



Department of Homeland Security. With that, let me say welcome, Director Kraninger. We're thrilled to have you with us here today.

Kathy Kraninger:

Thank you so much, Joe. It is a pleasure to be with you all today. And I certainly appreciate the opportunity to present to such an esteemed group of academics, business people, and government officials. I want to also take a second to thank the Kennedy School itself, certainly, the Regulatory Policy Program, that you oversee, for organizing this seminar and inviting me to participate. As the new directions in Regulation Seminar series highlights, regulatory policy is a vast space. And the series covers everything from consumer financial protection, of course, where I sit now, at energy and environment, where you've spent a lot of time. It also includes dynamics with cross cutting applications like artificial intelligence, which is overhauling consumers interactions in the financial marketplace. So, as such, these types of forums offer excellent opportunities to learn from and interact with one another.

Kathy Kraninger:

I'm excited for the opportunity to share some of the important and innovative work that we're doing at the Consumer Financial Protection Bureau. During my time with you today, I'm going to focus primarily on the role of economic analysis and evidence-based policymaking at the bureau. I also want to address the role of research to measure the effectiveness of our rule-makings, as well as the role of research in our supervisory and enforcement work. And then I'll close by talking about how researchers like you can contribute to the bureau's important work. And so, I hope this presentation acts as a starting block for us to explore the various opportunities and connections among us today.

Kathy Kraninger:

So, at the CFPB, we're always looking to effectively utilize our tools to protect consumers. Some of you may be very familiar with our work. But to others, the CFPB may sound like four more letters in the Washington alphabet soup.

Kathy Kraninger:

So, in short, let me tell you that the bureau works to prevent consumer harm in consumer financial markets, such as home mortgages and student loans. We strive to prevent consumer harm by working to ensure that consumer financial markets operate transparently, efficiently and fairly. And our mission also includes promoting innovation in and access to such markets.

Kathy Kraninger:

The Bureau employees four main tools to support its mission. Education, so first we empower consumers to make informed decisions about financial transactions through financial education. Second, we issue regulations that provide clear rules of the road for companies to follow. Third, we supervise financial companies to support a culture of compliance with consumer financial law. And fourth, we enforce violations and hold bad actors accountable to deter potential bad acts in the future.

Kathy Kraninger:

When it comes to developing and implementing policy, laws like the Administrative Procedures Act require agencies to outline their rationale for implementing or changing policy and undertake a transparent process to take comment on such changes. The law also dictates those reasons rest on solid evidence, including evidence of costs and benefits.

Kathy Kraninger:

Kathy Kraninger:

Next I'd like to talk about the role of research in the rulemaking process. The bureau's economists are an integral part of each rulemaking project. Economists on any given rulemaking project identify, develop, and analyze evidence relevant to the cost and benefits of the rules under consideration.

Kathy Kraninger:

Disclosures in the debt collection market is one area where we have a pretty robust rule-making efforts ongoing. And we face important questions about how to effectively disclose to consumers debt related statute of limitations rules. As you may know, statutes of limitation define when an unpaid debt is old enough, that a debt collector may not be able to enforce the debt in court. To determine if or what type of debt collection disclosures would be effective, I mean, particularly given the myriad rules around this and laws around this across the states and across the country, the bureau used a tool you know well, quantitative testing.

Kathy Kraninger:

Specifically, we conducted a large randomized online survey in which we showed participants various disclosures versions. We then asked questions to test their understanding of the information in the disclosures. The level and specificity of testing that we conducted demonstrates our commitment to investing the time and resources necessary to develop the evidence that we need to answer these important policy questions, and frankly support again, that increased consumer understanding, which is the basis for even engaging in a rulemaking in this area.

Kathy Kraninger:

In addition to the testing, it's important that the bureau be as transparent as possible about how we conduct this research. This transparency helps us avoid the research silos that I mentioned earlier.

Kathy Kraninger:

assessments of some of the bureau's most important rules. In the most recent assessment released earlier this month, we looked at the bureau's trade rule. This rule was designed to streamline the information consumers receive in the process of obtaining a mortgage loan. Congress required the bureau to consolidate the overlapping disclosures that were previously required in the Truth and

information is provided to consumers. It's been a lot of discussion in the disclosure space around just in time information.

Kathy Kraninger:



We also have a program through which academic researchers can spend part of their time working directly with us. So, opportunities for post doctoral fellowships and other types of positions like that.

Kathy Kraninger:

Second, we're keenly interested in research conducted outside the Bureau that is relevant to the decisions that we're facing. Few examples on that in terms of the questions we're looking to answer, what information about financial products is most important to consumers and how can it be effectively disclosed? We talked about that a little bit earlier. Why do many consumers have less emergency savings than they think they need? Is there information creditors can use to assess credit worthiness that will improve access to credit, particularly for consumers who appear credit invisible? What drives continuing age, gender, and racial disparities that we see in financial outcomes? How can we better detect and measure the benefit of consumer financial protection rules, in order to conduct effective cost benefit analysis?

