Academic Research Council Meeting

December 1, 2023

Consumer Financial Protection Bureau

Meeting of the CFPB Advisory Committees

The Consumer Financial Protection Bureau's (CFPB) Academic Research Council (ARC) met In-person at 1 p.m. EST on December 1, 2023.

ARC members present	CFPB staff present
Chair Dean Corbae	Jason Brown
Fenaba Addo	Shaista Ahmed
Itzhak Ben-David	Octavian Carare
Ben Keys	Scott Fulford
Neale Mahoney	Ryan Sandler
Katja Seim	Susan Singer
Suzanne Shu	Eric Wilson
Abby Sussman	

Welcome

Jason Brown, Assistant Director, Office of Research

Dean Corbae, ARC Chair

The Consumer Financial Protection Bureau (CFPB) Office of Research, Assistant Director, Jason Brown, convened the Academic Research Council (ARC) meeting and welcomed committee members and members of the listening public. He said that the ARC plays an important role in buttressing the research of the CFPB, particularly in providing feedback on our research and helping us to shape our future research. He provided a brief overview of the meeting's agenda.

ARC Chair Dean Corbae provided opening remarks. He said that the ARC advises the CFPB on its strategic research planning process and research agenda. Members also provide the CFPB, particularly the Office of Research with technical advice and feedback on research methodologies, data collection strategies, and methods of analysis, including methodologies and strategies for quantifying the cost and benefits of regulatory actions.

Today is an opportunity for the ARC members and the public to hear about the CFPB's research on the Making Ends Meet survey and medical debt. I think these two presentations will complement each other very well. For example, one of the key questions in the medical debt presentations is whether the removal of adverse information may have unintended consequences. Specifically, they find medical debt removal can lead to an increase in credit scores of at least twenty-one points which allows those treated individuals greater access to credit. The question is to what extent are medical collections specifically and credit reporting in general serving as a deterrent to moral hazard, as opposed to reducing information asymmetries for creditors. Might the ensuing pooling of borrowers lead creditors to raise interest rates? Is there cross-subsidization between the untreated without the medical debt flag and the treated who had the flag removed? This relates to the first presentation on making ends meet.

That survey can complement existing credit score data since it is not clear that credit scores tell the whole story. For instance, previous findings by CFPB researchers linked the making ends meet survey with the consumer credit panel and found that asset measures are predictive for lowering financial distress for people with the same credit score. Hence, we need more than just credit scores, we need surveys like the making ends meet survey to assess household financial wellbeing.

Making Ends Meet Survey Session

Scott Fulford, Economist, Office of Research
Eric Wilson, Research Analyst, Office of Research

During this first session, the Office of Research presentation provided a brief overview of the Making Ends Meet Survey and some recent developments. General financial surveys conducted by the Office of Research are interdisciplinary. He mentioned a Consumer Financial Decision-Making conference held in Boulder, Colorado as an illustration of the CFPB's attempt to understand time preferences using surveys and credit bureau data. A key feature of the survey is they tend to return to the same consumers more than once, providing a good sample from the consumer credit panel. The survey size is between 2,000 to 3,000 respondents.

The advantages and disadvantages of the survey were discussed. The advantages included observing respondents' credit decisions over time, a better oversampling of target populations, better "nonresponse" adjustment, and observing population demographics. A disadvantage was having to be in the Consumer Credit Panel (CCP) to be sampled. A series of core questions were asked in the survey:

- Demographics such as education, family structure, renting or homeownership.
- Populations important to the Bureau such as race/ethnicity, age, low Income, low credit score, rural, military service; income, assets, and debt.
- Financial well-being and related financial stability questions.
- Difficulty paying bills or expenses.
- Household shocks such as unemployment or medical expenses.
- Financial products not on the CCP.
- Decision-making and shopping.
- Modules depending on policy needs, e.g., debt collection, medical debt.

