,115,000
Estimated Savings	58,055	1,666,978	195,314	1,920,347	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Proposed Supplemental Due to Increased Pay Costs	-0-	-0-	-0-	-0-	-55,000	-1,215,000	-0-	-1,270,000	-0-	-0-	-0-
ACTUAL, AUTHORIZATION, AND ESTIMATE	1,110,000	30,595,000	940,000	32,645,000	1,227,000	31,274,000	965,000	33,466,000	-0-	-0-	1,115,000

(1) Shown for comparative purposes only. These costs were included in the Bank Board limitation for FY 1979, but in FY 1980 they are included in the FSLIC Administrative Expense Limitation.

(2) Shown for comparative purposed only. These costs were covered under a separate limitation in FY 1979, but in FY 1980 they are included in the FSLIC Administrative Expense Limitation.

(3) In FY 1981 the former Office of Examinations and Supervision will be reconstituted as a separate office under the Bank Board. The related positions and funds for the OES Washington Office will be consolidated under the Bank Board Administrative Expense Limitation, as in FY 1979. The related positions and funds for the OES District Offices will be covered under a separate limitation as in FY 1979. (See comparative expense summaries on pages

Federal Home Loan Bank Board
Federal Savings and Loan Insurance Corporation

PERSONNEL COMPENSATION

	1979 Actual	1980 Budget Estimate	1980 Current Estimate	1981 Estimate	Increase or Decrease (-)
Positions	20	20	20	20	-0-
Work-Years	17	20	19	19	-0-
Net-Salary	$457,535	$608,000	$583,000	$623,000	$40,000

The 1981 estimate of $623,000 provides for the insurance activities to be continued at approximately the same level as 1980. The increase of $40,000 covers cost of within-grade increases, annualization of the 1979 pay raise, increased benefit costs, and other pay adjustments.

PERSONNEL BENEFITS

	1979 Actual	1980 Budget Estimate	1980 Current Estimate	1981 Estimate	Increase or Decrease (-)
Health	$ 7,351	$10,000	$ 9,500	$10,500	$1,000
Life Insurance	1,267	3,000	3,000	3,000	-0-
Moving and Related Expenses	-0-	2,000	2,000	-0-	-2,000
Retirement	31,134	41,000	40,000	44,000	4,000
Social Security Taxes (FICA)	443	500	500	500	-0-
Total	40,195	56,500	55,000	58,000	3,000

HEALTH BENEFITS

The 1981 estimate of $10,500 provides for the Corporation's (Employer) share of the cost of the Federal Employees' Health Benefits Act of 1959 (Public Law 86-382).

LIFE INSURANCE

The 1981 estimate of $3,000 represents the Corporation's (Employer) portion of the premiums payable under the Federal Employees' Group Life Insurance Act of 1954; it is based upon the number of employees expected to be on the payroll in fiscal 1981.

RETIREMENT

The 1981 estimate of $44,000 provides for the Corporation's (Employer) share of mandatory contributions to the Civil Service Retirement and Disability Fund pursuant to Section 102(A) of Public Law 91-93, approved October 20, 1969; it is at the rate of 7% of employees' basic salaries. The figure is based upon the number of employees expected to be on the payroll in fiscal 1981.

SOCIAL SECURITY TAXES

The 1981 estimate of $500 provides for the payment of the Corporation's (Employer) share of contributions under the Federal Insurance Contribution Act. Payment is made for all employees who do not contribute to the Civil Service Retirement and Disability Fund.

Federal Home Loan Bank Board
Federal Savings and Loan Insurance Corporation

TRAVEL AND TRANSPORTATION OF PERSONS

1979 Actual	1980 Budget Estimate	1980 Current Estimate	1981 Estimate	Increase or Decrease (-)
$17,270	$29,000	$27,000	$28,000	$1,000

The estimate provides for attendance at conferences of savings and loan leagues, meeting with State savings and loan supervisors, directors, and officers of the Federal Home Loan Banks, and savings and loan associations. There is a continuing need to acquaint these groups as well as the savings public with more and better information about insurance coverage. The estimate will provide the Director and his top supervisors with sufficient travel funds to discharge this responsibility. The increase of $1,000 over the current year provides for increased transportation costs in 1981.

TRANSPORTATION OF THINGS

1979 Actual	1980 Budget Estimate	1980 Current Estimate	1981 Estimate	Increase or Decrease (-)
$31	$2,000	$2,000	-0-	$-2,000

This item provides for the cost of shipment of supplies and equipment to and from the Corporation.

RENT, COMMUNICATIONS, AND UTILITIES

	1979 Actual	1980 Budget Estimate	1980 Current Estimate	1981 Estimate	Increase or Decrease(-)
Rent and Utilities:					
Office Space	$112,812	$ 90,000	$113,000	$113,000	$ -0-
Equipment	3,848	8,000	5,000	5,000	-0-
Sub-total	116,660	98,000	118,000	118,000	-0-
Communications:					
Fixed Telephone Charges	7,575	13,000	13,000	13,000	-0-
Long Distance Calls	13,947	17,000	19,000	22,000	3,000
Teletype and Telegrams	-0-	1,000	1,000	1,000	-0-
Postage	4,332	3,500	3,500	3,500	-0-
Sub-total	25,854	34,500	36,500	39,500	3,000
GRAND-TOTAL	142,514	132,500	154,500	157,500	3,000

RENT AND UTILITIES

The 1980 and 1981 estimates of $113,000 for office space provides for 8,058 square feet of office space in the new Federal Home Loan Bank Board Building at an average cost of $14.00 per square foot.

Equipment rental costs of $5,000 provides for the rental of copying equipment used by the Corporation.

COMMUNICATIONS

The 1980 estimate shows an increase of $3,000 over the current year attributable to anticipated higher telephone (FTS) rates in 1981.

