Academic Research Council Meeting

November 20, 2020

Consumer Financial Protection Bureau

Meeting of the CFPB Advisory Committees

The Consumer Financial Protection Bureau's (CFPB) Academic Research Council (ARC) met via WebEx at 1:30 p.m. Eastern on November 20, 2020.

ARC members present	CFPB staff present
Chair Joshua Wright	Former Director Kathleen L. Kraninger
Michael Baye	Claire Brennecke
Vicki Bogan	Jason Brown
Terri Friedline	Brian Bucks
Tom Miller	Jason Dietrich
Michael Staten	Alan Ellison
Anthony Yezer	Young Jo
	Jonah Kaplan
	Nicholas Li
	Manny Mañón
	Judith Ricks
	Heath Witzen

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Welcome

Kathleen L. Kraninger, Former Director

Manny Mañón, Acting Staff Director, Section for Advisory Board and Councils, Office of Stakeholder Management

Joshua Wright, Chair, Academic Research Council

CFPB Section for Advisory Board and Councils Acting Staff Director Manny Mañón convened the ARC meeting and welcomed committee members and members of the listening public. He provided a brief overview of the meeting's agenda and introduced CFPB Director, Kathleen Kraninger. Director Kraninger provided remarks on the Bureau's research work and priorities. Following Director Kraninger's remarks, ARC Chair Joshua Wright welcomed attendees and explained the advisory committees' mission and expressed his appreciation for being able to serve as Chair of the ARC.

Implementing Dodd-Frank Act Section 1071

Claire Brennecke, Economist, Office of Research

Alan Ellison, Small Business Program Manager, Office of Markets

Heath Witzen, Economist, Office of Research

Staff from the Office of Research and Office of Markets provided an overview of the Bureau's research on small business lending and Section 1071 of the Dodd Frank Act. Staff provided a general overview of the small business market and provided details on Section 1071. Section 1071 amended the Equal Credit Opportunity Act (ECOA) to require financial institutions to compile, report, and maintain data regarding applications for credit for women-owned, minority-owned, and small businesses. Its statutory purposes are to: "[F]acilitate enforcement of fair lending laws" and "[E]nable communities, governmental entities, and creditors to identify business and community development needs and opportunities of women-owned, minority-owned, and small businesses." This would constitute the first systematic collection of small business lending application data. Staff described that the statutory data points that would be required for collection. Staff explained the Bureau's current status in the rulemaking and shared next steps which include completing the SBREFA panel report, notice of proposed rulemaking (NPRM) and issuance of the final rule.

Additionally, staff described the Bureau's research efforts in this space and potential considerations. This includes researching the interrelationship on the use of personal credit for business purposes, prevalent among small businesses. The Bureau could use several existing CFPB data assets to address the question including the Consumer Credit Panel (CCP) and the Credit Card Database.

ARC members provided feedback following the presentation. A member discussed the process of linking a consumer to a small business application. A member noted the need of collecting rich data, to control for the heterogeneities on the demand side such as characteristics of the borrower and the supply side as well (i.e., merchant cash advances, small business loans, etc.). The member added that these different degrees of risk to the suppliers and you need to make sure you are appropriately controlling for that. A member said that many of the innovative products are targeted towards underserved consumers and small businesses; and said to control for this selection.

A member asked how the Bureau is thinking about heterogeneity with respect to small businesses. The member said that many small businesses are non-employer firms and added that firm size is a key metric in understanding issues with small businesses. A member asked if there are there possibilities for omitting businesses who have not been able to be sustained through the pandemic and over time that might fall out of this data. The member also asked how the Bureau is capturing the effect on these types of businesses? A member asked if there is an effort to delineate family-owned businesses and asked how the Bureau captures this data. A member flagged that people who are denied for a small business loan will appear in the sample multiple times (assuming they apply elsewhere); however, someone that is approved will only appear once. The member asked how to account for this selection bias.

