Academic Research Council Meeting

June 7, 2024

Meeting of the CFPB Advisory Committees

The Consumer Financial Protection Bureau's (CFPB) Academic Research Council (ARC) met in-person at 12:45 p.m. EDT on June 7, 2024.

ARC members present	CFPB staff present	Guest Speaker
Chair Dean Corbae	Jason Brown	Daniel Grodzicki, Principal Economist, Federal Housing Finance Agency
Itzhak Ben-David	Shaista Ahmed	
Ben Keys	David Low	
Neale Mahoney	Siobhan McAlister	
Katja Seim	Judith Ricks	
Suzanne Shu	Susan Singer	
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 mission of the ARC is to advise the CFPB, particularly the Office of Research, with advice on methodologies and strategies for quantifying costs and benefits of regulatory action.

Auto Lending Research

David Low, Senior Economist, Office of Research

To open the first session, the Chair stated that auto loans are common among borrowers with subprime credit scores. From an academic standpoint, the auto loan market is the bundling of a durable auto with a loan, both products potentially yielding dealer markups.

The Office of Research presented on potential research with new auto loan data which the CFPB obtained through 1022(c)(4) Marketing Monitoring Authority. Due to limited staffing resources, the Office of Research could not purse all the research ideas presented, so the ARC advised the Office of Research which research should be prioritized to maximize data impact. The presentation consisted of research ideas and potential questions the ARC can address. The data come from three banks, three captives, and three finance companies that are fairly representative of the market and cover all loans originated or serviced by lenders between 2018 and 2022. It is a large dataset with over 30 million loans in total and reveals whether loans are used for purchase or refinancing. On servicing, CFPB staff stated that the data shows dates loans were modified or paid off, as well as vehicle repossessions. An interesting fact about repossessions is that a substantial number are voluntary. All of the servicing information is linked to the originations information. Having the linked origination and servicing data together is a unique feature of this dataset.

CFPB staff invited feedback from the ARC on specific research areas of concern. On high debt-to-income (DTI) ratios, some borrowers with limited income wind up with high monthly payments, and examination on the effects of prepayment and repossession rates is needed. Inflation resulting from COVID had a noteworthy effect that warranted further study. The increase in auto prices due to limited supply had various effects on consumers, such as potentially higher monthly payments or exclusion of subprime borrowers from the market. Further analysis is needed to understand the implications of these changes. Additionally, the lengthening of auto loan terms raises questions about affordability and delinquency rates, warranting further investigation.

Another research idea could focus on comparing direct versus indirect auto loans. Data suggests that approximately eighty-five percent of auto loans are indirect, facilitated by dealers, which differs from credit markets like mortgages and student loans. This is in contrast to other credit markets such as mortgages and student loans, which are not intermediated in that way.

Analyzing auto loan refinancing data can shed light on why auto loan refinancing is less common compared to mortgage refinancing and how refinanced loans differ from purchase loans. The significant interest rate fluctuations during COVID present a valuable period for examination. The data indicates that thirty to forty percent of prime loans were prepaid within two years, prompting further investigation into whether these prepayments were due to trade-ins, refinancing, or cash payments.

The CFPB views junk fees and drip pricing a top priority and an important feature in the auto market. Further investigation regarding the implications of cross-subsidization across consumer types and why consumers pay similar amounts in different ways is suggested. There is a question as to why the 2021 CFPB Data Point report showed that default risk explains some, but not all, of the variation in loan outcomes. Anecdotally, many used car dealerships appear to assume their customers pose a significant credit risk and adjusted their pricing accordingly. The 2021 CFPB Data Point report provides evidence that many borrowers from finance companies could have potentially secured loans from traditional banks or credit unions at lower rates.

The data on the reasons behind auto loan defaults is comprehensive and can provide valuable insights into the broader issue of the loan defaults. Additionally, the auto repossession process is notably quicker than a mortgage foreclosure process. The data includes details on deficiency balances, consumer surplus, redemptions, and voluntary repos.

