

October 1, 2016 – September 30, 2017

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 2016 to September 2017. 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 16-17, 2017 in Washington, D.C.;
- Convened its two sub -committees on Disclosures and Dynamics of Household Balance Sheets during the May 2017 annual meeting;
- Examined and discussed a variety of topics and issues during the May 2017 annual meeting including:
 - Disclosure in the prepaid card and overdraft context;
 - Strategies for survey data collection
 - Computational household finance;
 - Stylized 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).

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 13 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 16 th , 2017	May 16 th , 2017

In May 2017, 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

In this session, ARC members and Office of Research staff discussed the challenges of creating effective disclosure forms and measuring disclosure effectiveness. The discussion was focused on disclosure in the prepaid card and overdraft context.

Office of Research staff member, Heidi Johnson provided an overview of Office of Research projects under the Bureau's disclosure research agenda and provided examples of the Bureau's model disclosure forms for prepaid cards. Eric Johnson from the Columbia Business School, who is currently a visiting scholar with the Office of Research, moderated the discussion with ARC members and Bureau staff.

During the session, many issues were raised including the proposition that many users of prepaid cards would be unbanked if not for the prepaid card market. Additionally the

importance of learning more about what users of prepaid cards infer about fees, especially those that are not included on disclosure forms was discussed. Johnson engaged ARC members and Office of Research staff in a discussion as to how the Bureau can create effective disclosure forms and how to design a research study that would best assess their effectiveness. ARC members provided their recommendations one of which included running a stylized trial in a lab setting in which individuals can be presented with fee information and researchers can examine how the disclosure of this information impacts their decision-making. Additionally, ARC members recommended the Bureau ask consumers how many fees they remember at some point after a prepaid card purchase and analyze whether the disclosure form influences the consumer's decision of which cards they use to make a purchase at the point of sale.

Dynamics of Household Balance Sheets

In this session, ARC members and Office of Research staff discussed how the Office of Research can make the best use of its existing data assets and ideas for building on those assets. The discussion focused on strategies for survey data collection and the types of data elements that are important for understanding the dynamics of household balance sheets.

Senior Economist Eva Nagypal provided an overview of Office of Research projects under the dynamics of household balance sheet research agenda. Staff described early computational research that models consumers' uptake of high-interest rate loans. They also provided background on research under development examining what households do when they run out of money.

The discussion focused on community networks which can extend beyond a consumers' immediate family. ARC members recommended Bureau researchers examine if consumers' reliance on community networks for financial assistance is an asset or liability. Some consumers turn to their community to finance their short-term financial needs or for financial or savings advice. Or, for example, do these networks discourage consumers from accumulating assets? ARC members also recommended research literature in development economics to learn more about this topic but however cautioned that research in the development context may not directly translate to consumers experience in the U.S.

4. Conclusion

In closing, in its seventh 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.

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 PhD 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.

Karen Dynan is a Professor of the Practice of Economics, Department of Economics at Harvard University. Professor Karen Dynan is a Professor of the Practice in the Department of Economics at Harvard University. She served as Assistant Secretary for Economic Policy and Chief Economist at the U.S. Department of the Treasury from 2014 to 2017, leading analysis of economic conditions and development of policies to address the nation's economic challenges. From 2009 to 2013, Dynan was Vice President and Co-director of the Economic Studies program at the Brookings Institution. Before that, she was on the staff of the Federal Reserve Board for 17 years, playing a leadership role in a number of areas, including macroeconomic forecasting, household finances, and the Fed's response to the financial crisis. Dynan also served as a senior economist at the White House Council of Economic Advisers from 2003 to 2004 and as a visiting assistant professor at Johns Hopkins University in 1998. Dynan is also currently a nonresident senior fellow at the Peterson Institute for International Economics. Dynan's research focuses on fiscal and other types of macroeconomic policy, consumer behavior, and household finances. She received her Ph.D. in economics from Harvard University and her A.B. from Brown University.

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 PhD 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.

John Lynch, Jr. is Director of the Center for Research on Consumer Financial Decision Making and Senior Associate Dean for Faculty and Research at the Leeds School of Business, University of Colorado Boulder. Lynch studies the psychology of consumer financial decision making, focusing on two primary topics: financial literacy and financial education; and how the psychology of planning and thinking about the future affects consumer financial decision making. He co-chairs the annual Boulder Summer Conference on Financial Decision Making, a highly interdisciplinary academic-industry-government forum for research on consumer financial decision making. Lynch received his BA in economics, his MA in psychology, and his Ph.D. in psychology, all from the University of Illinois at Urbana-Champaign. He was a member of the faculty at University of Florida from 1979-1996, where he was Graduate Research Professor. From 1996-2009 he was the Roy J. Bostock Professor of Marketing at the Fuqua School of Business at Duke University. Lynch is a Fellow of the American Marketing Association, the Association for Consumer Research, and the American Psychological Association and he is a recipient of the Paul D. Converse Award for Outstanding Contributions to the Science of Marketing and the Society for Consumer Psychology's Distinguished Scientific Achievement Award.

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. 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 PhD in economics at 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.

² Academic Research Council biographies reflect the membership of the ARC between September 2016 and September 2017.

Academic Research Council written statements

The following statements were submitted by ARC members: