

October 2015 – September 2016

Annual report of the Academic Research Council



Letter to the Director from the Assistant Director of the Office of Research

Richard Cordray, Director
Consumer Financial Protection Bureau
1700 G Street, NW
Washington, D.C. 20552

Dear Director Cordray,

On behalf of the Academic Research Council (ARC or Council), we are honored to present our annual report which details the activities and progress made during the past reporting year.

The Academic Research Council is made up of scholars recognized for their professional achievements and objectivity in economics, statistics, psychology or behavioral science. Council members also have relevant methodological and technical expertise in structural or reduced form econometrics, modeling of consumer decision-making, behavioral economics, experimental economics, program evaluation, psychology, or financial choice.

The Council met once this year for its annual meeting in Washington, D.C. The members continued to advise us on research methodologies, data collection, and analytic strategies, and provided research and strategic planning-related feedback.

During the annual meeting the ARC's subcommittees on Disclosure and Dynamics of Household Balance Sheets also convened and engaged with Bureau staff to provide collective and individual perspectives on the staff's ongoing work in these areas. This annual report provides greater detail about these committee discussions as well as the public session of the ARC. Summaries of the meeting are also posted to consumerfinance.gov/about-us/advisory-groups/.

Sincerely,

Ron Borzekowski
Assistant Director for Research

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1. Executive summary

The Consumer Financial Protection Bureau (CFPB or Bureau) is the nation's first federal agency focused solely on consumer financial protection.¹ The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) created the CFPB to protect consumers of financial products and services and to encourage the fair and competitive operation of consumer financial markets. The Bureau's mission is to help consumer finance markets work by making rules more effective, by consistently and fairly enforcing those rules, and by empowering consumers to take more control over their economic lives.

The Consumer Financial Protection Bureau's Academic Research Council (ARC or Council) was chartered and established in September 2012. In fulfillment of its responsibility as articulated in requirements of the Federal Advisory Committee Act (FACA), the CFPB's Academic Research Council is pleased to present its Annual Report to the Director.

This report primarily summarizes the activities and progress of the Council's committee meetings held over the last reporting year, October 2015 to September 2016. The discussion portion of the report is divided into sections aligned with the ARC's charter.

In this last reporting year, the Academic Research Council:

- Held its annual meeting on May 19-20, 2016 in Washington, D.C.;
- Convened its two sub -committees on Disclosures and Dynamics of Household Balance Sheets during the May 2016 annual meeting;
- Examined and discussed a variety of topics and issues during the May 2016 annual meeting including:
 - The Bureau's Consumer credit panel;
 - The Bureau's survey of household views on debt;
 - Computational household finance;
 - Controlled economic research trials;

¹ Previously, seven different federal agencies were responsible for rulemaking, supervision, and enforcement relating to consumer financial protection. The agencies which previously administered statutes transferred to the Bureau are the Board of Governors of the Federal Reserve System (Federal Reserve, Federal Reserve Board, or Federal Reserve Board System), Department of Housing and Urban Development (HUD), Federal Deposit Insurance Corporation (FDIC), Federal Trade Commission (FTC), National Credit Union Administration (NCUA), Office of the Comptroller of the Currency (OCC), and Office of Thrift Supervision (OTS).

- Innovative research techniques around disclosure testing; and,
- Quantitative disclosure testing and measuring effectiveness of disclosure

Detailed summaries of the above topics discussed during the full ARC meeting can be found at consumerfinance.gov/about-us/advisory-groups/.

This report fulfills the Academic Research Council, Federal Advisory Committee Act (FACA) requirement to submit an annual report to the Director.

2. Role of the Academic Research Council

The Academic Research Council was established to advise the Bureau's Office of Research on research methodologies, data collection, and analytic strategies and provides feedback about research and strategic planning.

3. Committees

Section 11 of the ARC charter outlines that the Council may establish and dissolve committees, in consultation with the Bureau. Any committees shall report back to the Advisory Council and may include as participants individuals who are members of the Advisory Council and/or staff of the Bureau. Committees may, from time to time, call on individuals who are not members of the Council or staff of the Bureau, for the sole purpose of providing specific domain expertise and knowledge. The committees, if any, may not provide advice or work products directly to the Bureau.