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

ARC members and CFPB staff discussed the following perspectives:

- Consumers not refinancing auto loans not worth the effort due to savings amount.
- Why people use loans plus prepayment versus leasing.
- Durability of certain car models as a reason why consumers keep them longer.

- Dealers changing amount of markup given to buyer with indirect financing.
- Balance between car price, interest rate, and loan length result in consumers receiving affordable monthly payments.
- Add-ons promoted differently to consumers in loan origination.
- Auto term length and lower monthly payments attractive to some consumers.
- Complexity of the buying process and intimidation from consumer's perspective.
- Take-it-or-leave-it pricing versus negotiated pricing.
- Availability of pricing and financing driving prices.
- Markups affect consumers as a function of where they live.
- Concentrate on broader trends in the car market data instead of COVID-related data.
- Look for comparative advantage of data and then prioritize to guide decisions.
- Looking at patterns of data shed light on consumer behavior.
- Using the states as a laboratory to learn impacts of policy.
- Debt overhang is a potential inefficiency.

National Mortgage Database

Judith Ricks, Senior Economist, Office of Research
Siobhan McAlister, Research Analyst, Office of Research
Daniel Grodzicki, Principal Economist, Federal Housing Finance Agency (FHFA)

During this last session, the Chair said mortgage financing is critical for the CFPB to focus on, as it's the largest portion of household wealth. The National Mortgage Database (NMDB) has more mortgage origination details and credit performance over time compared to Home Mortgage Disclosure Act (HMDA) data, and the demographics are more accurate than propriety datasets. Demographics can have important implications for taking advantage of access to better loan pricing terms. Documenting differences in borrower risk profiles in the data and then trying to understand the frictions which may cause them is crucial.

CFPB staff said that the NMDB is a representative 1-in-20-sample of all closed-end first-lien residential mortgages in the United States, so a 5 percent sample. It is jointly funded by the FHFA and CFPB. The program has three components: the NMDB, the National Survey of Mortgage Origination (NSMO), and the American Survey of Mortgage Borrowers (ASMB).

Samples are drawn from credit records of one of the three nationwide credit reporting companies. The mortgages in the sample are merged with other datasets including the HMDA data. There is also administrative data from Fannie Mae, Freddie Mac, Department of Veterans (VA), Federal Housing Administration (FHA), and Rural Housing Service (RHS). Proprietary data comes into the sample as well and can be used for research or policy work.

Each loan record in the NMDB is matched with an extensive amount of information: loan type, product type, mortgage terms; property characteristics; borrower characteristics for each borrower on the loan from administrative data; monthly loan performance; and nonmortgage debt information.

The two surveys samples, NMSO and ASMB, can be merged in at the loan level to the NMDB creating a richer dataset and allowing flexibility in the construction of the survey instruments. The NMSO covers newly originated mortgages, typically borrower perceptions and experiences. This provides self-reported demographic information and is available in a de-identified format as a public use file. The ASMB asks generally about consumers' experiences managing a mortgage, how they respond to financial stressors and insure against risks. In 2024, the ASMB survey will ask about high interest rates/lock-in and escrow.

NMDB is a useful tool for policy work. The Mortgage Performance Trends are updated every quarter when there is a new release of the NMDB. The data is also used for rulemaking and assessments, e.g., Ability to Repay/Qualified Mortgage Rule (ATR/QM), TRID, and mortgage servicing.

CFPB staff said that one of the unique advantages of the NMDB data is to augment the administrative data and provide new information that is not available in existing datasets. There are more origination details plus credit performance over time compared to HMDA. Demographics are more accurate than proprietary datasets. The most recent archive of the NMDB includes about 14.5 million loans, which allows for significant analysis with respect to heterogeneity across borrower types. The NSMO includes 45,000 loans starting from 2012, and the ASMB has approximately 1,300 respondents per wave.

Roughly forty-five percent of loan originations in HMDA and NMDB come from single borrowers as opposed to joint borrowers. Joint borrowers' loans require underwriting for two or

more borrowers, while single borrower loans only underwrite one borrower's. It is not necessarily the case that single borrower loans correspond to true single heads of household.