Federal Home Loan Bank Board
Federal Savings and Loan Insurance Corporation

PRINTING AND REPRODUCTION

1979 Actual	1980 Budget Estimate	1980 Current Estimate	1981 Estimate	Increase or Decrease (-)
$818	$1,000	$1,000	$1,000	$ -0-

The 1981 estimate of $1,000 provides for the cost of contractual printing and reproduction.

OTHER SERVICES

	1979 Actual	1980 Budget Estimate	1980 Current Estimate	1981 Estimate	Increase or Decrease (-)
Special Studies	$86,407	$125,000	$ 75,000	$175,000	$100,000
Fidelity Bond	2,293	3,500	3,000	3,000	-0-
Repairs to Furniture, Fixtures, and Equipment	-0-	2,000	2,000	1,000	-1,000
Training Program	3,758	10,000	10,000	10,000	-0-
Computer Time	9,007	15,000	15,000	20,000	5,000
Health Program	-0-	3,000	3,000	3,000	-0-
GAO Audit	-5,927	25,000	25,000	25,000	-0-
Security Investigations	-0-	1,000	1,000	1,000	-0-
Other	852	1,500	1,500	1,500	-0-
Total	96,390	186,000	135,500	239,500	104,000

SPECIAL STUDIES

During 1981 the Corporation proposes to perform a study to further develop and refine analyses previously conducted on capital adequacy in the savings and loan industry. In particular, this study will focus on the significantly different characteristics that exist between capital-inadequate and capital-adequate associations. The objective is to enhance policy decisions that must be made regarding adequate levels of capital. The study is estimated to cost $175,000.

SUPPLIES AND MATERIALS

1979 Actual	1980 Budget Estimate	1980 Current Estimate	1981 Estimate	Increase or Decrease (-)
$586	$5,000	$5,000	$5,000	$ -0-

The estimate provides for the cost of office supplies, books, binders, and expendable equipment.

ACQUISITION OF CAPITAL ASSETS

1979 Actual	1980 Budget Estimate	1980 Current Estimate	1981 Estimate	Increase or Decrease (-)
$-10,653	$2,000	$2,000	$3,000	$1,000

Provision is made in this item for non-capitalized items of furniture, fixtures, and equipment. The negative expense for 1979 resulted from capitalizing certain equipment in 1979 which had been previously expensed in error. This action caused a net negative expense for 1979.

Federal Home Loan Bank Board
Federal Savings and Loan Insurance Corporation

AUTHORIZATION LANGUAGE

In connection with the reestablishment of the Office of Examinations and Supervision as a unified office under the Bank Board, and in view of the proposed separate limitation on nonadministrative examination expenses included under the Federal Home Loan Bank Board authorization language, the authorization language providing an administrative expense limitation for the FSLIC has been revised to exclude savings and loan examination as an authorized FSLIC activity, and the proposed 1981 limitation has been substantially reduced from the 1980 authorized amount.

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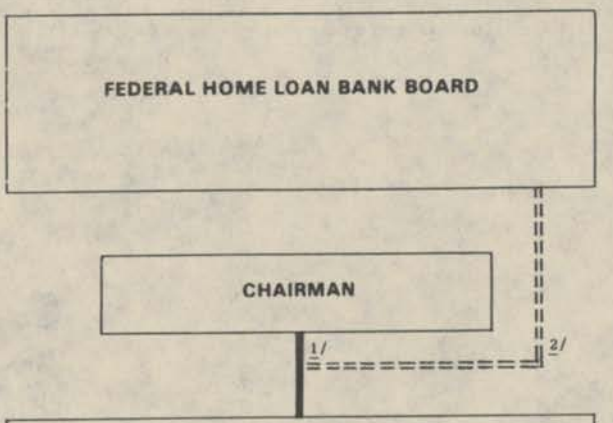
Federal Home Loan Bank Board

Federal Savings and Loan Insurance Corporation

PERSONAL SERVICES DATA BY ORGANIZATIONAL UNIT - FISCAL YEAR 1981



OFFICE OF FSLIC

GS GRADE	TITLE	NO.	AMOUNT
SES	Director	1	$ 50,112
SES	Deputy Director	1	50,112
15	-	4	185,104
14	-	3	120,337
12	-	2	55,167
9	-	2	38,046
8	-	1	16,965
7	-	5	81,689
4	-	1	12,394
TOTAL POSITIONS - ANNUAL SALARY		20	609,926
TOTAL WORK-YEARS - TOTAL SALARY		19.0	623,000

1/ ——— Administrative Direction and Coordination

2/ = = = = Substantive Responsibilities

Federal Home Loan Bank Board
Interest Adjustment Payments

The Housing Opportunity Allowance Program (HOAP) was initially designed in fiscal year 1971 to help middle-income families, with incomes insufficient to qualify them for conventional mortgage loans but in excess of the income limit for home ownership assistance under Section 235 of the National Housing Act, to attain home ownership. Under this Program, an eligible prospective home buyer was provided with a direct monthly allowance of $20 for a maximum period of 60 months of the term of his mortgage.

In March 1972, the U.S. District Court of the District of Columbia ruled that no U.S. Treasury funds could be disbursed for HOAP loans because low-income families were not eligible for such loans. Upon receipt of the court injunction the Program was suspended by the Federal Home Loan Bank Board. At that time, about 9,000 families, with incomes in the range of $7,000-$12,000 had obtained HOAP loans.

The Board reactiviated HOAP in June 1972 to include both low and middle-income families in response to the court injunction. The new Program called HOAP I/II, continued the original Program for middle-income families and also provided for larger mortgage subsidy payments to families with incomes below $7,000; subsidies as high as $70 per month were permitted, depending on family income. The Program required reevaluation of the borrower's income after the first five years of subsidy payments and a lowering of subsidy payments for the second five-year period if the family income had increased. The extent of subsidy for low-income families was determined by a FHLBB formula based on Department of Housing and Urban Development criteria for public housing (42 U.S.C. 1401) and housing obtained under Section 235 and 236 of the National Housing Act, as amended (12 U.S.C. 1715Z and 1715Z-1).

Title I of the Emergency Home Finance Act of 1970, Public Law 91-351, authorized an appropriation without fiscal year limitation, of $250,000,000 to be used by the Federal Home Loan Bank Board for disbursement to the Federal Home Loan Banks to adjust the effective interest rate charged by each bank on lending to member savings and loan associations to promote an orderly flow of funds into residential construction.

The HOAP Program was initiated with an appropriation of $85 million. An additional $62.5 million was appropriated in 1972 bringing total appropriations available to the Board to $147.5 million. Cumulative obligations against these appropriations at September 30, 1979 amounted to $12.5 million ($6.4 million against the 1971 appropriation and $6.1 million against the 1972 appropriation). Actual disbursements made through September 30, 1979 amounted to $12.3 million ($6.4 million against the 1971 appropriation and $5.9 million against the 1972 appropriation) leaving $0.3 million available for future disbursement. Of this balance, we estimate that $0.1 million will have been disbursed by the end of fiscal year 1980 with the remaining $0.2 million disbursed during the 1981-1982 period.

Federal Home Loan Bank Board
Federal Home Loan Mortgage Corporation

The Federal Home Loan Mortgage Corporation (a federally-chartered corporation) was organized on July 24, 1970, under the Emergency Home Finance Act of 1970. The Corporation is under the direction of a Board of Directors composed of the members of the Federal Home Loan Bank Board. The Corporation purchases, sells, and otherwise deals in mortgages on residential properties. The Act exempts the Corporation from all taxation by the United States or by any State, county, municipality, or local taxing authority, except for real property taxes. The Corporation's capital stock was issued, at par, to the Federal Home Loan Banks; the stock is nonvoting and nontransferable, and its ownership is restricted to the Federal Home Loan Banks. A statement of condition as of September 30, 1979, is presented on page H-2, and a statement of income and retained earnings for the fiscal years 1978 and 1979 is presented on page H-3.

Federal Home Loan Bank Board

Federal Home Loan Mortgage Corporation

STATEMENT OF CONDITION AS OF DATES INDICATED
(In Thousands)

	9/30/79	9/30/78	Increase or Decrease (-)
CASH	$ 678	$ 575	$ 103
INVESTMENTS			
U.S. Securities	35,000	5,000	30,000
Other Securities	261,862	794,265	(532,403)
Total Investments	296,862	799,265	(502,403)
MORTGAGE LOANS			
Insured or Guaranteed by FHA or VA	1,188,600	1,343,239	(154,639)
Participation in Conventional Mortgage Loans	2,273,171	1,017,464	1,255,707
Conventional Mortgage Loans	285,596	135,588	150,008
Subtotal	3,747,367	2,496,291	1,251,076
Less: Unamortized Discount and Allowance for Losses	58,828	63,310	(4,482)
Total Mortgage Loans	3,688,539	2,432,981	1,255,558
ACCOUNTS RECEIVABLE	122,775	64,441	58,334
OTHER ASSETS	251,350	230,046	21,304
Total Assets	$4,360,204	$3,527,308	$ 832,896
ACCOUNT PAYABLE AND ACCRUED LIABILITIES	$ 309,290	$ 261,189	$ 48,101
BORROWINGS FROM THE PUBLIC			
Mortgage-Backed Bonds	577,579	754,554	(176,975)
Other	3,242,527	2,317,498	925,029
Total Borrowings	3,820,106	3,072,052	748,054
CONTINGENCIES			
Mortgage Participation Certificates	12,243,934	9,139,086	3,104,848
Guaranteed Mortgage Certificates	2,244,000	1,664,500	579,500
Less: Underlying Mortgage Loans Sold Including Principal	(14,487,934)	(10,803,586)	(3,684,348)
Subtotal	-0-	-0-	-0-
STOCKHOLDERS' EQUITY			
Capital Stock	100,000	100,000	-0-
Capital in Excess of Par Value	100,000	75,000	25,000
Retained Earnings	30,808	19,067	11,741
Total Stockholders' Equity	230,808	194,067	36,741
Total Liabilities and Capital	$4,360,204	$3,527,308	$ 832,896

Federal Home Loan Bank Board

Federal Home Loan Mortgage Corporation

STATEMENT OF INCOME AND RETAINED EARNINGS
FOR THE 12 MONTHS ENDING SEPTEMBER 30, 1979 AND SEPTEMBER 30, 1978
(In Thousands)

	9/30/79	9/30/78
INCOME		
Interest and Discounts on Mortgage Loans	$310,017	$254,804
Interest on Investments	39,792	37,046
Other Income	3,967	1,504
Total Income	353,776	293,354
EXPENSES		
Interest on Borrowings and Related Costs	281,589	244,084
Provision for Losses, Management Fees, and Guarantees	18,124	12,977
Administrative Expenses	17,321	13,019
Total Expenses	317,034	270,080
NET INCOME	36,742	23,274
RETAINED EARNINGS, BEGINNING OF YEAR	19,066	70,793
TRANSFER TO CAPITAL IN EXCESS OF PAR VALUE	(25,000)	(75,000)
RETAINED EARNINGS, END OF YEAR	$ 30,808	$ 19,067

APPENDIX

STATEMENT OF
SUSAN B. KING, CHAIRMAN
U.S. CONSUMER PRODUCT SAFETY COMMISSION

BEFORE THE

SUBCOMMITTEE ON HUD-INDEPENDENT AGENCIES
HOUSE APPROPRIATIONS COMMITTEE

FEBRUARY 6, 1980

MR. CHAIRMAN, I'M HAPPY TO BE HERE TODAY TO DISCUSS WITH YOU THE CONSUMER PRODUCT SAFETY COMMISSION'S BUDGET REQUEST FOR FY 81. THIS REQUEST, FOR $43,959,000 AND 880 POSITIONS, WILL PERMIT THE COMMISSION TO CONTINUE TO PROTECT CONSUMERS FROM HAZARDOUS PRODUCTS THAT, EACH YEAR, KILL 30,000 PEOPLE AND INJURE ANOTHER 33 MILLION. BECAUSE WE CONCENTRATE ON THE MOST SERIOUS HAZARDS, CONTINUED PROTECTION WILL BE POSSIBLE WITH ONLY A MINOR INCREASE OVER LAST YEAR'S APPROPRIATION.