Following the process outlined in the ARC charter and bylaws, members of like expertise and backgrounds are organized into two committees: Disclosures and Dynamics of Household Balance Sheet. The schedule of ARC committee meetings follows below.

| Academic Research Council Committee Meetings [This table includes in-person meetings] | |
|--|--------------------------------------|
| Disclosures | Dynamics of Household Balance Sheets |
| May 19 th , 2016 | May 19 th , 2016 |

In May 2016, both committees convened and discussed priorities, including issues about which committee members wished to learn more, to identify and highlight trends, and to raise issues with Bureau staff members. The reporting year's priorities are outlined below.

Disclosures

Office of Research staff presented on the CFPB's ability to conduct controlled economic research trials, highlighting work that the Bureau has done testing how consumers respond to financial information. The Committee advised on innovative research techniques that could contribute to work on disclosure testing. They support the CFPB's interest in understanding disclosure in context and suggested a goal of mirroring real life scenarios in the experimental design.

Office of Research staff also presented on the Bureau's quantitative disclosure testing and the potential to integrate this with qualitative testing in order to improve disclosure forms. Discussion centered on how to measure the effectiveness of disclosure and the important

distinction between consumers reading and understanding disclosures. The committee also discussed the challenge of having consumers incorporate the knowledge from the disclosures into “decision-making processes,” which contributed to a broader conversation about identifying metrics for effective disclosure. The committee agreed that the Office of Research should continue to focus on this area of research in the future.

Dynamics of Household Balance Sheets

Office of Research staff presented an overview of the Consumer Credit Panel (CCP) to the Council. In the presentation, staff highlighted the ability to provide timely and innovative information using the data. Committee members suggested the types of information that would be useful in such reports. Members agreed with the importance of analyzing information at the household level in light of information about the household debt that became known during the financial crisis.

Office of Research staff also presented the survey of household views on debt to members. Committee members discussed various issues regarding possible nonresponse bias in the analysis. They acknowledged that these data provide new insight into a population that can complement previously used complaint data.

Staff also presented the findings from the Bureau’s computational household finance project to the committee. The committee suggested ways to expand the use of these models in the academic community to encourage relevant and beneficial research in the consumer finance.

4. Conclusion

In closing, in its sixth year, the Academic Research Council has continued to share vital advice, expertise, and technical information with the Bureau and its staff. Council members would like to thank the Consumer Financial Protection Bureau for the chance to help further the Bureau's mission of helping to make markets for consumer financial products and services work for Americans.

APPENDIX A:

Academic Research Council Biographies²

Ian Ayres is a lawyer and an economist. He is the William K. Townsend Professor at Yale Law School, the Anne Urowsky Professorial Fellow in Law, and a Professor at Yale's School of Management. Professor Ayres has been a columnist for *Forbes* magazine, and a commentator on public radio's *Marketplace*. Ian has published 11 books (including the New York Times best-seller, *Super Crunchers*) and over 100 articles on a wide range of topics.

In 2006, he was elected to the American Academy of Arts and Sciences. His book with Greg Klass, *Insincere Promises: The Law of Misrepresented Intent*, won the 2006 Scribes book award "for the best work of legal scholarship published during the previous year." He was born and raised in Kansas City, Missouri, received his B.A. (majoring in Russian studies and economics) and J.D. from Yale and his Ph.D. in economics from M.I.T. Professor Ayres clerked for the Honorable James K. Logan of the Tenth Circuit Court of Appeals. He has previously taught at Harvard, Illinois, Northwestern, Stanford and Virginia law schools and has been a research fellow of the American Bar Foundation.

