

Academic Research Council Meeting

November 5, 2021

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 November 5, 2021.

ARC members present	CFPB staff present
Chair Vicki Bogan	Deputy Director Zixta Martinez
Mathieu Despard	Claire Brennecke
Michael Staten	Jason Brown
Anthony Yeazer	Octavian Carare
	Eric Durbin
	Manny Mañón
	Heath Witzen

November 5, 2021

Welcome

Deputy Director, Zixta Martinez

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

Vicki Bogan, Chair, Academic Research Council

CFPB Section for Advisory Board and Councils Staff Director Manny Mañón convened the Academic Research Council (ARC) meeting and welcomed committee members and members of the listening public. He provided a brief overview of the meeting's agenda and introduced Deputy Director Zixta Martinez. Deputy Director Martinez provided remarks on the Bureau's priority related to Small Business Lending Research and Incorporating Racial and Economic Equity Analysis. ARC Chair Vicki Bogan welcomed attendees and explained the advisory committee's mission and expressed her appreciation for being able to serve as Chair of the ARC.

Small Business Lending Research Session

Heath Witzen, Economist, Office of Research

Claire Brennecke, Economist, Office of Research

During this first session, the Office of Research facilitated a conversation on its research work and findings regarding Small Business Lending. Following the presentation, feedback from a research perspective was requested of the Council members.

Multiple members thanked the CFPB staff for the presentation and started the discussion around credit reporting and credit card usage by small businesses. A member said that in the report there was little difference in furnishing patterns for credit information. The member wasn't sure if the CFPB has this information but would be interested in knowing if the CFPB can identify any kinds of bias in furnishing patterns by type of small business owners, i.e., racial or gender differentials. A member mentioned data on credit reporting distinction between sole proprietorship and limited corporations and if the CFPB could speak to this distinction. A member inquired if the CFPB may be learning from the exploration of small business credit in general and (1) how much the CFPB is missing beyond the areas of credit card home equity lines of credit, and (2) why has there not been more a comprehensive reporting network that has

evolved outside of these two categories. A member followed up on the actual analysis of the business credit cards and wanted to see if the CFPB took a deep dive into whether there are any signs of binding liquidity constraints with regard to credit card utilization and whether those constraints were possibly tied to local lockdown conditions. A member highlighted a working paper from July 2021 by Enrico Moretti and Rebecca Diamond and explained they have a very novel use of credit card data to analyze household consumption patterns. The member said that there might be some information in that paper that the CFPB might find useful. Another member distinguished between business and individual credit card usage and reward options and inquired if reward usage for small business credit cards has been researched.

Several members highlighted various areas of pandemic-related concerns regarding small business lending. A member said that with small business lending and credit cards, home equity is another vehicle that small business owners use to finance their businesses. The member asked if the CFPB had data on forbearance take-up rates for small business owners, how the take-up rates were influenced by the pandemic, and how the rates affected small business owner access to credit. A member was very interested in the path that the CFPB is taking in order to relate the severity of the pandemic to various measures of credit card usage. The member wanted to know what the CFPB was thinking as to the behavioral driver in this area. The member said that consumers didn't spend nearly as much as seen on credit card balances. The member asked if there is a small business analog to the consumer spending pattern and if the pattern is tied to the pandemic's severity.

A member shared two thoughts on small business owners and the mortgage market: (1) Think about what's happened to home equity over the last few years and interest rates. It would be smart of small business owners to consider switching their financing through the mortgage market. The member questioned if consumer credit is being paid down by households, noting there has been a boom in cash-out refinancing, and the member wondered if that is not going on also. Further, the member noted (2) in addition to rapid appreciation of real estate, there was geographic variation in government policy towards containment measures and severity of the pandemic.

A member asked CFPB staff about the Consumer Credit Card Market report to Congress. The member noted that CFPB's analyses in these reports are backward-looking, in that they compare recent years to years further in the past. The member suggested that it would also be useful to

develop a model to generate predictions about future behavior in the market and compare those predictions to what actually occurs.

A member asked CFPB staff about the new application information, and if there is information on denials for those small business that get declined.

Incorporating Racial and Economic Equity Analysis Session

Erik Durbin, Section Chief, Consumer and Household Research and Policy, Office of Research

Octavian Carare, Section Chief, Financial Institutions and Regulatory Policy, Office of Research

Throughout this last session of the day, the CFPB shared analysis regarding incorporating racial and economic equity. Following the presentation, feedback from a research perspective was requested of the Council members.

Several members discussed data collection from a research viewpoint. A member asked CFPB staff if there is a source of information where it is possible to see the data sets that are currently being developed. A member said the CFPB should consider the rules and provide some guidance as to what kind of data they collect to ensure that the right calls are being made with respect to data collection. A member said before getting into data and methods, the CFPB should consult with scholars of color who focus on research in the area of racial and economic equity. The member said that we need to understand the different ways in which racial and economic equity is conceptualized, operationalized, and analyzed with respect to credit data. A member asked CFPB staff what would be a data set that might be useful for your analysis. The member added that oversampling for minority populations might be helpful.

Several members discussed incorporating racial and economic equity in rulemaking. A member said that they have been thinking about these issues over the last 10 years, especially as attention has increasingly focused on gaps and economic opportunities. The member said that these are first principles. A member said that if you do go down that path, then you start focusing on rules and rulemaking from the standpoint of addressing disparate treatment. A member suggested the CFPB consider looking at ways in which racial equity driven analysis could produce insights that inform policy and regulatory issues (i.e., compliance assistance, no

action letters, etc.). A member added that perhaps the CFPB could look at ways in which artificial intelligence might not just streamline underwriting, but perhaps remove some bias.

A few members discussed equal opportunity and economic equity. A member asked CFPB staff if this is being viewed through the lens of equal opportunity or the lens of equal outcomes. A member stated that racial and economic equity is a meta-construct and there is a lot packed into it. A member suggested that the CFPB rethink the practice of distributing different disclosure forms to people based on their race. A member highlighted credit scoring, and how credit scoring schemes were different for different ethnic groups. The member said that this would be problematic and hard to explain to people, so the CFPB should think about what is being done before going down that path.

A member said that lenders are constantly trying to assess borrower characteristics and how those are fundamental to whether somebody will repay a loan. The member added that they are all familiar with using residence as a proxy which led to redlining, a practice that ends up having an enormous impact which almost everybody considers unfair. The member said it is fairly clear that using a proxy that's not entirely accurate for an individual doesn't make sense when there are better proxies available.

Adjournment

Staff Director Manny Mañón adjourned the meeting of the CFPB Academic Research Council on November 5, 2021 at approximately 3:15 p.m. EDT.

Certification

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

Emmanuel Mañón

Emmanuel Mañón, Staff Director, Section for
Advisory Board and Councils, Office of
Stakeholder Management
Consumer Financial Protection Bureau

Jason Brown

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

Vicki Bogan

Vicki Bogan
Chair, Academic Research Council