I'M PLEASED TO REPORT THAT OUR "NO-FRILLS" APPROACH TO REGULATION IS SUCCEEDING IN REDUCING CONSUMER EXPOSURE TO UNREASONABLE RISKS OF INJURY THAT CAUSE NEEDLESS TRAGEDIES. AS I INDICATED LAST YEAR, WE ARE COMMITTED TO CONDUCTING AS THOROUGH AND EXTENSIVE AN EVALUATION PROGRAM AS OUR RESOURCES PERMIT. BASED ON THE LIMITED NUMBER OF RETROSPECTIVE EVALUATIONS CONDUCTED TO DATE, WE CAN SEE DRAMATIC DROPS IN INJURIES AND DEATHS -- ABOUT 100,000 FEWER INJURIES IN 1978 ALONE. WE HAVE FOUND, AS WE NOTED LAST YEAR, THAT REGULATIONS REQUIRING CHILD-RESISTANT CLOSURES ON MOST PRESCRIPTION DRUGS AND MANY HOUSEHOLD PRODUCTS HAVE MEANT 65,000

FEWER POISONINGS OF CHILDREN UNDER 5 IN 1978 ALONE. SAFETY REGULATIONS FOR CRIBS HAVE CUT THE ANNUAL DEATH RATE NEARLY IN HALF. WE HAVE NOW ALSO CONDUCTED "PREDICTIVE EVALUATIONS" FOR SOME RECENTLY ISSUED REGULATIONS AND HAVE FOUND THAT THEY, TOO, WILL HAVE GREAT IMPACT OVER TIME. ONCE ALL ARCHITECTURAL GLAZING IS REPLACED WITH MATERIALS THAT MEET OUR SAFETY STANDARD, WE ESTIMATE THAT 60,000 FEWER INJURIES WILL BE TREATED IN HOSPITAL EMERGENCY ROOMS EACH YEAR. BICYCLE INJURIES WILL DROP ABOUT 50,000 ANNUALLY ONCE ALL BICYCLES COMPLY WITH OUR REGULATIONS. NEWLY ISSUED SAFETY STANDARDS FOR POWER MOWERS WILL ULTIMATELY ELIMINATE NEARLY 80% OF THE NEARLY 80 THOUSAND INJURIES THAT OCCUR EACH YEAR FROM CONTACT WITH THE MOVING MOWER BLADE. VOLUNTARY STANDARDS, TOO, WILL REDUCE INJURIES IN FUTURE YEARS. A NEW VOLUNTARY STANDARD FOR LADDERS, FOR EXAMPLE, SHOULD MEAN 12,000 FEWER INJURIES EACH YEAR.

THE SAFETY PICTURE IS IMPROVING, BUT MUCH REMAINS TO BE DONE. I'M PLEASED TO NOTE THAT WITH THE SWEARING IN OF COMMISSIONER STUART STATLER THIS PAST AUGUST WE NOW HAVE OUR FULL COMPLEMENT

OF FIVE COMMISSIONERS. MORE RECENTLY, THE COMMISSION UNANIMOUSLY APPROVED THE APPOINTMENT OF RICHARD GROSS AS OUR NEW EXECUTIVE DIRECTOR. WITH THIS APPOINTMENT -- THE NINTH KEY STAFF POSITION FILLED SINCE I BECAME CHAIRMAN LESS THAN TWO YEARS AGO -- ALL BUT ONE MAJOR POSITION HAS BEEN FILLED.

ON THE MANAGEMENT FRONT, WE HAVE IMPLEMENTED THE CHANGES WE DISCUSSED LAST YEAR -- INCLUDING THOSE RECOMMENDED BY THE OMB MANAGEMENT TEAM. IN ADDITION, I AM UNDERTAKING A LONG-DELAYED RESTRUCTURING OF OUR FIELD STAFF. BY COMBINING THE ADMINISTRATIVE FUNCTIONS OF SEVERAL OFFICES, ADDITIONAL STAFF WILL BE FREED FOR INVESTIGATIONS AND OTHER HAZARD RELATED ACTIVITIES. WE HAVE NOW COMPLETED AN AGENCY-WIDE CLASSIFICATION SURVEY, WHICH RESULTED IN THE RECLASSIFICATION OF SIXTY-EIGHT POSITIONS. WE HAVE WORKED TO REDUCE THE IMPACT ON INDIVIDUALS, WHILE ADDRESSING AND RESOLVING MANY OLD PROBLEMS.

ONE OF THE BENEFITS OF A RELATIVELY STABLE MANAGEMENT SITUATION IS BREATHING SPACE -- TIME BETWEEN CRISES TO THINK ABOUT WHERE WE'VE BEEN AND WHERE WE WANT TO GO. FOR EXAMPLE, THE AGENCY HAS COME TO DEPEND INCREASINGLY ON RECALLS AS A QUICK,

INEXPENSIVE WAY TO REMOVE SPECIFIC HAZARDOUS PRODUCTS FROM THE MARKETPLACE -- AND FROM CONSUMERS' HANDS. OUR USE OF THIS MECHANISM, HOWEVER, IMPOSES ON US THE RESPONSIBILITY OF ENSURING THAT EVERYTHING POSSIBLE IS DONE TO NOTIFY CONSUMERS OF HAZARDS AND TO MOTIVATE THEM TO TAKE ACTION. WE ARE UNDERTAKING AN IN-DEPTH STUDY TO SEE IF -- AND HOW -- WE MIGHT DO BETTER. WE ARE ALSO EVALUATING THE LARGE, ELABORATE INJURY INFORMATION SYSTEM WE'VE USED FOR THE LAST SEVEN YEARS. WE WANT TO KNOW WHETHER IT HAS DEFICIENCIES, PARTICULARLY IN THE AREAS OF FIRE, ELECTRIC SHOCK, AND CHRONIC HAZARDS. WE'RE NOW LOOKING INTO OTHER INJURY DATA SOURCES WE COULD USE TO ENSURE THAT WE GET INFORMATION ABOUT THESE HAZARDS.

