

Economic Analysis of Racial and Economic Equity (REE) Impacts: A Presentation to the Academic Research Council

November 5, 2021

REE Impact Analysis

- EO 13985 (Jan 20, 2021) is a call to action, highlighting the emphasis placed by the Biden administration on racial and economic equity:
 - The EO strongly encourages independent agencies to “assess whether, and to what extent, its programs and policies perpetuate systemic barriers to opportunities and benefits for people of color and other underserved groups. Such assessments will better equip agencies to develop policies and programs that deliver resources and benefits equitably to all.”

What we seek from the ARC

- Ideas on how data currently available to us (e.g., CCP + BISG proxy, HMDA) can inform our analysis of REE impacts.
- Ideas on collecting informative data about the REE impact of rulemakings (both prospective and retrospective)
- Ideas on how to analyze the potential tradeoffs involved in specifically addressing racial and economic equity in our rulemakings
- Ideas on data methods we might use to try to identify and capture REE impact.
- Ideas on how we can do effective lab/field work in REE research space
- Ideas on what is the best way to integrate REE analysis in the context of our general economic analysis of a rulemaking's impact (e.g., cost-benefit analysis, regulatory flexibility analysis, etc.)

A potential example of REE considerations in policy

- The Bureau's recent mortgage servicing rule included new, temporary special procedural safeguards to help ensure that borrowers have time before foreclosure to explore their options.
- In the rule, the Bureau noted that borrowers currently in forbearance or behind on their mortgages are disproportionately Black and Hispanic and that Black and Hispanic borrowers also are disproportionately likely to have less equity in their homes.
- “Thus, Black and Hispanic borrowers, and the communities in which they live, are especially likely to benefit from this rule. As homeownership plays the primary role in wealth creation in the United States, a wave of foreclosures due to the current crisis may have a lasting impact on these borrowers’ ability to maintain and accumulate wealth.”

Data

- The analysis of REE Impact for rulemakings in policy spaces such as mortgages and consumer credit may make good use of quality in-house data (esp. HMDA and CCP after inclusion of racial and ethnicity proxies)
- It's almost always true that good quality data is costly and acquiring it is a lengthy process. What other sources of data (preferably readily available) can we consider to help us shed light on the impact of our rulemakings on racial and economic equity?
- Analysis based on findings of existing literature and application of first principles from economics and psychology when data are unavailable is an alternative. What are the strengths and limitations of this approach?

Economic analysis of REE impact

- Considering racial and economic equity may present policymakers with various tradeoffs
 - For example, a policy that addresses a market failure that doesn't specifically address racial or economic equity may result in a greater total welfare improvement than a policy that aims to correct the same market failure, but which at the same time aims to improve racial and economic equity (the partial equilibrium view)
 - Could consideration of racial and economic equity increase welfare over a lengthier time horizon? (the dynamic general equilibrium view)

Economic analysis of REE impact (cont'd)

- Is an approach based on evaluating potential racial and economic equity impacts using historical data most appropriate? What are some fundamental/exogenous/policy invariant factors that can help evaluate the economic effects of specifically addressing racial and economic equity?

Our Foundational Work

- OR aims to improve, on an ongoing basis, its understanding of the baseline differences and potential REE impacts by collecting and analyzing data that help us understand these differences
 - For example, adding race and ethnicity proxies to the CCP
 - Also, expanding the sample sizes of surveys conducted off the CCP to generate more robust statistical findings by race and ethnicity
 - Potentially increasing sample size (and oversampling) in lab studies to be able to detect differences by race
 - Recent descriptive reports on the experiences of different racial groups in particular consumer credit markets

How to do effective lab/field work in the REE research space?

- Disclosures are an important part of Bureau policy. How can REE considerations be incorporated into testing the effectiveness of disclosures?
 - What are the potential benefits and risks to collecting REE data in lab studies?
 - Reporting REE findings based on one or two studies?
 - What research questions do we focus on in testing?
 - Distinction between (a) conducting a study about REE/discrimination and (b) collecting REE data to identify differences by race
 - How do we select subject pools?
 - Should we consider batteries of questions (i.e., not just race) to identify effects related to correlates of race
- How can field studies support the Bureau's REE work? Are there examples we should be aware of?

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