Raphael Bostic is the Judith and John Bedrosian Chair in Governance and the Public Enterprise at the Sol Price School of Public Policy at the University of Southern California. He has recently returned to USC after serving for 3 years in the Obama Administration as the Assistant Secretary for Policy Development and Research at the U.S. Department of Housing and Urban Development. In that Senate-confirmed position, Dr. Bostic was a principal advisor to the Secretary on policy and research, with the goal of helping the Secretary and other principal staff make informed decisions on HUD policies and programs, as well as budget and legislative proposal. Bostic led an interdisciplinary team of 150 which had expertise in all policy areas of importance to the department, including housing, housing finance, rental assistance, community development, economic development, sustainability, and homelessness, among others. During his tenure and with his leadership, PD&R funded more than \$150M in new research, became an important advisory voice on departmental budget and prioritization decisions, and reestablished its position as a thought leader on policies associated with housing and urban development. Dr. Bostic arrived at USC in 2001, where he served as a professor in the

² Academic Research Council biographies reflect the membership of the ARC between September 2015 and September 2016.

University of Southern California's School of Policy, Planning, and Development. His work spans many fields including home ownership, housing finance, neighborhood change, and the role of institutions in shaping policy effectiveness. A particular emphasis has been on how the private, public, and non-profit sectors interact to influence household access to economic and social amenities. His work has appeared in the leading economic, public policy, and planning journals. He was Director of USC's Master of Real Estate Development degree program and was the founding director of the Casden Real Estate Economics Forecast. Prior to that, he worked at the Federal Reserve Board of Governors, where his work on the Community Reinvestment Act earned him a Special Achievement Award. In an earlier stint at HUD, Dr. Bostic served as a special assistant to Susan Wachter when she served as the Assistant Secretary for PD&R. He earned his Ph.D. in Economics from Stanford University and his BA from Harvard University.

John Y. Campbell is the Morton L. and Carole S. Olshan Professor of Economics at Harvard University. He grew up in Oxford, England, and received a Bachelor of Arts from Oxford and a Ph.D. from Yale. He spent the next ten years teaching at Princeton, moving to Harvard in 1994. In 2006 his undergraduate teaching was acknowledged with a Harvard College Professorship. Campbell has published nearly 100 articles on various aspects of finance and macroeconomics, including fixed-income securities, equity valuation, and portfolio choice. His books include *The Econometrics of Financial Markets* (with Andrew Lo and Craig MacKinlay, Princeton University Press 1997), *Strategic Asset Allocation: Portfolio Choice for Long-Term Investors* (with Luis Viceira, Oxford University Press 2002), and *The Squam Lake Report: Fixing the Financial System* (with the Squam Lake Group of financial economists, Princeton University Press 2010). Campbell served as President of the American Finance Association in 2005 and as President of the International Atlantic Economic Society in 2009. He is a Research Associate and former Director of the Program in Asset Pricing at the National Bureau of Economic Research, a Fellow of the Econometric Society and the American Academy of Arts and Sciences, a Corresponding Fellow of the British Academy and Honorary Fellow of Corpus Christi College, Oxford, and holds honorary doctorates from Copenhagen Business School, the University of Maastricht, and the University of Paris Dauphine. He is also a founding partner of Arrowstreet Capital, LP, a Boston-based quantitative asset management firm. At Harvard, Campbell served as the chair of the Department of Economics from 2009-2012 and helped to oversee the investment of the endowment as a board member of the Harvard Management Company from 2004-2011.

Justine Hastings is a Professor of Economics and International & Public Affairs at Brown University. Hastings came to Brown from Yale University and has previously taught at Dartmouth College. She is a graduate of the University of California at Davis and received her Ph.D. in 2001 from the University of California at Berkeley. She is a Research Associate at the National Bureau of Economic Research and a Resident Fellow at Yale University's Institution for Social and Policy Studies. Justine's research focuses on decision-making behavior in low-income and minority communities, and the impact of these behaviors on educational attainment, savings, and consumption. Other research investigates how government interventions and regulated markets can be designed to maximize opportunities for the disadvantaged, particularly in light of strategic firm response to regulation and consumer behavior.