An annual rolling panel brings new samples of consumers as well as returning to the previous year's consumers, which gives a nice balance. It allows the CFPB to consistently measure core financial stability and consumer risk, which helps to understand persistence and expectations of different kinds of problems as they evolve. Having an annual survey allows the CFPB to be responsive to emerging topics and markets. An example of this included the findings from the May 2020 and February 2021 surveys during the pandemic which went into the CFPB's big report, "Consumer finances during the pandemic".

Three examples of recent work: (1) "Making Ends Meet in 2023," a yearly state-of-the-consumer flagship report using credit bureau data to form a consumer financial synopsis; (2) Buy Now, Pay Later (BNPL) report linking credit bureau data to consumers in the BNPL market; and (3) research on what happens when people face expense shocks.

The "Making Ends Meet in 2023" report revealed income variability caused people to adapt since the pandemic. A goal from the data collection is to find out what's different across demographic groups. In 2023, approximately 38 percent of families say that they had difficulty paying bills or expenses. Student debt status is a growing concern now that the federal student loan repayment has resumed.

A finding in the BNPL report revealed that though BNPL users have lower credit scores and are more likely to have delinquencies on their credit bureau records, this was true before BNPL was widespread. Also, BNPL users are very heavy credit card users already.

The CFPB surveys have always targeted household shocks: what shocks people have, how frequent they are, and how those are related to difficulties. Recently, the CFPB has started measuring the size of shocks. The value of doing the survey is to distinguish unanticipated expenditures from planned expenditures. The evidence shows that expense shocks are a key indicator of financial well-being. One finding is that both income drops and unexpected expenses are more common for people with lower credit scores.

The following questions were presented to the ARC members to discuss:

- What is the most important research questions the CFPB should be attempting to answer using the Making Ends Meet survey?
- How can the CFPB better position the yearly report as the place to look to understand household financial stability and how it is changing?
- What household financial stability questions or concepts should the CFPB measure and report?
- How can the Making Ends Meet surveys better meet academic research needs?
- How can the CFPB best use the administrative panel component of the surveys to answer important questions?

Following the presentation, feedback from a research perspective was requested of the Council members.

ARC members and CFPB staff discussed the following perspectives:

- Tracking financial fragility of older generations living longer in retirement.
- Trends in how consumers shop for different consumer financial products.
- Information on credit report exposing previous mistakes and their removal.
- How people can plan for anticipated future financial events like future schooling or retirement.
- Asking the right questions in the survey to obtain tail shock frequency.
- Someone noted an eight percent point increase in oldest age group for financial difficulties.
- Complexities of expenses in family structure with aging parents and adult children.

- Potential risk people place themselves in when they cannot meet expenses.
- How tech can reduce some of the costs associated with financial education.
- How credit history data evolves over time and responds to shocks in credit reports.
- Understanding better what is the Buy Now Pay Later and how it is implemented.
- Assets and liquidity can predict a person's likelihood of delinquency.
- Distinguishing between moral hazard and adverse selection in consumers' decision-making.
- Asking about insurance products consumers have on surveys.
- Making survey data with no private information so it's available to academics.
- Survey respondents using computer techniques to share data.
- Perceived search costs involved in shopping for credit.
- Academic institutions perceived more trustworthy for financial advice.

Medical Debt Session

Octavian Carare, Supervisory Economist, Office of Research
Ryan Sandler, Senior Economist, Office of Research

During this last session, the Office of Research presentation noted that medical debt is an area of continued interest for the CFPB because it regulates credit reporting and debt collection, and medical debt is a key area of interest.

One area of interest was using the CCP at medical collections and consumer finances in rural areas of the country. It was found that the rate at which consumers have medical collections in rural Appalachia is higher than other rural areas of the country. Medical credit cards and financial plans contained in the consumer complaint database were examined. Information was acquired through market monitoring authority from credit card providers on products with deferred interest. One finding was between 2018 and 2020, consumers paid about $1 billion in interest on these products, paying significantly higher interest rates than for general purpose credit cards.