Kathy Kraninger:

So, we really want to encourage academic researchers to pursue these questions. We want you to know that new knowledge in these areas can have a huge impact on decisions that we're making right now. And one way we do this, is also by hosting academic research conferences that we do every year. Our next conference is actually scheduled for May 6th and 7th, 2021. And the call for papers was posted last week. So, we look forward to supporting a wide range of submissions there.

Kathy Kraninger:

And certainly the last thing I will say is that we are hiring. The bureau currently has open positions for economists in the Office of Research. We'll be conducting interviews in connection with the ASA meetings in January. So, please I encourage interested students, as I've tried to convey today, the bureau offers economist tremendous opportunities, and not only for great data resources and phenomenal colleagues and a great boss, but it also offers a special opportunity to have direct impact on policies that can help millions of Americans and consumers across our country. So, Joe, I certainly want to thank you for the opportunity to be here and look forward to further in the conversation.

Joseph Aldy:

Great. Thank you, Director Kraninger. It's great to hear that you're hiring. This is something that some of our doctoral students across the university are thinking about as they're looking at the market going forward. So, we will certainly pass along that good news.

Joseph Aldy:

I will also note, I enjoyed the opportunity to participate in a CFPB academic conference about a half dozen or so years ago. Not that I do work in financial regulation, but I've done work thinking about retrospective review of regulations. And as you noted and we'll get into this, I think some in our Q&A and discussion, what an important role that is at CFPB. And what's actually quite distinctive in Doddunity to be here and r





And so, how you think about improving consumer welfare is tricky around behavioral economics. And this is a topic that in your academic seminar is a mind twister and you can go back and forth about. But in real life, someone in the director's position has got to decide when there's a benefit on the behavioral economic side. And I'd like to hear a little bit about how the director thinks about that issue. The bureau had a round table on this



Kathy Kraninger:

So, more rigor behind that, more evidence-base behind that, is certainly what I'm seeking. And that includes not just our regulations, but the opportunity in a financial education is one area in particular, to try to figure out what is effective, what we should actually invest in more, how to approach people and when.

Kathy Kraninger:

In the supervision and enforcement space, we have had that discussion. And Howell, frankly, maybe when you were here, you even saw a little bit of that dance. What role should the economist play in that process when it comes to even the rigor around assessing what a penalty should be. Looking at again, the resources of an institution, and a lot of trade-

evidence to bear in policymaking, they love the mission. And I can tell you that is absolutely true here at the CFPB. We have staff that love this mission. And they all come at it from different perspectives. And that's part of the process too, is bringing those perspectives and that debate to bear.

Kathy Kraninger:

So, I think the last thing I would just note, is obviously we do have a political oversight of the career, civil service. That's part of the system. And I think it's an important part of the system. We're accountable to the people. And that's the mechanism through which we're accountable to the people. And that transition, and that smooth transition again, whenever it comes is absolutely something I support and will support, and always have supported. So, hopefully that helps cover all three. I get some extra points for that.

Joseph Aldy:

So, I would not be surprised if Howell has follow-ups, maybe he'll bring them in another set of three. We'll see. But Howell, feel free to jump in again, in a moment.

Joseph Aldy:

But Director Kraninger, I'd like to follow up on your comment about working with other financial regulators. This is a regulatory space. I guess, we're very American about this in contrast to some of our peers around the world. We have a lot of different regulatory agencies covering different elements of the financial domain. Some of which where there's some overlap, there's some need for coordination. There's also opportunities for learning.

Joseph Aldy:

So, some of our financial regulators have not historically had the interest or enthusiasm, or the practice in conducting analysis of the rules, that CFPB has had. And that's just not my opinion. That's also the



Kathy Kraninger:

So, thinking about how do we constantly improve, how do we make sure the information we take in is analyzed in a way that's useful to the use of the agency itself? And that's something at least in my messaging that I have emphasized repeatedly. And that came through here. The point is, the data is only as good as it's actually used to take action and used as information.

Kathy Kraninger:

I'll note to you, there are some quirks about this because our attorneys have determined that is not actually data pursuant to the Evidence Act. So, there's some dynamics around that. And so, it's not data. But it is useful information from my vantage point for making sure that we are taking fast action. We are having some insight into what's happening in the marketplace, albeit in a way that is narrow, because we're talking about the people who are most aggravated by whatever experience they had.

Kathy Kraninger:

And so, we're not talking about necessarily widespread vantage point of what's happening across the market, because it's the subset of the subset, of the subset of people who are clearly having an issue. But again, that's useful. It's also useful comparing it against itself over time to see how that may be changing, and who that might be changing with respect to.