Christine Jolls is Yale Law School's Gordon Bradford Tweedy Professor of Law and Organization, a chair previously held by Nobel Laureate Oliver Williamson. She is also the Director of the Law and Economics Program at the National Bureau of Economic Research (NBER) with headquarters in Cambridge, Massachusetts. Previously she served as a law clerk at

the Supreme Court of the United States, received her J.D., magna cum laude, from Harvard Law School, and earned her PhD. in Economics from MIT, where she was a National Science Foundation Graduate Fellow. She was raised in the San Francisco Bay Area and earned her undergraduate degree at Stanford University, where she was elected to Phi Beta Kappa in her second year and won the Robert M. Golden Medal. Prior to college, Professor Jolls was named one of two United States Presidential Scholars from the state of California. Her research and teaching concentrate in the areas of employment law, behavioral law and economics, government administration, consumer protection, and privacy law.

Brigitte Madrian is the Aetna Professor of Public Policy and Corporate Management at the Harvard Kennedy School. Before coming to Harvard in 2006, she was on the Faculty at the University of Pennsylvania Wharton School (2003-2006), the University of Chicago Graduate School of Business (1995-2003) and the Harvard University Economics Department (1993-1995). She is also a research associate and co-director of the Household Finance working group at the National Bureau of Economic Research. Madrian's current research focuses on behavioral economics and household finance, with a particular focus on household saving and investment behavior. Her work in this area has impacted the design of employer-sponsored savings plans in the U.S. and has influenced pension reform legislation both in the U.S. and abroad. She is also engaged in research on health, using the lens of behavioral economics to understand health behaviors and improve health outcomes; in the past, she has also examined the impact of health insurance on the job choice and retirement decisions of employees and the hiring decisions of firms. Madrian received her Ph.D. in economics from the Massachusetts Institute of Technology and studied economics as an undergraduate at Brigham Young University. She is the recipient of the National Academy of Social Insurance Dissertation Prize (first place, 1994) and a two-time recipient of the TIAA-CREF Paul A. Samuelson Award for Scholarly Research on Lifelong Financial Security (2002 and 2011).

Melvin Stephens, Jr. is a labor economist with research interests in displaced workers, household consumption decisions, and aging and retirement. He received his Ph.D. in economics from the University of Michigan, where he is currently a Professor of Economics. Stephens is also a professor of Public Policy at the Ford School of Public Policy, a Research Affiliate at the Population Studies Center, a Faculty Associate at the Survey Research Center. In addition, Stephens is a Research Associate at the National Bureau of Economic Research.

Richard H. Thaler studies behavioral economics and finance as well as the psychology of decision-making which lies in the gap between economics and psychology. He investigates the implications of relaxing the standard economic assumption that everyone in the economy is rational and selfish, instead of entertaining the possibility that some of the agents in the economy are sometimes human. Thaler is the director of the Center for Decision Research and a Ralph and Dorothy Keller Distinguished Service Professor of Behavioral Science and Economics at The University of Chicago Booth School of Finance, and the co-author (with Cass R. Sunstein) of the global bestseller *Nudge* in which the concepts of behavioral economics are used to tackle many of society's misbehaving and major problems. He has published a number of articles in prominent journals such as the *American Economics Review*, the *Journal of Finance* and the *Journal of Political Economy*. He has authored or edited four other books: *Quasi-Rational Economics*, *The Winner's Curse: Paradoxes and Anomalies of Economic Life*, and *Advances in Behavioral Finance* (editor) Volumes I and II. Thaler is a member of the American Academy of Arts and the co-director (with Robert Shiller) of the NBER project on behavioral economics. He

has served as President of the American Economics Association and was elected a Fellow of the American Finance Association. Before joining the University of Chicago faculty in 1995, Thaler taught at the University of Rochester and Cornell as well as visiting stints at The University of British Columbia, the Sloan School of Management at MIT, the Russell Sage Foundation and the Center for Advanced Study in Behavioral Sciences at Stanford. Originally from New Jersey, Thaler has a bachelor's degree from Case Western Reserve University and a master's and Ph.D. from the University of Rochester. He joined the Chicago Booth faculty in 1995.