A member asked if there is any data on business failure rates which might give some idea about loan performance. A member said that differences in state regulation will make a difference in credit availability. Another member said that state-level regulations differ with respect to credit conditions and startup likelihood. The member said it would be good to tie that to actual CCP data on credit receipt and performance (matching data on small business activity by state). A member said that opening the field up to entry and exit would be valuable down the road.

Research on the Accuracy of Credit Reporting

Judith Ricks, Economist, Office of Research
Nicholas Li, Economist, Office of Research
Jonah Kaplan, Financial Analyst Office of Markets

Staff from the Office of Research and the Office of Markets presented on accuracy in credit reporting. Staff discussed the importance of credit access and described the potential effects of inaccurate credit reporting, including an impact on credit scores and access. Staff explained a 2012 FTC study, which assessed accuracy in credit reporting and the dispute process. The study found that: 26% of participants disputed an error in at least one NCRA file; 5% had substantial errors that decreased their credit tier; and 70% believed that their data remained inaccurate even after dispute. Since this study was conducted, there has been an increased regulatory focus on accuracy. There has also been substantial growth in consumer awareness of credit reporting and scoring issues. Staff discussed considerations for new analysis such as use of the CCP and a refresh of the 2012 FTC study. Other considerations include conducting a consumer survey on experiences related to credit reporting and accuracy; testing of the dispute process undergone by NCRAs; and using randomly sample furnished credit report tradeline datasets to assess their accuracy and correctness against the credit account data from which they were sourced and derived.

ARC members provided feedback following the presentation. An ARC member was involved with the development and implementation of the 2012 FTC study. The member shared the following considerations:

- Consider the changes in the last 10-12 years
- Designing a study necessarily means making choices about the study's scope and objectives. Study architects need to weigh and carefully consider the trade-offs.
- FTC study architects made the choice to exclude problems with missing trade lines, errors in on-time ("positive") data; NCRAs not reporting certain fields. FTC study did not explicitly address potential problems with data lag, i.e., that the credit report tradeline information did not accuracy reflect the most recent account data with the lender.

- Incomplete files due to errors of omission
- Information that shouldn't have been in the report to being with
- In the FTC study design, the designers felt that consumers were in a good position to assess the accuracy of their own data. But it still required a lot of hand holding. Each consumer had a coach that would talk them through their credit report files.
- Sometimes consumers wouldn't be forthcoming – had to be walked through the process
- Did the score move? Followed up to see
- Tighter oversight from the Bureau has helped with consumer reporting data accuracy.
- Thinking first about what do we want from credit report accuracy? -Just errors of commission? If so, it probably will only show improvements reflecting positive market developments. But what about errors of omission? Suggests broadening scope to think about missing data. If so, this could also create an opportunity to include in the study's scope the omission of "alternative," credit-like data such as rent and phone bill data, in addition to other kinds of data omissions, such as credit data that never reach NCRAs for whatever reason(s).

A member asked if the percentages in the report disproportionately affected lower income consumers. A member said to take into consideration the changes in algorithm over the years and how this could influence the accuracy of the report. A member asked about what errors are being reported and what is being done about these errors. A member said that there is a need to look at the credit repair industry: how do they operate to repair credit and identify the problem. A member recommended looking at ways to make it easy to fix one's credit report. A member recommended investigating the sources of the inaccuracies, which perhaps means focusing on furnishers because they are the source of the data. The member said that a focus on consumers places the onus on them to repair inaccuracies that they are not responsible for and to focus research on the root of the concern. Another member stated that scoring has ticked up since March 2020 due to COVID related economic issues. This could be a concern in the future.

