Academic Research Council Meeting

September 24, 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 p.m. Eastern on September 24, 2020.

ARC members present	CFPB staff present
Michael R. Baye, Chair	**Director Kathleen L. Kraninger**
Joshua Wright, Vice Chair	Howard Beales
Karen Dynan	Jason Brown
Terri Friedline	Thomas Durkin
John Lynch Jr.	Manny Mañón
Brigitte Madrian	William MacLeod
Tom Miller	Jean Noonan
	Judith Ricks
	Paul Rothstein
	Ryan Sandler
	Susan Singer
	Todd Zywicki

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Welcome

Kathleen L. Kraninger, Director

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

Mike Baye, Chair, Academic Research Council, Chair

CFPB Section for Advisory Board and Councils Acting Staff Director Manny Mañón convened the ARC meeting and welcomed committee members, Taskforce 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 as well as the Bureau's Taskforce on Federal Consumer Financial Law. The Taskforce has been instructed to develop and deliver a report to the Director with a set of recommendations to improve the financial consumer protection system. Depending on the Taskforce recommendations, the Bureau may make referrals to Congress for legislative action, write new or amend existing regulations, and/or develop new systems of coordination among federal regulators.

The Early Effects of the COVID-19 Pandemic on Consumer Credit

Director Kathleen L. Kraninger

Jason Brown, Assistant Director, Office of Research

Judith Ricks, Economist, Office of Research

Ryan Sandler, Economist, Office of Research

This session began with a presentation from the Office of Research on the Bureau's findings in the *Special Issue Brief: The Early Effects of the COVID-19 Pandemic on Consumer Credit*. Published in August 2020, the report examines trends in consumer credit outcomes from pre-pandemic (March 2020) through end of June 2020. The trends cover delinquency rates, payment assistance, credit access, and account balance measures with a focus on the period since the start of the COVID-19 pandemic. The Bureau was motivated to conduct this study in consideration of the Great Recession's impact on credit and the current pandemic's negative effect on employment and spending. The data found that limited negative outcomes reflected on consumers' credit reports. The analysis shows that during the covered period, delinquencies declined on auto loan, mortgage, student loan, and credit card accounts, while the number of accounts with zero payment due increased. There were high rates of payment assistance, little change in credit limits, and balances were down. Staff noted that credit reporting data is only as good as furnishing. Following the presentation, staff raised questions and conducted the Q&A portion of the session.

Committee members provided feedback following the presentation. Many members commended the Bureau for the report, and described it as interesting with great findings. Members discussed supply, demand, and correlations. A member said that disentangling the effects [on supply and demand] of the CARES Act would be helpful. The member encouraged the Bureau to research labor economics--microdata that could complement the Bureau's data. Regarding the demand side, a member pondered if the trends are a function of self-control on the part of the consumer in a tough situation or is this a situation that the pandemic has changed. The member encouraged staff to use high-level data. A member suggested researching credit applications because those might be good indicators of distinctions between demand and supply.

A member appreciated the breakdown of findings by racial and ethnic groups. The member said that Black and Brown communities are affected by the crisis in more ways. The member said that data analysis considering multiple compounding identities would be useful.

A member asked if there will be follow-up analysis if there is a rise in correlation patterns with COVID cases [and behavior] and suggested that the Bureau think about indicators on an ongoing basis. Another member suggested the idea of comparing data and findings from the Great Recession to the current recession. Another member said that there was a different response from the government this time compared to the Great Recession which may have led to changes in behavior. The member said the Bureau should consider a balanced panel to look at different types of consumers during each recession. The member also said that having helpful resources in a crisis is important; for instance, helping consumers, helps cash flow with businesses.

There was a discussion on other scenarios when the supply side has shut down, mainly during natural disasters such hurricanes, and members recommended that the Bureau consider looking into that data. A member said to consider the impact of a crisis on credit scores and to compare the global pandemic to more localized natural disasters which consumers may know is coming. A member discussed his research on how FEMA aid is distributed during natural disasters and expressed interest in how aid has been disseminated during the pandemic.

Cost Benefit Analysis Discussion

Director Kathleen L. Kraninger
Jason Brown, Assistant Director, Office of Research
Susan Singer, Deputy Assistant Director, Office of Research
Paul Rothstein, Section Chief for Financial Institutions and Regulatory Policy, Office of Research

Staff from the Office of Research led a discussion on cost-benefit analysis. Staff explained that when carrying out rulemaking, Section 1022(b) of the Dodd-Frank Act requires the Bureau to consider: the potential benefits and costs to consumers and covered persons; the potential reduction of access for consumers to financial products or services; the impact on consumers in rural areas; and the impact on insured depository institutions or credit unions with total assets of $10 billion or less.

