

Academic Research Council

October 25, 2019



Meeting of the Academic Research Council

The Consumer Financial Protection Bureau's (CFPB) Academic Research Council (ARC) met in person at 10:15 a.m., Eastern on October 25, 2019 in Washington DC.

ARC members present	CFPB staff present
Michael Baye	Director Kraninger
Karen Dynan	Deputy Director Brian Johnson
Terri Friedline	Desmond Brown
John Lynch, Jr.	Jason Brown
Tom Miller	Matt Cameron
Joshua Wright	Robert Cameron
	Andrew Duke
	Melissa Knoll
	Zixta Martinez
	Christopher Mufarrige
	Tom Pahl
	Caroline Ratcliffe
	Paul Rothstein
	David Silberman
	LaShaun Warren

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Welcome

Director Kathleen Kraninger

Andrew Duke, Policy Associate Director, Division of External Affairs and Division of Consumer Education and Engagement

Zixta Martinez, Associate Director, Division of External Affairs

Dr. Michael Baye, Chair of the Academic Research Council

On October 25, ARC met for a roundtable discussion with Bureau leadership, subject matter experts, and staff from the Office of Research. ARC Chair Dr. Michael Baye convened the administrative session and welcomed ARC members and staff. He also provided an overview of the day's agenda. Following Chair Baye's remarks, ARC members introduced themselves.

Chair Baye introduced Director Kraninger, who administered the "Oath of Office" to ARC members. Next Director Kraninger provided opening remarks, thanking the members for their time, and touched on the goals for the day. She also summarized recent events the Bureau has hosted and explained the types of feedback she was looking for from ARC members.

Next the open livestreamed session of the meeting began. Zixta Martinez (Associate Director of the Division of External Affairs) welcomed audience members to the public meeting and introduced advisory committee members. Andrew Duke (Policy Associate Director of the Division of External Affairs) welcomed attendees and introduced Director Kraninger. Director Kraninger provided opening remarks and welcomed committee members and members of the public.

Start Small, Save Up initiative - Research Focus

Jason Brown, Assistant Director, Office of Research

Caroline Ratcliffe, Senior Economist, Office of Research

Melissa Knoll, Section Chief, Decision-making and Behavioral Studies, Office of Research

Desmond Brown, Deputy Associate Director, Division of Consumer Education and Engagement

LaShaun Warren, Deputy Assistant Director, Office of Consumer Engagement

Staff from the Office of Research and the Division of Consumer Education and Engagement gave a presentation on the Bureau's *Start Small, Save Up* initiative, with a focus on work related to research and evaluation. Staff explained that the goal of the Research and Evaluation Workgroup is to enhance the evidence base related to savings and financial well-being and highlighted the potential areas where research could enhance the Bureau's understanding of current gaps in knowledge around emergency savings, including through research partnerships with employers, fintech companies, and financial institutions. Staff highlighted how these partnerships, through research pilots and data sharing, could enable the Bureau to learn more about the efficacy of various strategies to encourage emergency saving, such as financial incentives, automation, and messaging. Staff noted that the Research and Evaluation Workgroup's plans for 2020 include cataloguing and evaluating what has previously been tested in the field, developing a written report based on data from the *Making Ends Meet* survey, and conducting lab experiments on the savings and debt puzzle.

Council members and staff exchanged ideas on the *Start Small, Save Up* initiative. Members discussed tradeoffs between saving for retirement and building an emergency savings cushion, highlighting the fact that many consumers may not earn enough money to save or feel that they do not have the ability to save. Members asked to what extent the Bureau has studied the structural environment and consumers' ability to save within this environment. They noted that lower income consumers' ability to save \$400 varies by situation and individuals' reasons and motivations for saving may differ.

Members recommended that the Bureau consider costs and other barriers for employers, particularly smaller employers, to provide mechanisms for employees to save. They also advised considering research on employer matching programs and why many consumers do not max-out their contributions to savings vehicles. Additionally, members and staff discussed potentially partnering with industry and academic partners to test promising strategies to encourage emergency saving. Members also encouraged the Bureau to consider partnerships with fintech companies to increase the scope of research. They noted that the Bureau could gain valuable insights from a more robust information sharing process. There was also discussion around measures of success beyond amount of emergency savings, such as financial well-being, material hardship, and reduced use of high-cost credit.

Office of Research: Research Agenda Input

Jason Brown, Assistant Director, Office of Research

A staff member from the Office of Research led the discussion on the Bureau's Research Agenda. He explained that much of the Bureau's research work is driven by rulemaking and assessment

responsibilities under the Dodd-Frank Act. He also discussed the subjects of the original Research projects, and the research inputs that are available to the Office of Research. He also listed new potential Research Agenda topics such as: emergency savings; consumer resilience; empowering consumers; how consumers access information and make decisions; consumer harm; consumer injury; access to credit; discrimination. Furthermore, he discussed what role ARC members can have in the selection of the Research Agenda.

Committee members provided feedback on the Research Agenda. Several members discussed the ability of the Bureau to partner with the academic community. They noted that this partnership could be enhanced by increasing academic access to data assets. Upon request from members, staff shared a summary of existing data assets. Members and staff discussed the work involved with long-term research decisions. There was also discussion on the promulgation of research priorities to the academic community at large. Members suggested that the Bureau systematically reach out to academics to allow for entry points for others who do not have Bureau connections. Additionally, members asked how they could be of service to this effort through their role on the ARC.