THE COMMISSION HAS ALSO TAKEN AN ACTIVE INTEREST IN REVIEWING ITS RULES, AS PART OF ITS LARGER COMMITMENT TO REGULATORY REFORM. WE HAVE EXPANDED THE CONGRESSIONAL MANDATE TO REVIEW THE EFFECTIVENESS OF AND NEED FOR OUR RECENT RULES TO INCLUDE ALL OF OUR RULES. WE WANT TO BE SURE NOT ONLY THAT OUR REGULATIONS ARE WELL-CONCEIVED AND NECESSARY AT THE OUTSET, BUT ALSO THAT ALL

RULES WE ADMINISTER CONTINUE TO SERVE A USEFUL PURPOSE. AS PART OF THIS EFFORT, THE COMMISSION THIS YEAR REVIEWED AND WITHDREW 14 PROPOSALS OR NOTICES OF PROCEEDING ISSUED BY IT OR PREDECESSOR AGENCIES BECAUSE THE RULES CONTEMPLATED WERE NO LONGER NECESSARY TO PROTECT THE PUBLIC.

AS YOU KNOW, THE COMMISSION EACH YEAR DESIGNATES A LIMITED NUMBER OF PROJECTS AS "PRIORITIES." A DETAILED DISCUSSION OF OUR FY 79 AND 80 PRIORITIES CAN BE FOUND ON P. 67 OF OUR BUDGET SUBMISSION. WE FIND THIS A HELPFUL WAY OF FOCUSING OUR EFFORTS ON THE ACTIVITIES THE COMMISSION CONSIDERS TO BE OF THE GREATEST IMPORTANCE. THIS IS NOT TO SAY THAT WE EXPECT THAT EACH PRIORITY PROJECT WILL BE COMPLETED DURING A SINGLE YEAR, BUT WE DO EXPECT THAT SUBSTANTIAL PROGRESS WILL BE MADE ON EACH. OF THE 24 PROJECTS ON OUR FY 79 PRIORITY LIST, 13 WERE EITHER COMPLETED OR HAVE PROGRESSED TO A POINT WHERE PRIORITY ATTENTION IS NO LONGER NECESSARY. UTHER PROJECTS, HOWEVER, REMAIN ON THE NEW LIST OF 14 HAZARD-SPECIFIC PRIORITY PROJECTS FOR FY 1980.

WE CONTINUE TO BE INCREASINGLY INVOLVED IN THE BROAD AND COMPLEX AREA OF CHRONIC HAZARDS --

ESPECIALLY CARCINOGENS. CONSUMERS ARE ILL-EQUIPPED TO MAKE JUDGMENTS ABOUT HOW TO PROTECT THEMSELVES AGAINST CARCINOGENS: NOT ONLY IS THERE A TREMENDOUS AMOUNT OF HIGHLY COMPLEX SCIENTIFIC RESEARCH INVOLVED, BUT THERE ARE DIFFICULT QUESTIONS OF CONSUMER EXPOSURE. SOMETIMES, EVEN WITH KNOWLEDGE, CONSUMERS CANNOT AVOID EXPOSURE.

REDUCING OR ELIMINATING CONSUMER EXPOSURE TO CARCINOGENS OR OTHER CHRONIC HAZARDS IS NO SMALL OR EASY TASK. SUBSTANTIAL NUMBERS OF SUSPECT CHEMICALS ARE USED IN CONSUMER PRODUCTS, AND EXPOSURE MAY OCCUR IN MANY WAYS. OF COURSE MANY GOVERNMENT AGENCIES -- WORKING ON OTHER ASPECTS OF THE CANCER PROBLEM -- SHARE OUR CONCERN. IN FY 79, FOR EXAMPLE, WE WERE ABLE TO DRAW ON ABOUT $20 MILLION WORTH OF SCIENTIFIC RESEARCH DONE BY OTHER AGENCIES. BUT CPSC HAS A SPECIAL RESPONSIBILITY AND ROLE IN CHRONIC HAZARDS: WE ARE THE ONLY AGENCY SPECIFICALLY CONCERNED WITH CONSUMER PRODUCTS, WHERE EXPOSURES MAY SEEM INSIGNIFICANT BUT WHEN REPEATED, AND ADDED TO OTHER EXPOSURES, MAY NONETHELESS THREATEN MILLIONS WITH SERIOUS OR FATAL ILLNESS.

LAST YEAR, I SAID THAT BY THIS TIME WE WOULD HAVE NEW LEADERSHIP AT THE STAFF LEVEL ON BOARD, AND THAT OUR CHRONIC HAZARDS PROGRAM WOULD BE WELL UNDERWAY. WE HAVE, IN FACT, NOW BUILT A SOPHISTICATED, TECHNICALLY EXPERT STAFF, WHICH HAS PUT A CAREFULLY CONSTRUCTED CHRONICS PROGRAM INTO PLACE. THE COMMISSION IS NOW SYSTEMATICALLY ADDRESSING THE CHRONIC HAZARDS OF CONSUMER PRODUCTS.

BENZIDINE-BASED DYES

ONE EXAMPLE IS OUR WORK WITH BENZIDINE-BASED DYES. BENZIDINE ITSELF IS A HUMAN CARCINOGEN, AND WE KNOW THAT ONE GROUP OF THESE DYES PRODUCE CANCER IN LABORATORY ANIMALS. IT IS OUR SPECIAL RESPONSIBILITY TO DETERMINE WHAT THIS LABORATORY DATA MIGHT MEAN TO AN ARTIST WORKING WITH THESE DYES, OR TO A CHILD DYEING A TEE-SHIRT. THE COMMISSION WILL SOON CONSIDER TAKING REGULATORY ACTION ON CERTAIN BENZIDINE-BASED DYES.

