PART I: HISTORICAL AND ECONOMIC OVERVIEW OF CONSUMER FINANCE

Chapter 1

In October 2019 the CFPB announced the creation of the Taskforce on Federal Consumer Financial Law. The Taskforce marks approximately the 50th Anniversary of the National Commission on Consumer Finance. The Taskforce focused on five issues: (1) Strengthening the conceptual foundations of consumer financial protection, (2) Empowering consumers through effective provision of information, (3) Promoting competition and innovation for the benefit of consumers, (4) Expanding financial inclusion, and (5) Modernizing the consumer financial regulatory framework.

Chapter 2

The evolution of the consumer finance economy can be divided into three periods, including a "pre-modern" period from the end of the Civil War until about 1910. The growing abuse of illegal lending and loan sharks during these years prompted a modernization of the consumer financial regulation framework beginning after 1910. The "early-modern" era from the early-20th Century until the 1960s saw continued growth of urban life and the emergence of a wage economy that created a growing need for consumer credit and other financial products as well as heightened action by state governments to eliminate remaining abusive practices. By the 1960s the "modern" era of consumer financial markets developed as the post-War migration to the suburbs created a new demand for consumer durable goods purchased on credit, the growth of an increasingly national consumer financial system, and considerable national regulation. Today, we stand at the rapidly emerging dawn of a new era, as technological innovation raises new opportunities and potential threats for consumers and new challenges for the financial regulatory framework.

Chapter 3

Demand for consumer credit can be explained by two interrelated factors that propose a model of rational credit use by households. First, credit allows consumers to change the timing of purchases so as to make valuable investments in household capital goods, including mortgages, consumer durables (such as automobiles and appliances), and human capital (education). Second, credit allows consumers to change the timing of consumption over their lifecycle, by borrowing early in life when establishing themselves and their families and lending (saving) later in life in preparation for eventual retirement. Decades of theoretical and empirical evidence supports this theory. Novel theories of consumer demand, such as behavioral economics, remain underdeveloped as a matter of theory and inadequately supported as a matter of empirical analysis.

Chapter 4

The supply of credit and other financial services is determined by the costs of financial intermediation. We discuss the main elements of the costs of providing financial services and demonstrate that the costs of credit do not scale proportionally with the size of credit extension loans made. As a result, smaller credit extensions have higher costs relative to *the amount of credit extended and will have higher measured APR. We discuss implications for regulatory policy.*

Chapter 5
Providing small-dollar credit to wage earners at reasonable prices has proven to be a perennial challenge. We review the underlying economic model of small-dollar lending, its historical status, and current institutions and their regulatory framework. We discuss the current market for small-dollar loans and the consumers who use them.

Part II: THE FRAMEWORK OF CONSUMER FINANCIAL PROTECTION: Consumer Protection, Competition, Innovation, and Inclusion

Chapter 6
The NCCF identified the same animating principles for consumer financial protection as the current Taskforce. We review the framework of an effective system of consumer financial protection, identifying the interaction of markets, common law, and regulation. We discuss the value of principles-based regulation as an alternative to prescriptive rules-based regulation and analyze the CFPB's five major regulatory tools and internal organization are discussed.

Chapter 7
Acquiring information imposes a cost. Even when information is readily available, consumers make decisions with less than perfect information. There are strong incentives in competitive markets to provide consumers with the information that is most important to them. Well-intentioned disclosure requirements have grown over time, to the point where the sheer volume of information that sellers must disclose likely overwhelms its utility and may lead to consumer decisions that are worse, not better.

Chapter 8
Consumers benefit from competition in consumer financial markets as in other consumer markets. Congress recognized this value in identifying the maintenance and promotion of competition in financial services is one of the statutory objectives of the Bureau. Congress recognized that consumers exercising choices among competing providers is critical to financial consumer protection and access to affordable credit. We review the benefits of competition for consumers and identify initiatives to promote competition and remove existing barriers to competition.

Chapter 9
Innovation in consumer financial products and services has always been an engine for reducing prices, improving quality, and expanding competition and inclusion in consumer financial services. We review the benefits, risks, and regulatory challenges that innovation presents. Innovation advances competition and enhances consumer choice in financial services markets, but existing laws have uncertain application to new practices or services, creating the potential for harmful practices and challenging regulatory agencies to foster innovation's benefits while also protecting consumers.

Chapter 10
Promoting responsible financial inclusion is a moral imperative. We explore the importance of financial inclusion for traditionally excluded Americans, examine polices that restrict greater inclusion, and consider policies that can expand competitive markets and financial services to new consumers. We examine the ongoing challenge of ensuring equal access and treatment of all consumers under law, regardless of sociodemographic characteristics.

PART III: MODERNIZING THE REGUALTORY FRAMEWORK AND EXPANDING CONSUMER EMPOWERMENT

Chapter 11
The development of new technologies provides extraordinary opportunities to expand access and promote competition and innovation to benefit consumers. But greater use of information also creates heightened questions of privacy and data security. Sharing information about payment history in appropriate circumstances, without the consumer's consent, is an essential element to enable well-functioning financial markets. But relying on detailed disclosure of information practices, and leaving it to consumers to protect themselves, does little to enhance privacy. Privacy regulation should focus on substantive regulation to prevent adverse consequences for consumers from information use and misuse.

Chapter 12
Empowering consumers through access to and use of financial services includes (1) promoting financial literacy, (2) examining the special challenges and opportunities for younger consumers and their rapid adoption of new payment and finance technologies, and (3) facilitating savings and financial security among all American households, including the elderly.

Chapter 13
The consumer regulatory framework involves many players on both the state and federal levels. That framework has evolved in a piecemeal fashion over time. We examine the existing regulatory framework and asses its effectiveness. We examine the special challenges raised by the Supreme Court in CFPB v. Seila Law. *We analyze tools, such as cost-benefit analysis, that could be used to assess the CFPB's regulatory effectiveness in promoting consumer financial welfare.*