CFPB Listening Session
Task Force on Federal Consumer Financial Law

Opening Remarks:
MANNY MAÑÓN, Acting Staff Director, CFPB
KATHLEEN L. KRANINGER, Director, CFPB

Participants:
TODD ZYWICKI, Chair
HOWARD BEALES, Member
THOMAS DURKIN, Member
JEAN NOONAN, Member
WILLIAM MacLEOD, Member

Session Moderator:
MANNY MAÑÓN, Acting Staff Director, Advisory Board and Councils Section, CFPB

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MANNY MAÑÓN: Thank you, Operator, and sorry for the delay. Good afternoon, everyone. I'd like to officially convene today's CFPB's Joint Advisory Committee Meeting. I'd like to welcome the Bureau's Advisory Committee members from the Consumer Advisory Board, the Community Bank Advisory Council, and the Credit Union Advisory Council as well as members of the public that are listening in today.

Thank you all for taking the time to join us for this listening session with the Bureau's Task Force on Federal Consumer Financial Law.

My name is Manny Mañón, and I serve as the Acting Staff Director of the Advisory Board and Councils Section here at the Bureau. Today I'll be serving as the designated Federal officer for this Advisory Committee Meeting.

As background, the CFPB established its advisory committees to provide substantive information, analysis, operational expertise, knowledge of their communities, and feedback to inform the Bureau's work. The communities are comprised of a wide array of stakeholders and include leaders and experts from organizations and consumer advocacies, financial education, academics, community banks, credit unions, and financial technology companies. You can find a full list of the Bureau's advisory committees on our website at consumerfinance.gov.

As a reminder, the views of the Advisory Committee members are their views. They are greatly appreciated and welcomed, yet they do not represent the views of the CFPB.

Now I'd like to go over what you can expect on this call.

Today's meeting will run from 2:45 and conclude at 4:30 p.m. Eastern. We will start with remarks from the Director of the Bureau, Kathleen Kraninger. Following the Director's remarks, the Task Force Chair, Todd Zywicki, will provide an update on the Task Force and an overview of today's agenda. As a reminder to our Advisory Committee members, before you speak during the Q&A Sessions, please be sure to unmute your phones and provide your name, title, and organization. Staff, Task Force members, and Advisory Committee members should be sure to mute your phones when you're not speaking.

Everyone should have received an email from my team with the meeting materials, including the agenda and the presentation. Please open those documents now so you can follow along with us. For the public listening in, if you haven't received the materials, you can find them on our website at consumerfinance.gov on our Events page.

Now I'm pleased to introduce Director Kraninger. Director Kraninger became the second confirmed Director of the CFPB in December 2018. From her early days as a Peace Corps volunteer to her role in establishing the Department of Homeland Security to her policy work at the Office of Management and Budget to CFPB, Director Kraninger has dedicated her career to public service. It is my privilege to welcome her to today's meeting. Director?

KATHLEEN L. KRANINGER: Thank you very much, Manny. Thanks to all of you and to the staff who put this together, to the Task Force members and Advisory Committee members coming together for this much-awaited conversation and to the public as well for joining us. I really appreciate everyone's service and their contributions, and this has been a long-awaited conversation.

We have our three Bureau Advisory Committees—the CAB, the CBAC, and the CUAC—having a discussion with the Task Force on Federal Consumer Financial Law. This event was supposed to occur back in March at the outset of the Task Force's work, but there are a lot of things in 2020 that have not quite gone as planned. So I am certainly very pleased to be able to support this conversation to further the work of the Task Force. Really, the Task Force has been a really important effort that the Bureau launched. Its work has the potential to identify key ideas for how policymakers can protect consumers better without imposing undue or unnecessary costs on the financial marketplace.

As you know, the Dodd-Frank Wall Street Reform and Consumer Protection Act, the legislation that created the CFPB, states that the Bureau's purpose is to implement and enforce consumer financial law; to ensure that all consumers have access to markets for consumer financial products and services; and to make markets for those products and services fair, transparent, and competitive. The Bureau has been busy since its creation fulfilling these statutory obligations. Thanks to the hard work, dedication, and commitment of the Bureau's incredible staff, we have taken many steps in the direction of what Congress gave us to do as a mission, and we've made a lot of progress. But 10 years since the passage of that law and the creation of the Bureau is an opportunity, really, to step back and evaluate how we can fulfill our objectives and function in a more effective and efficient manner, and really taking a look, frankly, at the body of consumer protection law that goes back to the 1970s.

So there are many things that have changed in the world and the financial marketplace since that time, and so to that end, really to look at the marketplace of today, the consumer of today, and the laws and regulations as they stand today and think about how we put a lens on the future and really prepare the agency better for the future. That is why I formed the Task Force on Federal Consumer Financial Law. So I hired five people with a wealth of experience to serve as Task Force members and charged them to review and make recommendations to me as to what changes need to be made for the Bureau to fulfill its mission as a consumer protection bureau.

When we established the Task Force, I directed the members to not just consider the work that's been done by the Bureau over the last 10 years, but also to look back at the history of consumer financial regulation and to help us to prepare for the next 10 years.

The idea of the Task Force was inspired in part, as I have said, by one of the last times the Federal Government stepped back to take a comprehensive look at the full and interwoven regime of consumer financial protection laws and regulations, and that was in 1968. The Consumer Credit Protection Act was passed, which established the National Commission on Consumer Finance, or the NCCF. It was chartered to conduct original research and provide recommendations relating to the regulation of consumer credit. Its report led to significant legislative and regulatory developments in consumer finance. And since publication of that report nearly 50 years ago, as I alluded to earlier, a lot has happened.

Decades of advancements and innovations have occurred in the financial services industry, and these advances and innovations have conferred tremendous benefits on consumers and on competition. They also have created risks of consumer harm, and policymakers have changed statutes and regulations to address these risks. Certainly, the most obvious example of this is the creation of the CFPB in the Dodd-Frank Act.

But as with the mission given to the NCCF, I instructed the Task Force to develop and deliver a set of recommendations to improve the financial consumer protection system, recommendations applicable to the present environment, as well as looking out into the future and thinking about how the state of consumer finance may inevitably evolve.

Depending on the Task Force recommendations, the Bureau may make referrals to Congress for legislative action, write new or amend existing regulations, develop new systems of coordination among Federal regulators. Certainly, that relationship amongst Federal regulators and also with the States is something that I've asked the Task Force to look at, promoting different Federal and State working relationships or targeting areas of concern that need further research. So I am very excited and anxiously anticipate the Task Force's report.

I also saw from the beginning a very important role for the Task Force in robust public outreach to collect as much information as possible from a wide variety of sources reflecting a range of perspectives on this important question that I have asked the Task Force to examine. Thus far, the Task Force has met with consumer and trade groups, issued a request for information that solicited written input from the public, held a public hearing, and for the past few months, has also been consulting with Federal regulators and State officials.

So today is another effort to further solicit input about consumer financial protection from the Bureau's Advisory Committee members, and so I appreciate your engagement in this conversation.

Let me at this point turn it over to Todd Zywicki, the Chair of the Task Force, to kick off the conversation and begin it. So thank you so much. The floor is yours, Todd.

TODD ZYWICKI: Thank you, Director Kraninger, and on behalf of all of the staff and members of the Task Force, I would also just like to thank you personally for your support and enthusiasm for this project. We appreciate you being with us today.

Good afternoon, everyone. Thank you for being with us here today on the phone. Advisory Committee members, we are thrilled to have this opportunity to meet with you as the Director mentioned; and as many of you will recall, this was something we planned to do long ago at the beginning of this process. For reasons I'll explain later, it's still very timely to be meeting with you at this time, but I do want to say that we appreciate the opportunity to finally be here with you and wish it could be in person, but as the Director said, the world has certainly changed in recent years. But thank you for taking the time to be with us. We look forward to talking with you.

I am Todd Zywicki. I am Chair of the Task Force. I am also a Professor of Law at George Mason Antonin Scalia Law School, Senior Fellow at the Cato Institute, and also served as the Executive Director of the George Mason Law and Economics Center.

I'm going to keep my opening statement brief because we want to hear from you. I'm just going to briefly give a short description of what we have been doing since we were formed in January, why we believe the work is important, and some of our goals for today's discussion.