ASBESTOS

THE COMMISSION IS ALSO CONTINUING ITS REGULATORY ACTIVITIES REGARDING ASBESTOS, A HUMAN CARCINOGEN, IN CONSUMER PRODUCTS. IN FY 79, THE

COMMISSION TOOK PROMPT ACTION TO REMOVE ASBESTOS-CONTAINING HAIRDRYERS FROM THE MARKETPLACE. FOLLOWING NEGOTIATIONS, VIRTUALLY EVERY MANUFACTURER OF THESE PRODUCTS AGREED TO PROVIDE CONSUMERS WITH REPLACEMENTS, REPAIRS, OR REFUNDS, AND TO STOP USING ASBESTOS IN THE FUTURE. IN FY 80 AND 81, WE INTEND TO WORK CLOSELY WITH THE ENVIRONMENTAL PROTECTION AGENCY ON A COORDINATED APPROACH TO THE REGULATION OF PRODUCTS THAT CONTAIN ASBESTOS. WE HAVE ALREADY ISSUED A JOINT ADVANCE NOTICE OF PROPOSED RULEMAKING TO BEGIN THE PROCESS OF FASHIONING A CONSIDERED, COMPREHENSIVE STRATEGY. WE WILL ALSO ADDRESS SPECIFIC CONSUMER PRODUCTS AS NECESSARY.

FORMALDEHYDE

SOMETIMES A PRODUCT CAN PRESENT BOTH ACUTE AND CHRONIC RISKS OF INJURY. WE HAVE BEEN CONCERNED FOR SOME TIME WITH UREA-FORMALDEHYDE FOAM INSULATION. WHEN INSTALLED IN HOMES, THIS MATERIAL MAY EMIT FORMALDEHYDE GAS WHICH PRODUCES SYMPTOMS RANGING FROM EYE IRRITATION TO SERIOUS RESPIRATORY PROBLEMS IN SENSITIVE INDIVIDUALS. THE SYMPTOMS MAY BE SEVERE -- WE HAVE MORE THAN A FEW REPORTS OF PEOPLE WHO ACTUALLY HAVE HAD TO ABANDON THEIR

HOMES BECAUSE THEY COULD NO LONGER LIVE COMFORTABLY IN THEM. THE COMMISSION IS NOW CONDUCTING A SERIES OF REGIONAL HEARINGS ON UREA-FORMALDEHYDE INSULATION. THE INFORMATION WE GATHER WILL HELP US TO DECIDE WHETHER REGULATORY ACTION IS NECESSARY TO PROTECT THE PUBLIC.

BUT THE PROBLEMS WITH FORMALDEHYDE MAY GO BEYOND THESE ACUTE SYMPTOMS. WE HAVE RECENTLY LEARNED OF PRELIMINARY TEST RESULTS THAT SUGGEST THAT FORMALDEHYDE MAY BE A CARCINOGEN. SIX BILLION POUNDS OF FORMALDEHYDE ARE USED EACH YEAR IN PRODUCTS THAT INCLUDE NOT ONLY INSULATION BUT PLYWOOD AND PERMANENT PRESS FABRICS AS WELL. WHILE FORMALDEHYDE MAY NOT BE RELEASED FROM ALL THESE PRODUCTS, WE WILL BE CAREFULLY MONITORING ALL AVAILABLE TEST RESULTS, AND WILL BE PREPARED TO TAKE REGULATORY ACTION IF NECESSARY.

ALUMINUM WIRING

THE COMMISSION IS CONVINCED THAT SOME ALUMINUM WIRING INSTALLED IN HOMES BETWEEN 1965 AND 1973 IS A SERIOUS FIRE HAZARD. A CPSC-SPONSORED STUDY COMPLETED IN FY 79 SHOWED THAT OLD TECHNOLOGY

ALUMINUM WIRE IS 55 TIMES MORE LIKELY TO OVERHEAT THAN COPPER WIRE. WE HAVE BEEN TIED UP IN LENGTHY LITIGATION QUESTIONING OUR JURISDICTION OVER ALUMINUM WIRE, BUT WE ARE CONTINUING OUR EFFORT TO HAVE THIS WIRING DECLARED AN IMMINENT HAZARD AND TO REQUIRE MANUFACTURERS TO REPAIR IT.

UPHOLSTERED FURNITURE

AS YOU KNOW, THE COMMISSION BELIEVES THAT UNDER SOME CIRCUMSTANCES, VOLUNTARY STANDARDS CAN BE AS USEFUL IN PROTECTING THE CONSUMER AS MANDATORY STANDARDS. RECENTLY, THE COMMISSION AGREED TO DEFER A MANDATORY STANDARD FOR UPHOLSTERED FURNITURE FLAMMABILITY FOR ONE YEAR -- IN ORDER TO GIVE THE INDUSTRY TIME TO IMPLEMENT A VOLUNTARY ACTION PLAN. WE BELIEVE THAT THE TECHNICAL COMPONENTS OF THE PLAN ARE AN ADEQUATE FIRST STEP TOWARD REDUCING FURNITURE FLAMMABILITY, ALTHOUGH WE WILL BE WORKING WITH THE INDUSTRY ON FINDING SOLUTIONS TO SOME SERIOUS REMAINING PROBLEMS. WE WILL ALSO BE CAREFULLY MONITORING THE MARKETPLACE TO ENSURE THAT THE SAFER FURNITURE IS ACTUALLY AVAILABLE TO CONSUMERS.

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CHAIN SAWS

THE COMMISSION AND INDUSTRY ALSO COOPERATED IN AN EFFORT TO DEVELOP A VOLUNTARY STANDARD FOR CHAIN SAWS, WHICH ARE INVOLVED IN ALMOST 50,000 INJURIES ANNUALLY. THE COMMISSION STAFF IS NOW EVALUATING THE MATERIALS SUBMITTED BY THE INDUSTRY IN LATE DECEMBER. WE DO NOT YET KNOW WHETHER THE INDUSTRY SUBMISSION IS ADEQUATE -- BUT IF IT IS NOT, WE ASSURE YOU THAT THE COMMISSION WILL TAKE PROMPT ACTION TO PROTECT CONSUMERS WHO USE THIS HAZARDOUS AND INCREASINGLY POPULAR PRODUCT.