Members also spoke on testing consumer resilience in the face of financial shocks. They described interpersonal networks as a source of resilience. Additionally, members raised multiple topics to consider including: the use of alternate data in underwriting; the intersection of financial health with social identities; state law variation studies; relationships between different types of savings; the use of artificial intelligence and its connection with finance; issues regarding disclosures; and research quality guidance. Some also raised the prospect of starting a new academic journal.

Preparatory Work: Working Lunch – Private Education Student Loan Ombudsman Introduction

Robert Cameron, Private Education Student Loan Ombudsman, Office of the Director

The preparatory work - working lunch began with an introduction to the Bureau's Private Education Student Loan Ombudsman. ARC Chair Baye introduced the Private Education

Student Loan Ombudsman, Robert Cameron. Cameron greeted ARC members and gave a brief overview of his professional career. He also provided background of his military service. He emphasized the importance of building trust and professional partnerships. Additionally, he summarized the Office's priorities and accomplishments to date, including the issuance of the [2019 Annual Report](#). Committee members and staff discussed problems with student loan servicers, the source of student debt, and borrower decisions and the issues of higher education institutions not helping borrowers.

Preparatory Work: Working Lunch – Trends and Themes by ARC Members

Dr. Tom Miller, Academic Research Council

Dr. Terri Friedline, Academic Research Council

ARC Member Dr. Tom Miller presented his findings on interest rate caps. Miller provided a history of legislation around interest rate caps and shared a sample income statement for an investment lender. He explained that economic theory predicts that rate caps cause shortage of loans, diminished gains from trade, and impose search costs. Using empirical data, Miller was able to surmise that people will drive up to 50 miles to find more favorable loans, where the rate caps are more enticing to borrowers. This means there is a correlation between rate caps and credit deserts. Following Miller's presentation, members and staff discussed the ways that online lending would change the way credit deserts function. They also discussed the potential of fixed costs driving unprofitability. Members highlighted reasons for full economic price of loans rising. There was discussion on the information which could be gleaned from demographic data. They discussed local market competition of banks. Members also spoke about how borrowers receive information regarding interest rate caps across geographic areas.

Dr. Terri Friedline presented her research on digital banking. She discussed the trend of banking and financial services trending more towards digital. She highlighted increasing consolidation and mergers which have led to several rural and minority communities losing their banks. She noted the lack of uniform changes across different communities and explained how inequalities can undermine consumers' ability to save. She also discussed poor communities lacking the tools to utilize digital banking and opportunities to invest in digital infrastructure. Following the presentation, committee members and staff discussed the details of the study. They considered the causes of rising ATM fees and other charges, and who is most affected by those fees and charges. Some noted that the population in the study, such as rural consumers, may carry cash and may be adversely impacted by the changes in technology.

Office of Research: Research Agenda Input

Jason Brown, Assistant Director, Office of Research

**Paul Rothstein, Section Chief for Financial Institutions and Regulatory Policy,
Office of Research**

During this session, the Bureau sought feedback from members on the definition and measurement of consumer harm and consumer injury. Staff from the Office of Research provided a brief overview of the Dodd-Frank Act's requirements for the Bureau. They noted that one of the primary functions of the Bureau is to identify risks to consumers in markets for consumer financial products and services. These products and services include most consumer credit products, certain savings products, and certain related services like debt collection and loan servicing. The Dodd-Frank Act cites risks to consumers as a reason or factor to be considered in many specific Bureau activities, and the likelihood of substantial injury is a factor (along with benefits to consumers and competition) in determining whether an act or practice is unfair. However, the Bureau has not articulated a general definition of consumer harm or injury. Staff also provided several indicators and potential definitions of consumer harm and consumer injury.

Committee members shared their thoughts on defining consumer harm and consumer injury. Members discussed the value of the information provided to consumers before they select a financial product. They discussed recent research measuring the value of good information to consumers and considered that this might provide a measure of the harm from poor information or the wrong information. Members discussed the importance of agencies knowing the magnitude of consumer harm and that estimates of ranges of consumer harm (confidence intervals around point estimates) are also useful. Members inquired about who is the consumer that the Bureau is worried about being harmed and considered that this may be relevant to policy to mitigate harm. Members also commented on what qualifies as mitigation of consumer harm and ways to mitigate consumer harm. They noted that efforts to mitigate harm may reduce access to credit markets and that this is also a harm. They also highlighted the pros and cons of practical experiments being used to define consumer harm.

Referring to the Bureau's mortgage servicing rule, members inquired if the Bureau has conducted a cost/benefit analysis on its effectiveness and discussed generally the difficulty in trying to quantify the benefits of rules. Members considered reasons for the increase in the cost for servicing delinquent loans. Members noted that the monetary value of harm is an area that may help further this analysis. Regarding enforcement cases and other remedies, members discussed different notions of consumer harm from business practices, standard economic approaches to evaluating the harm and mitigation of harm from different potential actions.

Adjournment

ARC Chair Dr. Michael Baye adjourned the meeting of the CFPB Academic Research Council on October 25, 2019 at 3:45pm.

Certification

I hereby certify that, to the best of my knowledge, the foregoing minutes are accurate and complete.



Matt Cameron
Staff Director, Office of Advisory Board and Councils
Consumer Financial Protection Bureau



Jason Brown
Assistant Director, Office of Research
Consumer Financial Protection Bureau



Dr. Michael Baye
Chair, Academic Research Council