First, though, I would like to introduce the other members of the Task Force. I am joined on the Task Force and on the call today by Jean Noonan, Bill MacLeod, Tom Durkin, and Howard Beales. Each member of the Task Force has committed their career to improving the health of America's financial system and consumer protection, and each has a distinguished record of public service. All in all, we have over 150 years of combined experience working in this area. I could provide very long introductions for each of them, but I will just briefly explain who each person is, most of whom will not be strangers to you.

Bill and Howard are former Directors of the Bureau's Consumer Protection at the Federal Trade Commission. Tom Durkin was the Senior Economist in the Division of Research and Statistics at the Federal Reserve Board, and Jean Noonan was both Associate Director of the Bureau of Consumer Protection at the FTC and General Counsel of the Farm Credit Administration, which supervises the nation's agricultural and rural lending cooperatives.

Through each of these experiences and their current professional capacities, the members have faithfully advocated for the protection and betterment of the consumers of America, and I'm thrilled to be able to work with them now to be able to bring all of this experience and commitment to bear to study and improve the American financial system for the American consumers.

So what have we been doing since we got started in January? Why is it important, and what are we up to for today?

As Director Kraninger mentioned, the Task Force is partially inspired by the National Commission on Consumer Finance from 50 years ago, which was created to conduct original research and provide Congress with recommendations relating to the regulation of consumer credit. The findings and recommendations from the Commission's report were made public, and the report led to significant legislative and regulatory developments in consumer finance, provided the intellectual and policy framework for the developments over the next several decades. Similarly, this Task Force has been examining the existing legal and regulatory environment facing consumers of financial service providers, and we will publish a two-volume report of our findings and recommendations.

Certainly, over the past 50 years, the world of consumer finance and consumer financial protection has changed substantially, yet what we have discovered is that many of the core issues that motivated the National Commission on Consumer Finance remain timeless and relevant today, and we'll see these in the themes that we are exploring in our report. Those themes are, first, the review of the legal framework of consumer protection; second, consumer information and education; third, how to harness competition and innovation of financial services for the benefit of consumers; fourth, how to maintain and expand inclusion and access to financial products and services; and finally, a study of the regulatory framework and how to modernize and provide flexibility in an evolving world. These are the five topics that we will seek inputs from the members of the Bureau's Advisory Committees today.

The first volume of the Task Force report will cover those five overriding topics regarding financial products and services. We will use the insights gained from our own research as well as input from a robust series of public, State, and Federal engagements to develop the second volume as well as conversations with folks like you.

The second volume will include recommendations on ways to improve and strengthen the application of financial laws and regulations, and the focus of today's meeting is to gather ideas to help us both in volume one as well as to form and refine recommendations that will ultimately be shared with the Director for her consideration.

We are excited to hear from all of you, and we appreciate all of the work that you have done for the Consumer Financial Protection Bureau and for America's consumers over the—through your service to the country. We are eager to discuss ways to strengthen the nation's marketplaces and improve consumer protection.

As alluded to, the central goal for today's meeting is to hear your thoughts and the recommendations to the Advisory Committee members. So the structure of today's conversation is quite simple. The way we will do this is a Task Force member will present one of the five key areas of focus mentioned a moment ago. The floor then will be opened for approximately 20 minutes for the Advisory members to offer feedback and recommendations on the topic. When we are out of time for that topic, a Task Force member will close the current topic and present the next one. During the discussion time, any of the Task Force members may nudge into the conversation to ask for clarification or more detail on anything shared.

So we are going to begin with Tom Durkin. The floor is yours to present the first topic. Tom?

THOMAS DURKIN: Thanks, and I appreciate it. As you all know, consumer financial protection is promoted by an extensive framework of laws, regulations, decisions, directives, regulatory policies, guidelines, recommendations, and procedures as well. And further, these are made by U.S. State and Federal regulatory entities.

Now let me ask a couple questions about structure. First, are there areas in which consumer protection laws are inadequate or need to be strengthened to ensure that consumers are adequately protected? Also related, how can the Bureau use its regulatory tools of rulemaking, enforcement, supervision, and education effectively to maximize consumer welfare?

So we're very interested in hearing from you on these things, and let us take a look, then, at what you think about the fact that the consumer protection laws may be inadequate.

MANNY MAÑÓN: Operator, we can open the lines for questions now.

OPERATOR: If you would like to ask a question, please Press *1 and record your name clearly. To withdraw your question, you may Press *2. One moment, please, for our first question.

[Pause.]

OPERATOR: I show no questions at this time.

MANNY MAÑÓN: Just to be clear, I think what we're looking for is comments and opinions and not necessarily just questions.

THOMAS DURKIN: It was represented to us that this is not a shy group.

OPERATOR: One moment, please.

[Pause.]

MANNY MAÑÓN: I just wanted to remind Advisory Team members, if you have a comment, please Press *1, *1. If there are no comments, then perhaps we can go to the next topic, Todd, but let's give it one more minute.

THOMAS DURKIN: While you're considering this, let me mention the questions again. Are there areas in which the consumer protection laws are inadequate? And then second, how can the Bureau best use its regulatory tools?

OPERATOR: If you would like to ask a question, please Press *0.

[Pause.]

MANNY MAÑÓN: Operator, we're getting some communication via email that they're trying to ask questions, but it is not going through. Could you please confirm and make comments as well?

[Pause.]

MANNY MAÑÓN: Todd, if we can continue with the next topic until the operator figures this out, then we can continue with the calL. But we are getting emails that members are trying to make comments here.

KATHLEEN L. KRANINGER: Manny, can we actually address it, perhaps, with them? Have any of them put what they're thinking into email? And I really do apologize to everyone for the technical issues with this calL. I know folks have been working on it for quite some time, and clearly, everything is not set up the way it was supposed to be to get this communication to happen in a fluid way. So we'll do our best to struggle through, but if there is anybody who wants to email what they're thinking, too, we can also find a way to be able to word that at least from the CFPB staff side.

OPERATOR: We do have a question. Thank you. Our first question comes from Racardo McLaughlin. The line is open.

RACARDO McLAUGHLIN: Yes, hi. I appreciate the opportunity, really, to be here and to listen in on the Task Force. My name is Ricardo McLaughlin. I'm with TwinStar Credit Union, Vice President Mortgage Lending.

My question really isn't so much a question but more of a comment or, actually, just seeking information from you as to your thoughts regarding consumer protection laws and if they're inadequate or if they need to be changed during certain situations. We're in the midst of a pandemic, of course, and I'd be interested in hearing your thoughts regarding necessary changes, really, that we need to make to certain consumer financial protection laws that might prevent or, you know, cause hesitation, really, for a lot of lenders in providing certain services in our situations to our members. Just curious, really, about your thoughts. If you wanted to give some dialogue to that, I'd appreciate it.

THOMAS DURKIN: I think what we would really like to do is to hear from you. We certainly will have an opportunity to answer that question at length in our two-volume report, but we really would like to hear from members of the Advisory Council what's on your mind, particularly about the structure of regulation at the present time. What areas seem to be inadequate concerning the consumer protection law area or inadequate and need to be strengthened to ensure the consumers are completely protected? Are there some opinions on this? What is inadequate?

TODD ZYWICKI: And with respect to your particular question—and Racardo, thank you for that—what we would be interested in hearing from you, which is, do you feel like there is sufficient flexibility in the regulatory system to deal with the kind of—institutional flexibility—to deal with the kind of issues that we've been experiencing over the last 6 months or so, or do you, or anybody else, have any concrete recommendations for how changes, either large or small, to the system that might make the system more resilient and more flexible in dealing with the kind of experiences we've had over the last 6 months or so, or foreseeably future crises to come?

So I would echo Tom's observation, our goal is to hear from you and let you guys—and hear from you with your unique experiences that you have operating in this marketplace as to what could be done to improve the system, including protecting consumers while also permitting flexibility to deal with these unusual situations.

ERIC KAPLAN: E. Kaplan at Milken Institute.

[Pause.]

MANNY MAÑÓN: Okay, Todd, it's Manny here. Let's continue with the meeting. I'm going to start getting questions from members, and comments, and I'll just provide those as I get them, okay?

THOMAS DURKIN: Okay. Should we move on to the next batch of questions, then, or should we just—to the next topic—or—

MANNY MAÑÓN: Yes, please proceed.

TODD ZYWICKI: Okay, Howard, I think you are next if you'd like to go ahead and launch your question. And it may turn out that we end up having to discuss them all, you know, in a hodge podge once people can actually communicate better. Howard, why don't you jump in, please.