Section 1022(d) of the Dodd-Frank Act requires the CFPB to conduct an assessment of each significant rule or order adopted by the Bureau under Federal consumer financial law and to publish a report of the assessment no later than five years after the effective date of such rule or order. The assessment must address, among other relevant factors, the rule or order's effectiveness in meeting the purposes and objectives of title X of the Dodd-Frank Act and the specific goals stated by the Bureau. The assessment must reflect available evidence and any data that the Bureau reasonably may collect. Before publishing a report of its assessment, the Bureau must invite public comment on recommendations for modifying, expanding, or eliminating the rule or order. Staff described the Bureau's practices since 2012 for meeting these requirements, including staffing teams with economists, market experts, and attorneys and integrating the consideration of benefits, costs and impacts into the rulemaking process. Staff also described the ways other federal regulatory agencies carry out cost-benefit analysis of financial regulation.

Lastly, staff noted that there is debate over whether financial regulations present unique challenges to rigorous and quantified cost-benefit analysis. Following the presentation, staff raised questions and conducted the Q&A portion of the session.

Members discussed privacy policies. A member mentioned a paper that illustrates how small businesses are adversely impacted by privacy policies relative to larger firms. He also said that privacy policies can impede entry for consumers seeking access to credit. Regarding disclosure policies, the member said that regulation might limit innovation if firms aren't able to implement requirements based on their applications. A member mentioned several papers that compare policy policies in the US to those in European countries and the findings were nontrivial.

Members discussed consideration of unintended consequences. A member said the Bureau should consider qualitative analysis to assess potential unintended consequences because data is likely not available to determine this. Another member encouraged the Bureau to be aware of silos among economists that focus on similar work. A member asked if only the Bureau's regulations are subject to cost-benefit analysis or if other work, such as financial education, is subject to it as well. The member later explained that costs and benefits of financial education should be measured if the behavior is also measured. Another member said that retrospective analysis is much easier than prospective analysis and encouraged dialogue between CFPB staff and the anti-trust staff at the Department of Justice and the Federal Trade Commission. The member said that retrospectively, you have a better ability to see the unintended consequences of the policy and can make recommendations in a way that provides value for consumer protection while avoiding those unintended consequences.

Several members discussed decision making and consumer understanding. A member asked about the data the Bureau has on consumers' demand for credit and their perceived risks of delinquency. The member said the Bureau can consider costs and benefits based on the assumption that people are forward looking in anticipation of how this is going to affect their likelihood of delinquency. A member discussed variation in state laws regarding interest rates, fees, and disclosures and said that data on this can help with understanding how heterogeneity impacts supply decisions. A member said that data on underwriting decisions are difficult to access; therefore, it is difficult to access the probability of default. Members said that consumers may not understand the risks involved with lending and encouraged the Bureau to help consumers understand their likelihood of default.

Members discussed the outcomes of cost benefit analysis. A member said the Bureau should consider where, on income distribution scales, the harm is falling. Another member said to consider the price on humanity and dignity and the threshold at which a policy allows consumers to live the financial lives they desire.

Listening Session with Members of the Bureau's Taskforce on Federal Consumer Financial Law

Director Kathleen Director Kathleen L. Kraninger
Jason Brown, Assistant Director, Office of Research
Todd Zywicki, Taskforce Chair, Office of the Director
Howard Beales, Taskforce Member, Office of the Director
Thomas Durkin, Taskforce Member, Office of the Director
Jean Noonan, Taskforce Member, Office of the Director
William MacLeod, Taskforce Member, Office of the Director

The listening session began with a welcome from Taskforce Chair Todd Zywicki. He thanked participants for joining and introduced fellow Taskforce members. He also provided a brief description of what the Taskforce has been doing since its inception in January 2020. The Taskforce is partially inspired by the National Commission on Consumer Finance from the late 1960s, which was created to conduct original research and provide Congress with recommendations relating to the regulation of consumer credit. Similarly, the Bureau's Taskforce has been examining the existing legal and regulatory environment facing consumers of financial service providers and will publish a two-volume report of findings and recommendations.

