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DARE TO BE DULL

Do financial regulators really protect U.S. consumers?

Nearly two years ago, I was reading the local papers and came across a couple advertisements. One offered to lend me money at a rate just shy of 3.16 percent, while the other offered to pay me 7.12 percent for investing my money.

The old saying “what looks too good to be true probably is” immediately came to mind. And after investigating the advertisements, it turned out they were both quite deceptive.

Big shocker.

It wasn't just that the ads were bogus that was surprising, it was how a couple of regulators handled the matter when I wrote about them.



Allan
R O T H

Federal Reserve Bank

— According to its Web site, one of the Federal Reserve Bank's functions is “maintaining the stability of the financial system and containing systemic risk that may arise in financial markets.”

One would think that a mortgage advertisement using the Federal Reserve's truth in lending APR calculation in a way that was anything but the truth would be of interest to them. Apparently that assumption is wrong, because they weren't even interested enough to provide me a fax number to send it to them.

When I researched this column nearly two years ago, these bad ads were everywhere — in what the Federal Reserve might call a “systemic” fashion.

Fast forwarding to the subprime lending crisis and the plunge of the U.S. dollar, it kind of makes you wonder why the Federal Reserve felt that letting these ads continue was in the best interests of the financial system. Perhaps the answer is in the fine print — the Fed never said it was the “U.S.” financial system they were trying to protect.

Nearly two years after initially being contacted, the Federal Reserve did allow me to send them a copy of the advertisement and promptly shuffled me off to other regulators.

Colorado Division of Insurance — According to its Web site, the mission of the Division of Insurance is “consumer protection.” When I found out that the advertised 7.12 percent CD didn't actually exist, but instead was a bait and switch tactic to sell an insurance product, I thought the Division of Insurance would want to know.

Wrong again!

Not only did they not want to know, but they dismissed my concerns by telling me that I was biased against insurance products.



All of this happened just before Marcy Morrison was appointed insurance commissioner during early 2007. So I thought I'd see whether the attitude had changed.

I sent Morrison an advertisement for an insurance product that said it had “no fees.”

Does anyone believe the insurance company was offering this out of charity? Well maybe the Division of Insurance did, because they said the sale of this insurance product was under the bailiwick of the Colorado Division of Securities.

Silly me for thinking insurance fell under the Division of Insurance.

In a follow-up with the commissioner, Morrison said that no action was taken on the advertisements I sent because I hadn't included the date of either advertisement. I later found out that the division had the time to develop a 93-page file about me, but not enough time to contact me about the missing date.

The commissioner directed me to the consumer education information section of the division's Web site. I found a link entitled “What Consumers Should Know About Annuities.”

Even I was surprised that it didn't mention the need for the consumer to understand the total annual cost of the products. When I asked why it didn't address total costs, or whether she felt the consumer

had a right to know this without doing calculations from disclosure documents hundreds of pages long, Morrison didn't comment.

The commissioner did say there was a high satisfaction rating from consumers who went through the complaint process. She also said that the division regulates more than 100,000 insurance producers and more than 150,000 companies, and she reiterated that the mission was “consumer protection.”

All regulators are not the same

While I'm scratching my head about how the actions of the Federal Reserve and the Colorado Division of Insurance are doing anything other than protecting the producers who are selling this stuff, it's important to note that not all regulators are like this.

For example, while the Colorado Division of Securities has only a quarter of the staff of its insurance counterpart, they seem to have a very different attitude.

Maybe I'm just grateful that they seem to welcome information about deceptive tactics. They even wanted information about the insurance sales tactics that the Division of Insurance didn't want.

Judging by what I read in the paper, I get the feeling that Securities Commissioner Fred Joseph takes these matters seriously and his staff actively pursues deceptive marketing tactics.

So what does this all mean?

Nobody cares more about your money than you do. You can't count on any regulator, not even a good one, to protect you from people trying to separate you from your money.

Apply common sense and ask yourself how the company and the person selling you a financial product will profit from it. Ask them to write down the total costs of the product you are buying.

If they won't, and refer you to a thick disclosure document, you can bet heavily on two things:

- It's not so good for you.
- Once you're in, the regulator isn't going to bail you out.

The next time you run across something that looks too good to be true, keep in mind that it usually is.

Allan Roth is a CPA and Certified Financial Planner. He is the founder of Wealth Logic LLC, an hourly based financial planning and licensed investment advisory firm, and is an adjunct finance faculty member at the University of Colorado at Colorado Springs. He can be reached at 955-1001 or at ar@DareToBeDull.com.