HOWARD BEALES: Sure. One of the issues that we're very interested in is consumer information and consumer education. Financial mobility and financial inclusion are enhanced by increases in formal education. They're enhanced by financial education, and they're enhanced by consumer choice, and that's especially true with vulnerable and protected populations.

We have really two questions, I guess, in this area. One is, do you think that providing information for consumers in disclosures is adequate as a way to protect consumers? And how can those disclosures be updated for the electronic age that makes possible very different ways of communicating potentially a lot more information? And second, we're interested in your thoughts on anything the Federal government can do to enhance financial mobility and enhance inclusion in the financial system. And we'd be happy to have any comments or thoughts on those issues.

MANNY MAÑÓN: This is Manny Mañón again with the CFPB. I'm just going to provide here a comment from a CAB member, Sophie Raseman, and her comment is, she wanted to encourage the use of data disclosures and smart disclosures as well as personal data access to help consumers make decisions in the 21st Century. Her second point is, she wanted pretty much flagging the need of exploration of new consumer protection rules for major crises and market disruptions such as the current disruption due to COVID-19. Those are her two statements from Sophie Raseman with the Consumer Advisory Board. Any comments from the Task Force?

[Pause.]

TODD ZYWICKI: Thank you for those observations. As we mentioned earlier, we're primarily interested in hearing what you guys think. And we're still taking in information, so it would probably be premature for us to provide comments on a lot of these issues, so thank you.

WILLIAM MacLEOD: This is Bill MacLeod. We are certainly thinking about this as Howard's question indicated, and we are very interested in issues as to where disclosures may assist consumers, where amendments in disclosures can improve the information and the decision-making that consumers make, and where disclosures may be getting in the way of more useful information that consumers could process. If there are thoughts along those lines, that would be very interesting and valuable for us to hear.

ERIC KAPLAN: Manny, can you hear me?

KATHLEEN L. KRANINGER: Eric, is that you? I can hear you.

ERIC KAPLAN: Okay, good. I do have a response. I'm glad I was able to get in and apologize. This is Eric Kaplan. I'm the Director of the Housing Finance Program with the Milken Institute, and I do have a comment on that point. And then on the one before, I wanted to get in, but I'll keep them brief.

On this topic that we're talking about now, I do think that financial literacy and education is, or should be, directly tied to financial mobility and empowerment. And with respect to disclosures, I think you could create more tailored and better tailored disclosures in order to meet the objectives of the consumer and to allow a consumer to make a more informed choice. I come from the mortgage sector primarily, and when it comes to issues such as wealth building through equity build-up versus managing a monthly payment versus what rent would be and making that choice-of-opportunity cost when the horizon for staying in that particular property may not be 30 years. It may be 2 years. It may be 7 years.

Objectives are different for different consumers, and I think two things. One, there are some disclosures in the mortgage process, but also in others, which sort of cannibalize the intention of the disclosures and are not written in plain language and are very difficult for an average person to understand, certainly one who is not very financially literate, and they don't really serve their intended effect. I think we've seen some improvements in that way, but I think that there's always room to do better.

And then, again, with a very deep and, I think, comprehensive approach toward increasing financial education and literacy so that people understand what the disclosures are telling them and why they're important and how to understand them in the context of their own financial position and objectives would really do a tremendous amount toward strengthening the financial stability of Americans generally, but particularly, those who are underserved or more financially vulnerable.

So I think when it comes to looking at the landscape, not just in mortgages but across all products, I think that's a very important objective and would go a long way toward, I think, streamlining and targeting what we're trying to convey through disclosures and also empowering consumers. So being more certainty and more empowerment among consumers.

The other point, if I can just take 30 seconds from the last slide. Just in terms of overall objectives, I think creating more certainty, where possible avoiding regulation by enforcement, but making that certainty of a type that does not unduly restrict lenders. I don't think that—you know, there's always that balance between clear guidelines and rulemaking and also flexibility of the institutions that have the expertise to deliver products—you know, financial products and services. I don’t think that that is, or should be, mutually exclusive from consumer protection. And I think that's always an important balance to strike.

Certainty carries a cost—or uncertainty always carries a cost, which usually is borne by consumers. And we've seen in some of the rulemakings that I know the Bureau has worked hard over the last several years to evaluate and modify and try to figure out where certainty is appropriate, where flexibility is needed, and I think that with the proper oversight going forward will help to serve not just consumers, but also an industry that is delivering those products and services in a compliant manner. And also to highlight those entities that, or institutions, that are not complying.

So I'll stop there. Sorry to bring the two points together and apologize. I wasn't able to get in on the last go-around. Thank you.

JEAN NOONAN: This is Jean Noonan from the Task Force, and I wanted to ask you a follow-up question, if I could, because I thought those were very helpful comments. Specifically, on disclosures that you find really difficult that are not meeting their purposes, maybe because they're poorly worded or too lengthy or imprecise or whatever it is, if you have specific suggestions for us to look at, I think that would be really valuable. And you can either reel them off now, or send Manny an email after this call, and I'm sure he'll pass it on to us, if I can volunteer you, Manny.

TODD ZYWICKI: And a related follow-up is I was particularly interested in your comments about tailored disclosures and was wondering if you have particular thoughts about how you might accomplish that.

ERIC KAPLAN: Yeah, I mean, I'll take a very short time now, but I think this is ripe for a follow-up conversation. But I'll do two things. One, TRID—TILA-RESPA Integrated Disclosure or "Know Before You Owe."

Look, we all know that the industry spent a tremendous amount of time and money and resources to prepare for that, and I think the industry worked with the Bureau, and I think the Bureau has done a good job over the years of listening to and being responsive to industry, and also consumer groups, about how to take what was intended to clarify disclosures and say, where do we meet the mark and where do we miss the mark. You know, for example, some people would say that if something is an 11.5 font versus 12.0 font, that shouldn't open the door up to significant liability, right? There was that. Is it a hyphen? Is it a colon? There's a lot of that element.

And then also, some of the disclosures, look, I just went through a re-fi process, and I've been doing this for many years, and even I still read deeply into the documents. And I have friends who are extremely financially sophisticated and practice in various capacities in financial services, and I got a call from them during their re-fi not understanding what they were reading, which is pretty distressing to me to hear. So that's one thing and certainly for a follow-up conversation.

The other part is, I'll give you an example. There are some new mortgage products out there that people are trying to develop and innovate, whether through sort of more geared to financial technology or looking at the types of products that borrowers might need or could be more useful to their particular circumstances. For example, deciding between an ARM versus a fixed-rate product or taking a look at some of the equity-appreciation or equity-sharing arrangements, without advocating for any of them, if you were looking at an equity-sharing arrangement—there is a person, let's say you have a school teacher who's on a fixed income or, let's say, a moderate income, not going to increase by multiples, and he or she is a single parent and has to send their child to college. You get some financial aid.

Well, let's say they want to tap into their equity. If they do so through a second, they have to incur a monthly payment. Well, maybe they are extended. Maybe their debt burden is such that they can afford another monthly payment to access their equity, and maybe they can't. Maybe they're already extended by other even responsible monthly payments—not extravagant monthly payments but for medication, for health care. You can envision such a borrower.

An equity -sharing arrangement would allow the borrower to tap into, or could allow the borrower to tap into that equity without incurring another monthly payment, but there will be ramifications for that part of the value of the home that they own.

Different people will make different decisions based on their objectives and with more financial literacy or greater financial literacy can decide what is more appropriate for them—the ability to sustain a monthly payment and maintain the equity in their home or to give up some of the equity because they can afford additional debt service.

So these are the kind of things we talk about every day, sort of the classic guns-versus-butter analogy in terms of opportunity cost, but a more financially literate, financially educated consumer will help them to understand what the real ramifications are for them in terms of their individual financial situations. And both collectively and individually, I just think that would make for a stronger and more protected and financially healthy consumer base.

That's just one example, but I'm happy to follow up after the call.

WILLIAM MacLEOD: Thank you. Thank you very much.

BRENT NEISER: This is Brent Neiser, Chair of the CAB, with two comments. First, I'm going to talk about the legal framework, and then certainly do this quickly to let my colleagues chime in as well.

The CFPB has a unique vantage point with the Consumer Complaint Database to allow consumers as a force multiplier in the awareness of the protections they have and the opportunity to give early warning to any problems. Director Kraninger is looking to get whistleblower authority from Congress, but in a sense, consumers already have fire-alarm-pulling authority through the Complaint Database, and it's something I know the Bureau carefully tracks.