Kathy Kraninger:

So, that was one area where we wanted to make sure we were clear on how we talk about and frame the database that it's not the end all be all. It's a slice of what's happening in the market, again, to those people who are most affected by an experience they had. But it's useful. And so, explaining how we use it, we use it to inform our supervision and enforcement work to the extent that we see an entity that is particularly a repeat issue there, we see a lack of responsiveness from particular entities. That's something we're going to actually go in and look at via supervision or enforcement when that is the right tool to choose.

Kathy Kraninger:

Education, hugely beneficial in our education efforts. Because for example, early on in the pandemic, we saw a huge spike in consumer complaints related to people saying they weren't able to pay their mortgage and make their mortgage payments, but they were confused about the options that they were told and what options they had. And it was really early on. So, it was even while the CARES Act was being proposed. Then right, when the CARES Act passed. So, you can see, again, everyone was struggling with, how do you explain this? What is the right... Doing interpretation work at the same time that people are calling in seeking assistance.

Kathy Kraninger:

And so, we really engaged very quickly again with FHFA, HUD, others. We did service or scripts. We did videos for consumers, so they knew what their rights were. That really helped the servicers and lenders because they were sharing that video with their customers. So, it was a very crisp way to get that out. And we saw those complaints come down very dramatically, and what we would hope would happen. So again, it's an indicator at least of how we can take action and address the issue, and change again, the nature of the kinds of things that are coming in.

Kathy Kraninger:





Kathy Kraninger:

I know there was a lot of concern early on particularly around fair lending. Interestingly enough, the only policy that the bureau ever approved under Director Cordray's tenure, was one on fair lending. So, that actually is, I think it is a notable step there that says, "Hey, we'll take on issues that are a little thorny." We are continuing to look at that. It's a company that is exactly in the space that you noted that is a little thorny, in terms of how to use other factors into underwriting, and using machine learning to do that. And so, moving away from that particular example, but the way the company that looks at the factors that are coming in and how they make that decision, if they're bringing other factors in, in a way that's going to be beneficial to consumers and is not a means by which you could actually decline credit.

Kathy Kraninger:

So, there are a lot of things in this that are devil in the detail, specific to a particular product. But we're just excited to be engaged in that conversation. It gives us a lot of insight to understand how the market is looking at this, how are fintech companies are looking at this in particular, and banks that want to partner with them, who are looking to do something a little bit different. So, that has been very valuable in increasing our understanding of what's out there.

Kathy Kraninger:

And look, these are clearly entities that want to comply because they're coming to the government to begin with. So, that's something else that we took into account. We put a lot of guard rails in our policies. But we're recognizing again, it's entities that want to comply with the law because they're coming forward to us. They think they have something that's consumer beneficial. We have to agree. And we also have to agree that they're mitigating the risks that might exist, again, to fair lending compliance or otherwise.

Joseph Aldy:

So, it's now one o'clock. I wish we could continue, but we do need to wrap up. Some of our attendees, I know will be going to a different Zoom room for class.

Joseph Aldy:

So, before we wrap, a couple of quick comments. First, a reminder that the seminar we'll meet again next Thursday, and in fact, on a topic related to what the director was just speaking on. We'll have Michael Fitzpatrick, the head of global regulatory affairs at Google, speaking on the challenges and opportunities of artificial intelligence and digital policy over the next decade. That will be as usual 12:00 PM, next Thursday, November 5th.

Joseph Aldy:

A personal note, we are getting our closing disclosures for our new home purchases afternoon from our bank. I look forward to seeing the new forms, at least we rented the last time we were in the business of getting a mortgage.

Joseph Aldy:

So, I do sometimes teach in my economics course on information disclosure. And in fact, using the old Lacko and Pappalardo paper and the ADA papers and proceedings about how they tested different kinds of disclosure instruments, and see how well people understood it. So, hopefully between my

preparation for teaching and what I've learned generally, and today's seminar, I'll be able to process what it is we're taking on with our new mortgage.

Kathy Kraninger:

I hope so. Joe, you have to let me know.

Joseph Aldy:

Okay, I will. Finally, I really enjoyed this. I hope everyone else has as well. So, I'd like everybody to join me in thanking Director Kraninger, for her presentation and discussion today. Thanks, Director Kraninger. Let me also thank, Professor Jackson, for joining us. Howell, a pleasure as always to have you here.

Joseph Aldy:

It's great to have all the attendees here, including my mom. Hi, mom. Thanks for joining us today. But I hope that everyone enjoys the rest of their afternoon. Thanks again for joining us. Take care. Bye, bye.

Kathy Kraninger:

Thank you all very much.

Howell Jackson:

Thank you.