The use of medical collections on credit reports has become somewhat controversial. There is a notion that medical collections are not a consumer's fault if they get sick unexpectedly, as well as medical billing and insurance not paying timely causing problems. In 2017, the National

Consumer Assistance Plan (NCAP) and the States' attorneys general effected a change that medical collections could be reported to the credit bureaus until at least 180 days after the date of first delinquency, and the furnishers of collections must say what type of debt it is, including whether it's related to medical collections.

In 2022 the nationwide credit reporting companies announced that all paid collections that were less than a year past due would be removed from credit reports, as well as all collections worth less than $500 in the initial balance. A July 2022 CFPB report documented the state of medical collections before the changes and forecast what was likely to happen after.

Office of Research staff presented preliminary findings from the CFPB Consumer Credit Panel (CCP) on what has happened since all the changes went into effect, updating the July 2022 report. They described the characteristics of consumers with medical collections before, during, and after the reporting changes. The number of consumers with medical collections on their credit records fell by more than half. The people who still have medical collections after the changes are people with lower credit scores and those who live in lower median income areas. Worth noting is the amount of churn quarter to quarter is huge. Between 5 and 10 percent of everybody with medical collection has no more the following quarter, as they're falling off.

They described the distribution of consumers in the CCP overall with medical collections removed across census tracts demographics. Prior to March of 2022, before any of the changes, consumers in majority Black and low-income census tracts were more likely than other consumers to have medical collections on their credit records, and this remains true in June of 2023, although collections were removed slightly more for consumers in majority White and higher income census tracts. On average nationwide, medical collections balances fell by a about a third, or 38 percent.

Following the presentation, feedback from a research perspective was requested of the Council members.

The following questions were presented to the ARC members to discuss:

- How should the CFPB monitor medical debt now that much of it is no longer reported on consumer credit records?
- As more data becomes available after the reporting changes, what outcomes should the

Bureau focus on to study the impact on consumers?
- To what extent are medical collections specifically and credit reporting in general serving as a deterrent to moral hazard, as opposed to reducing information asymmetries for creditors?

ARC members and CFPB staff discussed the following perspectives:

- Having assets on credit records as well as unpaid debt.
- Reason for high churn in trade lines.
- Medical collections furnishers' data are badly reported and not updated.
- How do medical credit card companies compete, who do they recruit, and how do they target consumers?
- Getting data on demographic and racial groups affected by debt collectors.
- What is the benefit of high-cost medical cards to pay off debt versus traditional alternatives?
- Are there other sources to obtain accurate measures of medical debt? INSTEAD OF Sources are needed to find actual measures of debt.
- Understanding better the geographic heterogeneity in outstanding collections balances.
- Visibility of benefits in having low-dollar-value debts removed.
- Finding out if consumers understand the role medical debt plays in their credit score.
- Possibility of Treasury/IRS, CMS, and other agencies providing medical debt data.
- Incentive for medical providers aggressively marketing medical credit card.
- Using the CFPB's complaint help line to track data on medical debt.
- Using "Query Theory" in writing down thoughts after a call from a debt collector.
- Next quarter after medical debt is removed, credit score goes up approximately 21 points.

Closing

Chair Dean Corbae

The Chair thanked the attendees for sharing their perspectives on these important topics. He said that a unified theme was the question of what to add or subtract from existing traditional credit scoring models, which can affect households access to credit. He noted that subtracting medical debt data could cause unintended cross-subsidization of risk. Surveys to disentangle shocks to households is critical to complement the observable data and can help avoid unintended consequences.

Adjournment

Assistant Director Jason Brown adjourned the meeting of the CFPB Academic Research Council on December 1, 2023, at approximately 3:15 p.m. EST.

Certification

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

Emmanuel Manon

Emmanuel Mañón, Staff Director, Advisory Board and Councils, External Affairs Division
Consumer Financial Protection Bureau

Jason Brown

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

Dean Corbae

Dean Corbae, Chair
Academic Research Council