The first volume of the Task Force report will cover five overriding topics regarding financial products and services. Those themes are: 1. a review of the legal framework of consumer protection; 2. consumer information and education; 3. how to harness competition and innovation of financial services for the benefit of consumers; 4. how to maintain and expand inclusion and access to financial products and services; and 5. a study of the regulatory framework and how to modernize and provide flexibility in an evolving world. The second volume will include recommendations on ways to improve and strengthen the application of financial laws and regulations. Zywicki explained the format of the meeting noting that each Taskforce member would present one of the five key focus areas of the report and open the conversation for feedback from members.

Zywicki expanded on the five different themes that will be addressed in the report. He explained the portion on legal framework of consumer protection. He noted that consumer financial protection is promoted by a framework of laws, regulations, decisions, directives, regulatory policies, guidelines, recommendations and procedures made by numerous state and federal regulatory organizations. Next, Zywicki discussed the theme of consumer information and education and said that financial mobility and empowerment are enhanced by increases in formal education, financial education, and consumer choice; particularly, for vulnerable populations. Zywicki discussed the theme of competition and innovation. He said that in competitive marketplaces there are typically abundant producers competing to provide consumers with the goods and services needed, and no single producer or consumer can dictate the market. Technology has led to rapid changes throughout the economy, and financial technology has led to the development of new financial services and nontraditional financial service providers. Zywicki also discussed the theme of inclusion and access, noting that access to credit is a driver for wealth creation. Lastly, he discussed the theme of regulatory modernization and flexibility. He said that the development of the national economy of consumer finance led to the growth of consumer protections in the 1960s-70s; however, today consumers shop for and use financial products differently than at that time. Zywicki raised several questions related to these themes and solicited member feedback.

Members provided feedback on the legal framework theme. A member discussed two past efforts that focused on legislation for and research of the small dollar lending markets, which included the Uniform Small Loan Law of 1916 and the 1972 National Commission on Consumer Finance. The member said that the Uniform Small Loan Law resulted in the traditional installment loan industry, which provided access to safe consumer credit. The member also noted that the 1972 Commission stated that every citizen should be entitled to participate in some part of the consumer credit system and at the time the system was small dollar installment loans and bank loans. The member said it is time to update this 50-year-old national commission study and re-estimate the cost of doing business in the small dollar space so we can get information on reasonable, break even rates to charge. Another member described practices at the FTC and explained that the FTC has a team of economists, consumer protection lawyers, and competition lawyers that communicate the research, cost and benefits, and legal framework of policies. The member described this as an effective approach and said that the legal framework has to do with institutional design and another member later reiterated this point. A member said that a legal framework that centers race, gender, and class into consumer protection would be a way to address inclusion and access.

Members provided feedback on the consumer information and education theme. A member said that he wasn't aware of any evidence connecting financial education to financial mobility. The member acknowledged that there is literature on the impact of financial education on financial behavior; however, those are small effects and are smaller for low-income groups. The member said they were not aware of any evidence showing that financial education affects financial mobility. The member said that some research found that there are effects with "just in time" financial education, teachable moments. A member also said that there is little data on the costs associated with financial education. Another member discussed potential opportunity due to the current pandemic around innovation in remote education.

Members provided feedback on the themes of competition and innovation and inclusion and access. A member stated that access to credit is important for freedom to obtain financial mobility. Another member encouraged the Taskforce to think about developing infrastructure for competition and to think broadly about the competition dimensions of items that are considered consumer protection problems. A member said that competition could also result in lower cost small dollar loans but noted that potential revenue for these loans are constrained because of interest rate caps. The member said that banning small dollar products reduces financial well-being and encouraged the Taskforce to study this issue. Another member discussed research that studied a relationship between small dollar loans with high interest rates and health indicators, such as cardiovascular disease. A member said that fintech has allowed members to get loans online which presents underwriting challenges to lenders and regulators. A member suggested considering the social identities that are disproportionately excluded by the financial system when focusing on promotion of inclusion and access.

Members provided feedback on the regulatory modernization and flexibility theme. A member said that the pandemic highlights the need for the federal government to be able to quickly adjust and respond to unexpected situations. The member encouraged the sharing of data outside of agencies. A member recommended that the Taskforce not put the five topics (mentioned earlier) into functional silos in the papers given the interrelations between them. The member described a scenario with disclosures for conventional or small loans and illustrated how the different themes in the report could address the example disclosure.

Adjournment

Acting Staff Director Manny Mañón adjourned the meeting of the CFPB advisory committees on September 24, 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.

Matt Cameron
Assistant Director, Office of Stakeholder Management
Consumer Financial Protection Bureau

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

Mike Baye
Chair, Academic Research Council