Research on the Use of Alternative Credit Data

Brian Bucks, Supervisory Economist, Office of Research

Jason Dietrich, Supervisory Economist, Office of Research

Young Jo, Economist, Office of Research

Staff from the Office of Research presented on alternative data and modeling techniques. Staff described alternative data as non-traditional data that is used to asses credit risk. Examples of alternative data include payment data for non-loan products with regular payments, cash-flow (bank) data, indicators of "stability" (i.e. changes in residences, employment, etc.), data about educational or occupational attainment. Alternative data can include behavioral data, such as how consumers interact with a web interface or answer specific questions, or data about how they shop, browse, use devices, or move about their daily lives.

Staff discussed potential benefits of alternative data including the expansion of credit access especially for "unscorable" consumers. The Bureau has published several data points on "credit invisibility" which found that 45 million consumers are invisible or unscorable due to no-, thin-, or stale-credit files at largest credit reporting repositories. Consumers in low income areas more likely to establish credit history via negative records such as debt in collection. Another potential benefit includes a more precise reflection of true underlying credit risk in loan pricing. Additionally, some consumers can feel as if they have greater control over data they agree to share. Staff also described potential drawbacks, some of which include: transparency for consumers, explainability and adverse action notices, privacy concerns, uncertain long-term effects, potential bias and/or discrimination, and data integrity risks.

Staff described the Bureau's work to date in this space. This has included several research papers and hosting a Building a Bridge to Credit Visibility symposium. Lastly, staff noted that the Bureau is in the process of procuring alternative data and plan to match the data to credit bureau data for research purposes.

ARC members provided feedback following the presentation. A member recommended that, while considering datasets, the Bureau keep in mind differential consequences on different groups by race, gender, and class – who might stand to lose if a datapoint is a poor one. Their input might not be represented in our discussions and decisions may be consequential, especially in a crisis. A member asked if social media activity be included in alternative scoring? Another member said to exercise caution regarding social media because social media doesn't fit the criteria that we have become accustomed to in the ecosystem; such that multiple lenders/creditors can have access to that data in consistent ways. The member added that it is easy to manipulate social media information. A member said that traditional data can be inaccurate and said that alternative datasets may be prone to errors, especially if the standards used are weaker than traditional data. Another member said that industry is looking for guidance on issues such as payment history. The member added that there are scenarios with social media variables that are predictive of default and could lead to increases in access to credit. Another member added that social media is easy to cheat; a way to potentially collapse credit markets.

A member said that the best data for predicting future payment behavior is payment history and another criterion is if it fits into the credit reporting ecosystem under FCRA. That data is going to have to verifiable and subject to consumer review and ECOA. Those are strict standards to have to adhere to and I can't see social media fulfilling those requirements. Another member said that there is a lot of data that isn't just credit data. There are payment records that encompass a large part of the population, i.e. utility and cell phones. Capturing that would allow for more scoring without asking people to take on more risks. A member said that individuals have an incentive to manipulate information used to price credit. Therefore, the member said you have to be careful about what goes into credit scoring algorithm and make sure it can't be manipulated. A member said that strategic manipulating of data should not raise concern because many are barely making it through, and it would apply to a very small percentage. A member countered that there is vast literature on fraud in credit markets and that is important to be careful using data for credit scoring. Another member said that payment data is not easily manipulated. The member said it is not used on regular basis by credit scoring bureaus and that it is difficult to get entities to enter into those agreement given expenses and risks. The member said that the Bureau or another regulatory agency could encourage or regulate this. Another member agreed that payment data is not easily manipulated and said using it could contribute to making those with thinner credit files having larger credit files. A member expressed concern about disparate impact from data, for example, on criminal history.

Adjournment

Staff Director Manny Mañón adjourned the meeting of the CFPB advisory committees on November 20, 2020 at approximately 4:15 p.m. Eastern.

Certification

I hereby certify that, to the best of my knowledge, the foregoing minutes are accurate and complete.

Manny Mañón
Staff Director, Advisory Board and Councils Section
Consumer Financial Protection Bureau

Jason Brown
Assistant Director, Office of Research
Consumer Financial Protection Bureau

Joshua Wright
Chair, Academic Research Council