So if you think about Homeland Security, see something, say something, this is an early warning. Another place where this happens also is the role of States, often called "Cops on the Beat," as they enforce their regulatory authority.

So what I'm suggesting, and I'll have this and other comments later if we have time, is this notion of a Fusion Center borrowed from Homeland Security, the Defense and Foreign Policy establishment, to extend the reach of intelligence of sensitivity to perverse incentives, risk retention, responsibility retention beyond the walls of the CFPB working with the partners in the States by letting consumers actively participate. And I think they've shown great responsibility to the consumer database, and it helps overall with an early-warning systems.

I will quickly move to disclosure, again to give colleagues a chance to chat. There are three examples I want to cite about really interesting disclosures. The first is the Social Security Administration, which literally had a bias in their information that kind of nudged people inadvertently to claiming Social Security benefits early—early, you know, age 62 and in that range—and it really cut Americans out of a lot of higher-level income that's inflation adjusted.

Over the last 7 to 8 years, they have adjusted their messaging to gently nudge people to the cost and understanding of those decisions. So it's really, it's disclosure, but it's the point of decision and letting them know of future decisions and long-term consequences of those, kind of the trade-offs.

A lot of times in markets price and costs and benefits are obfuscated, and people really don't have that clear. The Social Security System did a great job of talking more about full retirement age, delaying claiming, and all of the benefits that happen. They really readjusted their sights.

The second is Department of Labor looking at illustrations about annuitization and lifetime income. Again, moving from lump sum to annuitization, what does that mean in terms of real dollars down the road and helping to educate people through that, and they've used various types of illustrations.

The third is something all of you know about, which is the credit card—or I guess you can call it the Schumer Box—and how that's been adjusted to show making the minimum payments on the credit card means how much you still—how long it would take to pay it off. And these are great points of education, interesting examples of disclosure that nudges folks to good decisions and to understand more the full context of those decisions.

I'll stop there. Thank you.

TODD ZYWICKI: Thanks, and I appreciate the examples, in particular.

TIM WELSH: Hi, this is Tim Welsh from U.S. Banc and the Consumer Advisory Board. Can you hear me?

TODD ZYWICKI: Yes.

TIM WELSH: Okay, thank you. I wanted to offer some thoughts—

SOPHIE RASEMAN: Hello, can you hear me?

TODD ZYWICKI: Yeah, we can hear you, Tim. You can go ahead, Tim. We can hear you.

TIM WELSH: Okay. I thought somebody else was speaking, too. So—

SOPHIE RASEMAN: I was also. I was just placed from the queue. This is Sophie Raseman. I'm not sure—

TIM WELSH: Why don't you go ahead, and then I can follow you.

SOPHIE RASEMAN: Okay, thank you. Yes. So my name is Sophie Raseman. I'm the Head of Financial Solutions at a company providing employee financial wellness services to employers called Brightside Benefit, Inc.

I wanted to respond to your question about where there are gaps in consumer protection, particularly looking at how we can improve the effectiveness of disclosures. There is a body of work that has been done around the concept of machine-readable data disclosures, which are sometimes called "smart disclosures," that I think is an important area for your Task Force to explore.

The basic idea behind smart disclosure is that consumers in the real world have a very difficult time using disclosures of complex information. There are—you can think of there being kind of roughly two kinds of disclosures: summary disclosures and detailed disclosures.

When you think about summary disclosures, those might be the ones that are the easiest for a consumer to understand on their own. Think of a message on a cigarette package that says something like "Smoking Kills." It's a simple message. The actual written form of disclosure may be presumed to be effective for a consumer who has no other help assessing that disclosure.

Then when you come to a complex good or service, which financial services often are, you're in the realm of disclosures that if they are to be complete, might entail pages and pages of detailed information, which often involves mathematical formulas to understand what true total costs might be. And total costs are variable, and there are many risks involved.

When you're dealing with a product that has complex characteristics, a written traditional disclosure is not often a very useful document for a consumer to consume on their own and make a decision, particularly if you think—let's see, a credit card disclosure may be hundreds and hundreds or thousands of words, but to be useful, a consumer needs to compare that disclosure to many others. And then you're in the realm of tens of thousands of pages of disclosures to make an optimal decision over a set of options in the marketplace.

So when we think about smart disclosure, we think about empowering consumers to use third parties that specialize in ingesting and making sense of the machine-readable data disclosures that the sellers of goods and services make available, and then innovating in a marketplace on the best ways to present the takeaways and the insights and the warnings that consumers need to understand from that mass of information.

In the travel industry, you can see an example of a mature marketplace where there are third parties like flight-search sites that make it really simple for consumers to search and analyze the best value and the most suitable solution across thousands of potential options.

In financial services, we tend to lack really effective third parties who specialize in helping consumers make decisions that are not biased in favor of the sellers, because today, with the lack of universal smart disclosure, in order to create a search tool or comparison-shopping tool for loans, for example, you often have to take money from the lenders, and it's very rare that there is any transparency to the consumer about how search results show up or whether or not they're really being shown the best deal or the right information about whether or not a given product is suitable for their circumstances.

So with smart disclosure, regulators and lawmakers have the opportunity to have fillers or providers of financial products make information about products available in machine-readable forms and really catalyze the private market to create these objective comparison-shopping tools that exist in other markets but are very immature in the financial sector.

The other benefit of that regulation is that regulators don't have to get it all right. You don't have to solve for every niche or translate for every possible use case what the ideal disclosure should look like because the market is able to respond to consumers' needs, and a couple of gals in their garage can write an app for a new niche of consumers that's not being served using that data with relatively low barrier to entry and innovation. So I would highly encourage you to look at that approach as something that should be a default part of the disclosure toolkit of regulators rather than assuming a written disclosure interface is the default for how we improve market transparency in consumer decision making.

The second thing I would add to that is that personal data access and the right of consumers and the ease with which consumers can access their own personal financial information is a critical compliment to smart disclosure. If you think about creating an ideal marketplace for third-party innovators, start-ups, non-profits, community groups, large institutions who can create tools that help consumers make optimal choices, those tools will very often require a consumer to provide consent to link their personal financial data to that tool in order for the tool to give meaningful and personalized guidance. Everything—you know, most financial products can only really be analyzed properly in the context of a given person in a particular situation.

Even just simple things such as just estimating the true cost of a product is rarely easy to do unless you understand what that consumer's behavior with that product is likely to be. So looking at the implementation of Section 1033 in consumer data access would be a critical part in making consumer disclosures truly effective for this century.

Thank you.

TODD ZYWICKI: Thanks. Can I ask about the machine-readable part of it? What's important about machine readability? Is it just that this information is available to third parties? Is it that it's standardized? What aspect of machine readability is critical? I mean, there was a very failed attempt in privacy regulation, you know, of machine-readable disclosures that sort of didn't go anywhere.

SOPHIE RASEMAN: Yeah, I think—look, I think there's a spectrum. Regulators can start smalL. If you can put all the disclosures online even simply in an electronic format that is not machine readable, there are innovators out there who are able to make use of that information. But that's where you have to start. You can start there. That would be a big win in many financial consumer contexts where no one can access most financial product disclosures in one place.

But I think as you—to the extent that there are national priorities for a given market—let's say we understand that there is massive amounts of consumer money going to surprise fees through predatory practices in a given product area. Let's say, you know, you're interested in ensuring folks make appropriate decisions about affordable and safe forms of credit for things like home ownership or student loans. When you have an area where there's a clear evidence of consumer harm or even systemic risks related to consumer protection, I think that's when you invest in machine readability because that drives the cost of innovation by these third-party decision-making tool providers down, you know, as close to zero as possible.

And lowering that barrier to entry is critical if you want objective, well-functioning markets of third-party tool providers. If I have to invest a lot of money as a start-up or an existing Internet company or financial institution to even make the data usable, then my ability to offer something low cost and widely available that's not funded by ads or lead generation becomes very difficult. So that's why the machine readability is so critical.

And I think, you know, again, it's a spectrum. You don't have to standardize all aspects of consumer products in order to see a lot of the benefits. So if you take checking accounts, for example, where calculating the true cost of ownership is a function of every single, possible fee that you could possibly incur from a checking account. Of course, there are hundreds and hundreds of types of fees out there in the marketplace, and standardizing every last kind of fee in a disclosure format would be very difficult. But most fees, you know, there's some sort of rule of thumb where most of the kinds of ways that consumers will be charged fees that are unlikely to be shopped or to be salient when the consumer is making the decision are going to fall into a small number of buckets around things like overdraft or infusion funds. And so I think you'll see a lot of the benefit even from starting with making standardized machine-readable formats for some of the most common types of terms and pricing.