SECTION 15

IN 1979 AND 1980, THE COMMISSION CONTINUED TO STRESS ONE OF ITS MOST USEFUL POWERS. SECTION 15 OF THE CONSUMER PRODUCT SAFETY ACT NOT ONLY REQUIRES MANUFACTURERS, RETAILERS, AND DISTRIBUTORS OF CONSUMER PRODUCTS TO REPORT SUSPECTED SAFETY DEFECTS TO US, BUT IT PERMITS US TO REQUIRE CORRECTIVE ACTION. ACTIONS UNDER SECTION 15 CONTINUE TO BE ONE OF THE COMMISSION'S FASTEST, LEAST EXPENSIVE, AND MOST SELECTIVE WAYS OF REMOVING HAZARDOUS PRODUCTS FROM THE MARKETPLACE. IN FY 79, INDUSTRY REPORTS AND STAFF INVESTIGATIONS LED TO OPENING 198 DEFECT FILES INVOLVING 53.4

MILLION PRODUCTS. FOR THE FIRST TIME, WE USED SECTION 15 TO DEAL WITH A CHRONIC HAZARD, ASBESTOS-CONTAINING HAIRDRYERS; NEGOTIATING CORRECTIVE ACTION PLANS WITH ALL MAJOR MANUFACTURERS WITHIN A MATTER OF MONTHS. AND WE UNDERTOOK THE LARGEST CONSUMER PRODUCT RECALL IN OUR HISTORY -- MORE THAN 18 MILLION COFFEE POTS WITH HANDLES THAT MAY SEPARATE WITHOUT WARNING, SCALDING THE USER WITH HOT LIQUID. WE EXPECT TO MAINTAIN THIS SAME HIGH LEVEL OF ACTIVITY IN FY 80.

FIRE AND BURNS

BECAUSE THE UNITED STATES LEADS ALL WESTERN DEMOCRACIES IN DEATHS, INJURIES, AND LOSSES FROM FIRE, THE COMMISSION WILL CONTINUE ITS ACTIVITIES IN THIS AREA. BESIDES OUR WORK ON SPECIFIC PRODUCTS -- UPHOLSTERED FURNITURE AND COAL AND WOOD BURNING STOVES, FOR EXAMPLE -- WE ARE ALSO VERY CONCERNED ABOUT THE FLAMMABILITY OF PLASTICS, WHICH ARE USED INCREASINGLY FOR HOME FURNISHINGS AND OTHER HOUSEHOLD ITEMS. WE ARE BEGINNING A THREE-YEAR STUDY OF THE COMBUSTIBILITY OF SELECTED PLASTIC CONSUMER PRODUCTS, AND PLAN TO INVESTIGATE THE TOXICITY OF THEIR COMBUSTION PRODUCTS AS WELL. IT IS IMPORTANT

FOR US TO KNOW IF THESE PRODUCTS ARE UNREASONABLY LIKELY TO IGNITE, OR IF THEY BURN WITH CHARACTERISTICS THAT MAKE THEM ESPECIALLY HAZARDOUS. FIRE, I MIGHT NOTE, IS THE FOURTH MOST FREQUENT CAUSE OF FATAL ACCIDENTS IN THE UNITED STATES, AND PROPERTY LOSSES REACH $4.2 BILLION ANNUALLY.

FY 81 PROJECTS

THE PROJECTS LISTED IN OUR BUDGET REPRESENT OUR BEST JUDGMENT -- NEARLY A YEAR IN ADVANCE -- OF THE ACTIVITIES THAT WILL BE NECESSARY TO PROTECT THE PUBLIC IN FY 81. BUT, AS YOU KNOW, IT IS DIFFICULT TO PREDICT PRECISELY THE ACTION, REGULATORY OR OTHERWISE, THAT THE COMMISSION WILL ULTIMATELY DECIDE ON. AN INDUSTRY MAY COME FORWARD WITH A VOLUNTARY STANDARD ADEQUATE TO ADDRESS A RISK OF INJURY -- AND THE COMMISSION MAY BE ABLE TO SUSPEND ACTIVITY ON A MANDATORY STANDARD. OR THE REVERSE MAY OCCUR -- INDUSTRY PROGRESS ON A VOLUNTARY PROGRAM MAY BE SO UNSATISFACTORY THAT A MANDATORY STANDARD BECOMES NECESSARY. NEW, UNFORESEEN HAZARDS MAY COME TO OUR ATTENTION, AS HAIRDRYERS CONTAINING ASBESTOS DID LAST YEAR. IT IS EVEN POSSIBLE THAT AN APPARENTLY SERIOUS HAZARD MAY TURN OUT TO BE NOT VERY SIGNIFICANT AFTER ALL.

WITHIN THIS FRAMEWORK OF UNCERTAINTY, HOWEVER, WE AGREE THAT THERE ARE CERTAIN AREAS WE WILL WANT TO STRESS. SOME I'VE ALREADY DISCUSSED. CHRONIC HAZARDS, FOR EXAMPLE, WILL CONTINUE TO BE AS IMPORTANT AN ISSUE AS WE HAVE EVER FACED. THE PRESENCE OF CARCINOGENS IN SEEMINGLY INNOCUOUS HOUSEHOLD PRODUCTS IS AN INSIDIOUS THREAT TO THE HEALTH OF ALL AMERICANS; WE MUST DEAL WITH IT.