A table on the slide in the presentation showed statistics comparing overall NMDB compared to NSMO data, which was broken down by single male and single female borrowers. NSMO includes information on whether respondents are financially partnered but the NMDB does not. Female borrowers had significantly lower income and tend to originate loans at higher ages. Female borrowers also had slightly higher debt-to-income ratios. Loan amounts are much higher for the financially partnered than the financially unpartnered. Borrower groups are quite different, and in standard mortgage datasets, it is challenging to understand what the differences are for loans that are reported as just being single borrower loans.

Financial partnered status is one measure that generates significant differences in borrower and loan characteristics in the raw data, but more work needs to be done to understand the role of the financial partnered status. Analysis on other dimensions using the NSMO to augment the NMDB data is households with dependents, education level differences, and comparisons in financial risk taking.

Preliminary work undertaken by OR staff was mentioned. A primary goal of that project is to develop a measure of mortgage familiarity across borrower types, thinking about differences, particularly demographic characteristics. CFPB staff said that the Mortgage Familiarity Index is broken down by race and ethnicity, and the estimates are standardized. The measure of mortgage familiarity of non-Hispanic white borrowers had the highest scores relative to other borrower groups. Across all borrower types, there was a positive correlation between familiarity with various mortgage concepts and level of satisfaction in the loan terms received. The Mortgage Familiarity Index is an example of how NSMO data can be used to understand borrower experiences during the mortgage origination process.

Dr. Grodzicki said while the NMDB is jointly funded, it is housed at the FHFA, and most of the processing and development work happens through FHFA. He provided historical context stating there was a need to understand the mortgage market after the Great Recession and obtain a truly representative dataset of mortgages in the United States that included all parts of the origination of the mortgage. The credit bureaus provide mortgage performance data but do not generally have detailed origination information. This comes through administrative and

HMDA data. An important innovation of NMDB is generating the matching process, which did not exist before.

An important piece of the NMDB which needs to be developed is the matching process in property data. Though it is going to be a database of mortgages, it will also contain information about properties in the mortgages. A panel of people associated with the mortgages would be followed during the mortgage life, before and after, which is unique to the NMDB and is not available from other panel data sets coming from the credit bureaus. Non-mortgage data is also available in NMDB in a very aggregated form. Third-party matching through government partners can be applied to matching other datasets, which provides the potential to understand aspects of mortgagees' lives through the NMDB.

Following the presentation, feedback from a research perspective was requested of the Council members. ARC members and CFPB staff discussed the following perspectives:

- Understand better why people decide to sell and move in a high-interest rate environment.
- Combining basic demographics and life events with existing characteristics of mortgages.
- Look at various kinds of risks, such as climate, in home purchase decision-making process.
- Role that insurance cost plays when bundled into monthly mortgage payments.
- Mortgage shopping process, a complex area which needs more data.
- Likelihood of refinancing linked to familiarity with the mortgage process.
- How mortgage companies treat joint borrowers versus single borrowers.
- Explore in the surveys the search behavior and other features of consumer shopping.
- Contrasting understanding of mortgage with satisfaction in shopping behavior.
- Where consumers are getting information about different mortgage products.
- Rental market missing in population representation of the data.
- Diversity of risks in partnered and unpartnered.
- Develop more data on residential, rental, and non-occupied.

Closing

Jason Brown, Assistant Director, Office of Research

Dean Corbae, ARC Chair

The Chair thanked the attendees for sharing their perspectives on these important topics and he appreciated ARC members Abby Sussman and Suzanne Shu for sharing their thoughts while attending virtually from Chicago. Jason Brown said it's helpful to have experts from the ARC help CFPB to organize thinking, prioritize research, and provide feedback.

Adjournment

Assistant Director Jason Brown adjourned the meeting of the CFPB Academic Research Council on June 7, 2024, at approximately 3:00 p.m. EDT.

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