TODD ZYWICKI: All right, thank you very much.

JEAN NOONAN: Can I ask a quick follow-up? This is Jean Noonan. I didn't hear you suggest that providing machine-readable disclosures, which I think is a fascinating idea, would be a substitute for providing disclosures to consumers in a more traditional way. I wonder if that were true if we'd be kind of betting on the come without knowing whether the innovation would ever happen.

MANNY MAÑÓN: Sophie, it's Manny. Just provide a brief comment on that, and then we can go to Tim Welsh.

SOPHIE RASEMAN: Sure. I think we've seen quite a bit of evidence from academia on the limitations of the effectiveness of disclosures, just written disclosures, not just in financial services, so that we already have enough to go on to know to make investments in the smart-disclosure area. And I think there's also evidence that says if you're going to pursue both simultaneously, focus your efforts on traditional disclosures on these types of messages that are actually useful.

So it may be much more effective to make the disclosure say something like, "Consult a third party who is an expert, and here are ways to do that" than to provide any single fact about the product itself. Just think about the practicality of how would a consumer actually use this disclosure if it's written. And if it is written, it would tend to be, you know, one or two simple messages that they can act on rather than a large amount of tactical information that we might ask them to process, which might not be realistic.

JEAN NOONAN: And I guess CFPB could be that third party.

SOPHIE RASEMAN: Absolutely.

TODD ZYWICKI: Thank you. Tim Welsh, are you still there with us?

TIM WELSH: Yes, I am. Thank you. Thanks for the opportunity to contribute.

Tim Welsh from the U.S. Banc, and I wanted to touch on the topic of financial mobility and financial education. I think all of us would, obviously, agree that financial education is a key to financial mobility. And when I'm talking about financial education, I'm talking about, How do I balance a budget? How do I pay off a credit card? You know, those kinds of very fundamental things that many financial institutions, certainly us included, are trying to be able to provide to help consumers.

You know, we're sort of a very exciting time from a financial education perspective because we have many new tools and insights. If you think about all the digital tools, artificial intelligence, as well as insights from behavioral economics and lots of other things, which will at least have the potential to allow us to provide various forms of financial education in new and hopefully really helpful ways to the consumers. But also because of the newness of all of this, by definition none of us exactly know what's going to work, and we need to try lots of things, some of which work well, some of which work less well.

And so as you think about this topic of financial education and supporting financial mobility, I'd offer two thoughts or suggestions as you pursue this. The first would be, How can financial institutions partner with or work in conjunction with regulators so that we can explain the kinds of things that we're trying, and regulators can understand that mistakes might be made and encourage the innovation process, as opposed to slapping on the wrist when mistakes are made. And so how do we create an environment that's fun that sort of courts that kind of innovation and continuous learning so that we can get better and better insights for consumers and help for consumers?

And then secondly, might there be a way of creating a sort of forum that financial institutions could share their learnings among other financial institutions in some kind of non-competitive way so that we can learn from one another's successes and mistakes, because I think, in general, this is likely to be an area where most of us want to help and is not going to be hugely competitive. And so might there be an opportunity to create some sort of forum for sharing as well?

Just two thoughts around how you foster innovation from a regulator's perspective, and then how do we also foster sharing around financial education to really help consumers learn about their finances and become increasingly financially mobile?

TODD ZYWICKI: Thank you very much for your comments.

THOMAS DURKIN: Absolutely. And it sounds like this is something you have thought about, so we would certainly welcome any follow-up you have in answering your own questions. In particular, one thing that we have been particularly interested in is determining what works and what doesn't actually work for consumer financial education.

TIM WELSH: Yeah.

TODD ZYWICKI: Because obviously there's a lot of resources put in there, and we don't have a great—and a lot of people are doing different things, and there's some information on what is effective and what is not, but we would certainly welcome any insights that people have in terms of what actually works for consumers as well as things that can maximize effectiveness along the lines that you were just describing.

I would like to go ahead and move to Bill MacLeod now to ask the next question. I'm not sure if there are other people in the queue, but certainly if you are in the queue, we don't mean to discourage other topics, but I'd like to move on and have Bill have the floor here. So Bill, I'll turn it over to you.

WILLIAM MacLEOD: Why thank you, Todd, and mobility is a good point of departure. As we all know, we want to give consumers access to marketplaces that work well for them, and for that to happen, we want competition. We want to have providers competing within sectors, across sectors, with innovation, with prices in order to give consumers the options that they can select from to give themselves the best financial products that they can find in the marketplace, and that leads me to my questions.

Number one, is competition working well; and always the more interesting variation of that question, are there areas where we might be able to identify that it could work better? And are there conditions that are limiting where competition is working?

My area, because I have seen a lot of competition by innovation, by different products, leads me to also dream of innovation and where innovation might be taking us and what we can do to make sure we facilitate the innovation that actually protects and enhances the consumer experience.

With that potpourri of competition and innovation-related questions, I will throw it back to the members of our groups and let you take it away.

[Pause.]

And while you're thinking and logging on, I can always ask the other question as well: Is competition the answer for all of the issues that you see? Do you see any areas where competition is either unfair or otherwise simply not serving the purposes of consumers?

JEAN NOONAN: Well Bill, while people are thinking, I just have to say that as a young FTC lawyer, I really came to believe that competition was the one way to enter heaven.

WILLIAM MacLEOD: Jean, that's probably because you were competing with me that day.

TODD ZYWICKI: Operator, any questions from the members or comments?

OPERATOR: Yes. One moment as I view the next question.

THOMAS DURKIN: And please specify if it's *0 or *1. There was some confusion earlier today about that.

OPERATOR: Yes, our next question comes from Patrick Ervin. Your line is open. And Press *0 to ask a question.

PATRICK ERVIN: Thank you. I'm Patrick Ervin. I'm from Michigan. I'm with Independent Bank, but my comment is not quite so much based on my 30 years in banking but is also as the father of six children, six young-adult children, and it has to do with competition and disclosures and wrapping a couple of our topics together, and it's around student loans, which is a plague on our young population and dragging around behind them like an anchor.

I believe that we are approaching the problem incorrectly. Here's what I mean by that: We talk about disclosures around the financial side. We talk about all the ways that we can educate people, but the one thing that we are not doing is that we are not looking at the problem as if a bank was providing the services, meaning think of colleges and universities as instead of colleges and universities, but as a bank. What would we require then?

We have required the bank to have disclosures, standardized disclosures, that clearly articulate the product that the consumer is about to buy, and we don't have this in college education. Specifically, we don't have the requirement to tell a young student what the return on their investment is going to be if they choose to undertake this huge debt and go through four or five years of study and come out on the other end.

What have students before them experienced when repaying that debt with the job that we help them get? What number of students didn't make it and left college before they got a degree, and then had that debt around their neck for years to come?

I think it is in the purview of the CFPB to venture into this area simply because you can simply state that any institution that is the beneficiary of Federal student loans clearly would come under the purview of consumer financial protection, and standardized disclosures would foster competition, change the dialogue from not who has the greatest football team but who has the greatest return on investment that these students are making. What are the graduation rates, and what is the true value being delivered by theses colleges for this trillion-plus dollars of loans that our millennials are under?

Thank you.

WILLIAM MacLEOD: Thank you for that comment. Is there anybody else in the queue on this topic?

TODD ZYWICKI: Certainly, we can come back to this if people are having trouble getting into the queue.

RICK SCHMIDT: Hi. This is Rick Schmidt with WestStar Credit Union. I'm not sure if I'm able to jump in because the queuing isn't working for me, but can you hear me?

TODD ZYWICKI: We can hear you. Please, jump right in.

RICK SCHMIDT: BeautifuL. Thank you. So in regard to the questions on competition and innovation, I mean, I firmly believe that competition leads to innovation. However, in some respects, the regulatory framework that we operate in discourages the innovation that would be in the consumers' best interests.

The example that I've brought this up at previous Advisory Committee meetings relates to our regulator, the National Credit Union Administration. And when credit unions have tried to offer underwriting lending programs using alternatives to FICO credit-scoring models, they have been told by the regulators to stop. They are not allowed to offer products that are not FICO based, and when you have a large portion of the population that is not represented in the credit bureaus, they don't have traditional credit, it becomes a real challenge for us to try to offer something that's new or innovative when you have a regulatory structure that actively discourages you from doing things in a way that would be beneficial to the consumer.