WITH THE RESOURCES WE'VE REQUESTED IN FY 81, WE WILL BE ABLE TO CONTINUE OUR SCREENING PROGRAM TO IDENTIFY CHEMICALS NEEDING FURTHER INVESTIGATION. WE WILL BE ABLE TO CONTINUE WORK IN PROGRESS ON SUBSTANCES LIKE BENZIDINE-TYPE DYES, ASBESTOS, AND FORMALDEHYDE, AND LOOK INTO THE POSSIBLE CHRONIC HAZARDS OF CARBON MONOXIDE, FOUND IN LOW CONCENTRATIONS IN MANY HOMES. IN ADDITION, WE WILL BE ABLE TO EVALUATE THE USEFULNESS OF QUICKER AND CHEAPER SHORT-TERM TESTS TO IDENTIFY CHRONIC HAZARDS. WORK BEGUN IN FY 80 ON TOXIC HEAVY METALS AND ROOM DEODORIZERS WILL ALSO CONTINUE. AND WE WILL UNDERTAKE TWO NEW INITIATIVES: DEVELOPMENT OF CLASSROOM MATERIALS EXPLAINING THE SAFE USE OF LABORATORY CHEMICALS FOUND IN EVERY HIGH SCHOOL;

AND IDENTIFICATION OF POPULATION GROUPS THAT MAY BE MORE SENSITIVE THAN THE GENERAL POPULATION TO CHRONIC HAZARDS.

WE ALSO PLAN CONTINUED EMPHASIS ON OUR SECTION 15 ACTIVITIES IN FY 81. WE HAVE ALREADY BEGUN TO SCREEN CONSUMER COMPLAINTS, NEWS CLIPPINGS, AND OTHER SOURCES OF INFORMATION MORE SYSTEMATICALLY FOR POTENTIAL SUBSTANTIAL PRODUCT HAZARDS. THE INCREASED RESOURCES REQUESTED FOR SECTION 15 ACTIVITIES WILL ENSURE OUR ABILITY TO REMOVE HAZARDOUS PRODUCTS FROM THE MARKETPLACE QUICKLY AND EFFICIENTLY.

CONSERVATION OF SCARCE AND EXPENSIVE ENERGY SUPPLIES IS AN URGENT NATIONAL NEED, BUT SOME ENERGY CONSERVATION MEASURES MAY HAVE HAZARDOUS SIDE EFFECTS. SOME INSULATION MATERIALS ARE FLAMMABLE, OR EMIT DANGEROUS GASES. MORE TIGHTLY SEALED RESIDENTIAL BUILDINGS MAY PERMIT TOXIC GASES TO BUILD UP IN HOME ENVIRONMENTS. IMPROPERLY DESIGNED OR INSTALLED ENERGY CONSERVATION DEVICES MAY POSE FIRE HAZARDS. ALTHOUGH THE COMMISSION HAS ALREADY DONE SOME WORK IN THIS AREA, WE ANTICIPATE A NEED FOR MORE, TO ENSURE THAT CONSUMERS

CAN SAVE ENERGY SAFELY. IN FY 81, WE INTEND TO MONITOR CAREFULLY INJURY DATA ON ENERGY CONSERVATION DEVICES; TO WORK CLOSELY WITH VOLUNTARY STANDARDS GROUPS; AND TO COORDINATE OUR ACTIVITIES WITH THE DEPARTMENT OF ENERGY.

WE HAVE LEARNED THAT COOPERATING WITH OTHER GOVERNMENT AGENCIES VASTLY INCREASES THE IMPACT OF OUR PRODUCT SAFETY ACTIVITIES. THE COMMISSION HAS BEEN IN THE FOREFRONT OF FEDERAL AGENCY COOPERATIVE EFFORTS. WE ARE A CHARTER MEMBER OF THE INTERAGENCY REGULATORY LIAISON GROUP, AND, PARTICULARLY IN THE AREA OF CHRONIC HAZARDS, HAVE BEEN WORKING EFFECTIVELY WITH MANY OTHER AGENCIES. BUT THIS COOPERATION, WE HAVE FOUND, NEED NOT BE LIMITED TO THE FEDERAL LEVEL. IT SHOULD EXTEND TO STATE AND LOCAL GOVERNMENTS AS WELL. OUR COOPERATIVE EFFORTS WITH STATES AND CITIES HAVE HAD MAJOR BENEFITS; TOGETHER, WE HAVE REDUCED DUPLICATION OF EFFORT, PERMITTED MORE EFFECTIVE USE OF TAX DOLLARS, AND PROVIDED GREATER ASSURANCES OF PRODUCT SAFETY FOR THE CONSUMER. WE ANTICIPATE MAKING AN EVEN GREATER EFFORT IN FY 81 TO INVOLVE OTHER GOVERNMENTAL UNITS IN OUR ACTIVITIES.

AS YOU KNOW, THE COMMISSION, IN SEPTEMBER 1979, SUBMITTED TO THE OFFICE OF MANAGEMENT AND BUDGET AND THE CONGRESS A REQUEST FOR $47.4 MILLION AND 909 POSITIONS, SUBSTANTIALLY MORE THAN THE REQUEST WE ARE DISCUSSING TODAY. WE REVIEWED THE OMB MARK, RECOGNIZING THE NEED TO HOLD GOVERNMENT SPENDING TO A REASONABLE LEVEL, AND WE BELIEVE THAT WE WILL BE ABLE TO PROVIDE ESSENTIAL SERVICES WITHIN THE GENERAL GUIDANCE OF THE OMB MARK. BUT IT SHOULD BE CLEAR THAT THIS LEVEL OF FUNDING IS A MINIMUM LEVEL. IT PROVIDES ONLY FOR THOSE ACTIVITIES THAT WE BELIEVE ARE ABSOLUTELY NECESSARY. THE APPEARANCE OF A NEW, SERIOUS HAZARD WILL MEAN THAT SOME OTHER PROJECT OR PROJECTS WILL BE DROPPED.

MR. CHAIRMAN, I URGE YOUR SUBCOMMITTEE'S FAVORABLE CONSIDERATION OF OUR REQUEST. I BELIEVE THAT THIS AUSTERE LEVEL OF FUNDING WILL ALLOW US TO PROVIDE ESSENTIAL PRODUCT SAFETY PROTECTION TO THE AMERICAN PUBLIC.

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