WILLIAM MacLEOD: Could you perhaps elaborate on what some of the—you don't have to talk about it in any detail, but some of the other models or criteria or things like that that you might be considering as alternatives to FICO scores that you think would be useful?

HOWARD BEALES: This is Howard Beales. Also, what's the regulators' rationale here?

RICK SCHMIDT: Well, the regulator rationale is basically that FICO is the baseline model by which standard underwriting is done, and they are not comfortable with a model that they can't properly evaluate. So they basically said—and this was my chief lending officer working at another credit union—they started a program and were told by NCOA to shut it down, that they were not allowed to offer non-traditional underwriting, that is was not operating safely and soundly. And in terms of alternative FICO scores, and I know the Bureau, we had conversations a year or so about it, and I know that different entities have been having conversations about alternatives to FICO scores and things of that nature, but you're talking about people using rent payments, utility bills, things of that nature that are not traditionally reported to Experian or Equifax or TransUnion.

But we have not really explored in any great depth the alternatives because we know the regulators will say no, but one of your questions is about Finn Tech, and Finn Tech certainly has embraced non-traditional underwriting as a way to get, you know, loans approved in seconds for people. And in many respects, we are being held back.

I'm not saying that every bank or credit union would embrace this instantly, but when your regulator says "don't bother," you know, there's really no point in investing a lot of time and effort into a channel that structurally you're not going to be allowed to pursue.

JEAN NOONAN: Just a clarifying question here. This is Jean Noonan. You're not talking about a score other than FICO, like a VantageScore? You're talking about a true alternative, use of alternative data, is that right?

RICK SCHMIDT: Yes. I mean, I worked with a group, pre-pandemic we were looking into some alternative versions trying to help the unbanked and underbanked, and my credit union is located in Las Vegas, and their statistics say that something like 30 to 40 percent of the population in Southern Nevada is unbanked, underbanked, and does not have a traditional credit score.

I don't know if that number is accurate, but I know that nationally there is a large portion of the population that operates on a cash basis because they do not trust banks, credit unions, financial institutions, and do not get traditional loans, and those people are foreclosed from participating in the traditional financial-services arena as a result.

And further, in the lending environment, and certainly in my credit union and many financial institutions, you know, we are bound by—we underwrite to Fannie May guidelines. Well, Fannie completely, you know, relies on FICO scores. So we would not be able to underwrite a single mortgage loan using non-traditional underwriting because Fannie and Freddie don't even recognize it. And I know they had looked at it, but I believe they backed off a year or so ago and were not going to explore that further.

JEAN NOONAN: Well, I do think they're exploring now by regulation other credit scores like Vantage, but they may not be that different from FICO. They may not be a truly alternative data score.

RICK SCHMIDT: No, Vantage is not really—I mean, it's different, but it's still a credit score.

JEAN NOONAN: Yeah, it's still based on traditional factors. I agree with you. That's why I was trying to clarify whether your comment was FICO specific or not.

RICK SCHMIDT: Yeah. No, FICO, I use it as a generic term for all credit scores. But yeah, we're talking about non-traditional underwriting; and in terms of being able to help a broader spectrum of consumers when the Finn Tech companies are out there doing it, or trying to do it, and yet, you know, traditional banks and credit unions are generally discouraged, if not flat out told, "No, you can't."

JEAN NOONAN: And this is from a safety and soundness perspective, right? Like we don't understand these other models, and so we worry about them, so we want you to use the traditional models?

RICK SCHMIDT: And then you start getting into disparate treatment, disparate impact because, you know, just the very nature of non-traditional underwriting.

JEAN NOONAN: Yeah, absolutely. I understand. So your credit union would be interested in having a model, and I guess this would require you to hold it in portfolios because if it didn't conform to Fannie and Freddie standards, you wouldn't be able to sell it in the secondary market, right? But even if you were willing to hold these mortgages in your own portfolio based on non-traditional, you know, credit-score-based criteria, is that what you're saying, that you would be willing to hold it in portfolio, but you'd still be deemed by NCUA or, you know, your regulators for your safety and—your prudential regulator—for departing from the norm? Is that what you're saying?

RICK SCHMIDT: Yes. I mean, that's the experience. Again, we have not explored it here at my credit union today, but I do know from, again, my chief lending officer and others that have tried it and been sort of pushed back and said, "No, that won't work."

Mainly, I'm talking about—I mean, yes, the mortgage loans certainly would be a piece of it based on Fannie and Freddie, but really my main focus would be on consumer lending—car loans, credit cards, lines of credit, you know, things of that nature—which would be sort of more in the wheelhouse of my members in terms of what they would want and need, but that we can't necessarily provide for people who are not in the traditional banking system.

JEAN NOONAN: And do you mostly keep those loans on your books, or do you securitize them?

RICK SCHMIDT: In my credit union, we keep them on the books.

JEAN NOONAN: Okay. So you're willing to keep them on the books and suffer the consequences if you're wrong, but your regulator worries about its insurance liability?

RICK SCHMIDT: They worry about the consequences if we're wrong.

JEAN NOONAN: Yeah, right. Right.

WILLIAM MacLEOD: This does make me think of inclusion, and I would love to hear if there's more on that. Is there an inclusion subject that we want to tee up?

TODD ZYWICKI: Yes. Thanks, Bill, and I was thinking the same thing. This certainly segues from competition and innovation and inclusion. You can see they're all related, and inclusion and access is something that I think all of us who have dedicated our careers to this industry and markets feel very passionately about, the benefits of extending financial products to everybody, on a responsible basis, that it's access to wealth. It's a driver for wealth creation and development for people.

So I have three quick questions, and you can feel free to pick up on this or tie it in with some of the other topics. First, are there regulatory issues that should be addressed at the Federal level to promote greater access to consumer financial products or services to traditionally underserved or underbanked individuals? Second, what do we know about why consumers are outside the financial system and what the primary barriers are to inclusion, whether it's cost or some other factors, and what public policies would reduce them. And finally, how might potential new entrants such as Finn Tech or traditional non-financial companies who are in the retail space, for example, might play a role to increase inclusion?

So our regulatory issues, what we know about consumers. So regulatory issues that might prevent inclusion, what we know about consumers, and what regulatory or other public policies might promote more inclusion independent of addressing any regulatory barriers that prevent inclusion. We'd love to hear from all of you from that, basically teeing off with the comments we just heard.

ERIC KAPLAN: Can you hear me?

JEAN NOONAN: Yes.

ERIC KAPLAN: This is Eric Kaplan, again, from the Milken Institute, and if I can, I'll try and bridge that gap from the competition to inclusion because I think it's connected, particularly where Finn Tech is involved.

When it comes to competition, there's no question that technology and kind of forward-looking use of data, such as alternative data, cash-flow underwriting, other tools and techniques can find credit worthiness where traditional models may not have found credit worthiness, and that it promises to potentially expand access to sustainable credit to wide swathes of people who were shut out from current and prior systems.

The thing there is two things. One, when it comes to—I'll do two things. One is the competition aspect, and then the inclusion, I want to touch base on credit scores, too.

Competition, we all know why competition is good and in consumers' favor and the benefits that it brings, but competition that constitutes or results in a race to the bottom, where there are practices and trends that make it difficult for responsible lenders to compete with those who do things either directly or indirectly, you know, in a way that weakens the market and adversely impacts consumers. That's always the tension you have to look out for and avoid the irresponsible competition.

I think, so there are lending rules now with the ability to meet payroll, non-QM loans, which allow lenders greater flexibility, but there are some entities that take what they can do to an extreme. And at least pre-pandemic in the strong economy that we had, there really weren't many challenges, and we'll see what happens when we come out of COVID and forbearance ends, and people who have not restored their ability to repay, find themselves facing foreclosure actions. Whether or not the writing that was done, at least within the non-QM context if not others, fit the bill of responsible lending or not.

That brings me to credit scores. You know, to the point before, FICO, even new versions of FICO, are shut out in the same way that alternative or third-party credit scores or non-traditional credit evaluation is done for two reasons. One, any new model, if someone comes out and says, "I can score 30 million new people using my score," well, that's all well and good, but that tells me that anywhere between 0 and 30 million people really are able to sustain credit that are credit worthy and that this model may correctly identify that, or it may not.

So it has to be statistically significant, it has to be modellable, and you have to be able to test it against other scenarios because one of the dangers of new scores is that they have to do what they proport to do in order to bring in responsible credit, sustainable credit, to borrowers. If it's not, and if you're trying to shoehorn creditworthiness in using data that, you know, confuses causation with correlation and other potential dangers, you're going to saddle consumers with unsustainable debt. And I think that we would all agree, that's what we want to avoid.

And so I think you had mentioned before, Jean, I think, that the FHSA more collaboratively put out the rule regarding credit scores. They are looking at the potential to use new scores in the future, but there are paths in order to make sure that different scores and different approaches are responsible. And, again, that's in the interest of the consumer, the system, and lenders as welL. So it holds great promise, but there still are steps to take because we have to make sure that the models work.

And on the secondary market front, I think that was very—it was extremely on point. Whoever owns that or holds that debt has to be comfortable with the credit approach or the credit score, and I think it's something to look into. With respect to prudential regulators, you may not have a comfort level what an institution that will hold loans and portfolio do. If you have an unregulated entity that's willing to extend credit based on their own credit model, then there really should be nothing stopping them as long as it does not run afoul of consumer protection and predatory lending regulations.

And coming to inclusion, I'll just go back to that other point that using technology to be very forward looking and look at the data that's available. Things like rent payments, utility payments, other forms of debt that can be tracked, can be modeled, can be evaluated through data analysis. That really does hold a great deal of promise to breaking through some of the barriers to credit access, especially for underserved populations. We can address some of the elements of structural or systemic racism. Look at who's underbanked or who's underserved with respect to credit access.

But, again, we want to make sure that we understand the algorithms. We want to understand the data. We want to understand the analysis in order to make sure that we don't get ahead of ourselves and start to hurt consumers by giving them credit that they can't sustain. I think the Bureau, two years ago, I think, I could be wrong, but I was part of a panel that was talking about precisely that.

So really paying attention to that. I think the Bureau now, the Office of Innovation I know is doing a lot with that, looking at sandboxes and no-action letters to try and be very forward thinking.

And I think the last point here, the next 10 to 15 years, that will be a very, very important path to follow and really take us from a paper world into a technology world that I think will expand credit access in a responsible way, but I think it does have to be done in a measured way because the damage that could be inflicted if you let it get ahead of what we're trying to do could be potentially severe.

So, thank you.

JEAN NOONAN: Okay, this is Jean. That was a really, really useful discourse. I'm so glad this is recorded because I'm going to ask the Bureau if there will be a transcript of that. But if there is not, tell me your name again.

ERIC KAPLAN: Sure. It's Eric Kaplan, and I'm with the Milken Institute.

JEAN NOONAN: Very good. Thank you, Eric.

ERIC KAPLAN: Sure. Thank you, Jean.

SOPHIE RASEMAN: Hello? Can you hear me?

TODD ZYWICKI: We can.

SOPHIE RASEMAN: This is Sophie Raseman, again. A couple points on innovation. I did already touch on markets, or competition and inclusion. I already touched on smart disclosure. I think enabling third parties to process product information for consumers is a critical part of driving real competition as opposed to a race to the bottom.

A simple example might be providing feedback on true expected cost of ownership for a bank account, which in the race-to-the-bottom world, I think all fees that consumers aren't likely to pay attention to often get overlooked. A third party could help consumers make true estimates of costs. That would be hugely helpful in driving efficiency.

Another point on competition, I think is—two points that are important to keep in mind. One is that we face this unique challenge in financial services where many products are personalized to the individual, particularly lending products. And when products are customized to an individual, it becomes exceptionally difficult for there to be functional third-party shopping tools because that information, unlike, say, travel where all consumers face the same price, all of a sudden you need to actually make an application in order to get a price.

So I think the Bureau should be thinking about what does true, effective comparison shopping look like in a world with personalized pricing and terms? And it may need to be much more deeply disrupted than what we currently see.

Our level of investment there, I think, should be driven by how much the Bureau observes price dispersion or just massive disparities in how much consumers are charged for—similarly situated consumers are charged for similar products, which I think there is ample evidence that exists throughout the financial sector because of friction and comparison shopping.

And then in the payment sector, it is a serious concern how difficult it is for consumers to switch payment accounts, whether you're talking about bank accounts or other forms of payments like credit cards. I think the Bureau should take inspiration from the kind of portability we were able to achieve with cell phone numbers, where individuals can have a phone and a phone provider of their choosing but maintain ownership of their own identity in a persistent way that enables true forms of competition.

In the world of bank accounts or credit cards, that might look like having persistent identity or set of numbers associated with you which you are able to take from account to account, which would then require sellers of payment services to actually compete on having the best products for consumers, including price or innovative terms, rather than focusing on creating stickiness and banking on the fact that consumers aren't likely to shop for, say, a better rate or better terms once they're well established with a product.

So I think those are a couple of areas. And everything we do to drive efficiency and costs down through these forms of pro-competition mechanisms I think will have knock-on consequences that improve inclusion because one of the first-order things we need to solve to expand access is simply lowering costs across the board, whether on the lending side or on the payment side.

TODD ZYWICKI: That's great. Why don't we take our last topic of discussion and get it on the table. Then if we have—we're going to run a few minutes long, as I understand you've been informed. And so we'll let Jean Noonan introduce our final topic, and then any comments from there can be addressed to that final topic or any other topic that has come before so that everybody has a chance to weigh in over at your spot. So Jean, I'm going to lateral to you to bring us home here.

JEAN NOONAN: Wait a minute. I was on mute so I apologize.

TODD ZYWICKI: Yeah, welcome back.

JEAN NOONAN: Thank you. And thank you for tossing me the pass.

We've talked about some of these issues on previous discussions, but I want to say, this is the really forward-looking part of our questions. And many of you have addressed in a way that I've found very provocative the forward-looking parts of consumer financial services.

And what we all know is the consumer financial services landscape of the NCCF, and for those of us who are really old, of our youth, are very different than what they are today. Incredibly different. So different that some of us have a hard time like kind of understanding them.

So there are three questions here. The first question is, With all of these new products, how do we protect consumers from new threats while enabling providers to provide new, great products that would benefit consumers? So that's number one.

Number two is, you know, how many of us have smartphones, and even more who have children with smartphones? So between the Internet and smartphones, it makes the world an even smaller place for connecting the consumer to financial products, and in an instant in can impact how the current dual system of State and Federal jurisdiction deals with this new environment.

And let me say, you know, the impact of digital technology impact a lot more than just State and Federal jurisdictions. It impacts how all of us interact with financial services providers.

So the third question is one that we talked about at the very top of this wonderful telecom, and that is how we as the Federal Government should and can react quickly to market disruptions like 911, like the 2008 financial collapse, like COVID most recently, and at the same time provide a stable regulatory environment for consumers.

And I think these are three very different questions, but we're really, really interested in all three of them. So with that, I'm going to turn it over to the operator to open the line for comments.

ERIK BEGUIN: Hello. This is Erik Beguin from Austin Capital Bank. Can you all hear me?

TODD ZYWICKI: Yes.

JEAN NOONAN: Yes.

ERIK BEGUIN: Perfect. I finally made it in. I have comments actually that go across a number of different areas but touch on all of them, but they're all centered around credit, and they're all sort of tactical but things that I think the CFPB could be very effective at effectuating, and they are regulating the sale of consumer credit, authorized user trade lines, implementing a default credit freeze for all Social Security numbers or tax I.D.s issued to individuals under the age of 18, and then a larger one is essentialize digital consumer credit dispute process—to have a single consumer credit dispute process for the nation .

I'll touch briefly on each of these. The CFPB could regulate and perhaps prohibit the commercial sale of consumer credit trade lines for authorized users, where the authorized user has no access to the actual credit represented by the trade line.

The commercial sale of authorized user trade lines appears to have no legitimate purpose, and the practice can lead to consumer harm. When a consumer uses such trade lines to apply for credit from an insured depository institution, they may be unwittingly committing bank fraud or other criminal fraud offenses, or the use of such a trade line in the development of synthetic identities or to facilitate a demi-theft that causes billions of dollars of damages both to consumers and to lenders.

Dovetailing with that—and these all sort of have a common theme of synthetic identity fraud or identity theft causing consumer harm—so the tax identification numbers of at-risk groups, including the elderly, incarcerated, homeless, and particularly minors under the age of 18, are frequently used in synthetic identity fraud because these individuals do not often use or check their credit profiles and scores.

And so in this last one we talked about how do we enable providers to help the future generations of consumers. Here, somebody might arrive at the age of 18 to find that their Social Security number has been in use for years by a synthetic I.D., and their very first thing they'll have to do is clean up identity theft and identity fraud. So the CFPB could coordinate with Social Security Administration and the major credit bureaus to place an automatic freeze on tax I.D.s for people under the age of 18. That freeze would automatically lift when the minor reaches the age majority, or it would allow a parent or guardian to lift the freeze on an exception basis.

And then the final one is a centralized digital consumer credit dispute process, and I know that the concept has been floated of having a Federal credit bureau. And while that might be well intentioned, there certainly are a number of challenges with that. But a very narrow-niche thing that the CFPB could take on is centralizing the credit dispute process, because today the credit dispute process is fraught with uncertainty, confusion, and abuse by bad actors, both bad-actor reporters, consumers, and their proxies. And this situation creates consumer burden and harm, both directly when improper items are posted to a consumer's credit profile, and indirectly via higher-cost consumer credit from abusive dispute practices. Additionally, a centralized consumer dispute process would provide the Bureau with clarity and ease of identification of bad actors in the process as well as give the consumers one easy, centralized way to understand, how do you dispute legitimate errors on their credit report. And this initiative might fit well with the Bureau's new text-print initiatives.

RICK SCHMIDT: This is Rick from WestStar Credit Union again, just kind of jumping in, if I may, to kind of take what Erik said and go a little bit further or a different direction in regard to, you know, from a regulatory modernization framework, something that should be looked at relative to national standards.

My colleague on the CAB and I were supposed to do a presentation back in March in regard to dispute-process credit repair, and I'll use that as an example on something that desperately needs a national framework in that on the national level, there is the Credit Repair Organization Act from the '70s that really just says that if you're doing this business, you have to have proper disclosures and you can't charge in advance, and that's the only requirement.

So now people are out there being charged hundreds or thousands of dollars from some legitimate, but some bogus, entities that are out there trying to claim that they're going to repair your credit, when, in fact, they cannot or will not but collect a lot of money from you.

Again, back to my comments earlier about sort of the people who are underbanked, unbanked, to Erik's comments about the people who are victims of fraud and whatnot, I think this is an area that cries out for some national legislation, national regulations, to protect consumers from these bad actors on the Internet, whether it's synthetic I.D. theft or bogus credit repair, things of that nature, that are just sucking people in and costing them hundreds and thousands of dollars and getting them no further along the way.

JEAN NOONAN: Okay—

MALE: Can I ask Erik to—

JEAN NOONAN: Am I unmuted or not?

TODD ZYWICKI: You're unmuted.

JEAN NOONAN: Okay. So these are two great points, and let me jot down, because I don't know if the Bureau's going to be able to do, you know, a digital transcript of this call, but these are great, great points.

TODD ZYWICKI: Could I ask you to say a little bit more about what goes on in the sale of commercial trade lines?

ERIK BEGUIN: Sure. This is Erik. So there are marketplaces on the Internet where somebody with a 20-year history of a large financial institution credit card, let's say a $30,000 credit limit, where you can go and pay a price to a broker, who will then facilitate you being added as an authorized user on that account to pad your credit profile. And that broker then splits a fee with the person whose credit it actually is, but the person buying the authorized trade line never receives any access to that credit.

So this is used by consumers who are sort of told that this is a legitimate practice. Depending on the lender, some will identify; some won't. But it is really common to create a synthetic identity. It's one of the first steps in creating a synthetic identity, which, of course, is, I believe, the fastest-growing financial crime in the United States.

TODD ZYWICKI: Okay, thanks. That's very helpful.

REBECCA STEELE: Hi. It's Rebecca Steele. Can you hear me?

JEAN NOONAN: Yes, we can.

REBECCA STEELE: Okay, great. I just want to thank you all for the discussion today. This is really helpful, and I just want to add on a couple things that maybe haven't been talked about today yet.

One, just looking out in the next 10 to 15 years forecasted data will be more standard, it will be more available, and the uses of it will explode. I mean, with that we should probably be thinking about, you know, what are we doing today with the data on both financial services and tech.

I'll give you an example of some concerns of mine. One is online ratings. So one of the things people do quickly—consumers—is they look at online ratings for a lender, for personal loans, for small installment loans, et cetera, even for credit cards, and they may or may not be getting legitimate ratings. So if there is a way to utilize data differently from the CFPB, from other government entities, that would help ensure that we've got good, tight information that's being exposed to consumers in the right way.

And I think Sophie mentioned, like this is very personalized. So, you know, I deal with consumers indebted, some will have up to 30 credit cards. Can't pay the minimum payment. You know, personalizing these disclosures is really, really important for the long term and keeping people out of persistent debt. Using data that's available to the regulators, whether it's the Complaints Database I think someone talked about earlier, or whether it's something else, I think it's really important to get the true facts on the table. Then we can really start talking about personalizing sort of a summary disclosure that may be through Finn Tech, ourselves, and regulation can help really that consumer understand what their true position is and build scenarios.

The credit bureaus have tried to do this around scenarios—you know, What happens if I do X, Y, Z? What's the outcome? My score? Et cetera. Well, why couldn't we take that to a whole different level of, What about indebtedness? What about my cash flow? What about my student loan? What about I co-signed for an auto loan? Because this financial marketplace is going to get a lot faster, a lot more data, and a lot scarier for a lot of people, which means two things.

One is, people will get money quicker that they can't pay back potentially, and their access to credit and wealth will diminish, not improve. And the other thing I just want to point out is shopping is very, very difficult for those who are in the lower FICO bands. Not only is shopping for alternatives difficult, the fear of, you know, what's out there and who they're dealing with is very scary for many, many, many individuals and families.

So we have to find a way to make sure that people have a third party—and I heard this said a couple times today—that is a safe place to get advice. Whether that's counselors, whether that's a government entity, people need a safe place to get advice. So I just throw that out there, not that I have all the answers.

The last thing I just want to talk about is along the lines of shopping, a seal of approval that could confirm with validated data that this lender is in good standing, that their summary disclosures are correct, and if they do have online ratings, that they've been checked I think would be really, really helpful because then consumers could go out—and they're all shopping on their phone now—they could go out and have a degree of certainty around what they're going to get and that it's not a fraudulent sort of case.

So that's kind of what I wanted to talk about. Thank you for your time.

JEAN NOONAN: I think those are wonderful points. I took frantic notes, and I've been reassured that there will be an audio transcript and a digital, a Word transcript, of this. So thank you so much for those points. I think they are excellent, Rebecca.

REBECCA STEELE: Thank you.

TODD ZYWICKI: And I also want to open the—well, in a moment—and invite all of you to submit any written comments that you would like to, as well as any follow-up comments on sites and the like.

You've gotten a sense of the five topics we're looking at, which is: strengthening consumer protection systems, improving information to consumers in sort of the electronic era, promoting competition and innovation, promoting inclusion and access and how to increase the flexibility and modernization of the modern financial system that we've been talking about in the last few minutes.

So we've probably got time for one more comment before we have to sign off today, but we'd certainly invite you to follow up with any additional comments that you have that you can get in touch with Manny to submit. And we also saw where they forwarded to us those that got into the queue, but the written comments that people had earlier on.

Actually, I see, I think we are out of time now. We are out of time, unfortunately, so I am going to invite—I want to thank all of you for being here, and I want to invite Director Kraninger if she would like to give any closing remarks. So thank you everybody for your time today.

KATHLEEN L. KRANINGER: Thank you so much to Todd and Task Force members—you all put tremendous work into this—and to the staff supporting the Task Force generally, and also absolutely to the Advisory Committee members. It was excellent to hear the voices of those of you who were able to get in your comments. Thank you so much to all of your for hanging on despite some of the technical challenges. And I would echo the comments made by Task Force members about the thoughtful and detailed perspective you provided and in addition ask for those who maybe did not get the chance to get in, again, we apologize. But the opportunity to follow up with the Task Force and otherwise provide your thoughts and inputs, they're incredibly valuable to me and to all of us, and so we appreciate your time today and your willingness to share your perspectives. And I look forward to upcoming meetings as welL. We've got some more coming up soon.

So Manny, I guess I'll kick it back to you on that note.

MANNY MAÑÓN: Thank you, Director. And, again, I have received several emails from Advisory Committee members. Please continue sending these to me and my team. The Task Force will be reviewing those as well.

And this will officially conclude today's meeting. Thank you again for making time, and we'll be talking again next week. Have a great day. Operator, please disconnect them at this time.

[End of recorded session.]