

Research, Markets & the CFPB

Raj Date
Senior Advisor, U.S. Department of the Treasury

Presented at “The New Landscape for Consumer Credit and Payments”
Payment Cards Center
The Federal Reserve Bank of Philadelphia

December 2, 2010

RESEARCH, MARKETS & THE CFPB

The Mission

Where We
Are

Role of
Research

CFPB HAS A BROAD MISSION...

Dodd-Frank's Mission for the CFPB

- Rulemaking and enforcement of federal consumer financial laws
- Restriction of unfair, deceptive, or abusive acts or practices
- Consumer response
- Financial education
- Consumer market research
- Market monitoring

...BUT CONSTRAINTS AS WELL

Dodd-Frank's Limitations on CFPB Authority

- Substantive Limits (e.g. usury caps)
- Process requirements, e.g.
 - Notice and comment
 - Small business panels
- Excluded markets, e.g.
 - Insurance products
 - Mutual funds
- Carve-outs, e.g.
 - Smaller bank primary supervision
 - Auto dealers

WE ARE FOCUSED ON IMPLEMENTATION

234

Days until Transfer Date
July 21, 2011

WE WILL BUILD A WORLD-CLASS RESEARCH FUNCTION

Dodd-Frank's Vision for Research Unit

Research, analyze, and report on:

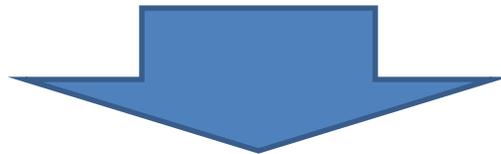
- Market developments
- Access to fair and affordable consumer credit
- Consumer awareness
- Consumer behavior
- Consumer response
- Experiences of traditionally underserved consumers

WE WILL BUILD A WORLD-CLASS RESEARCH FUNCTION

Dodd-Frank's Vision for Research Unit

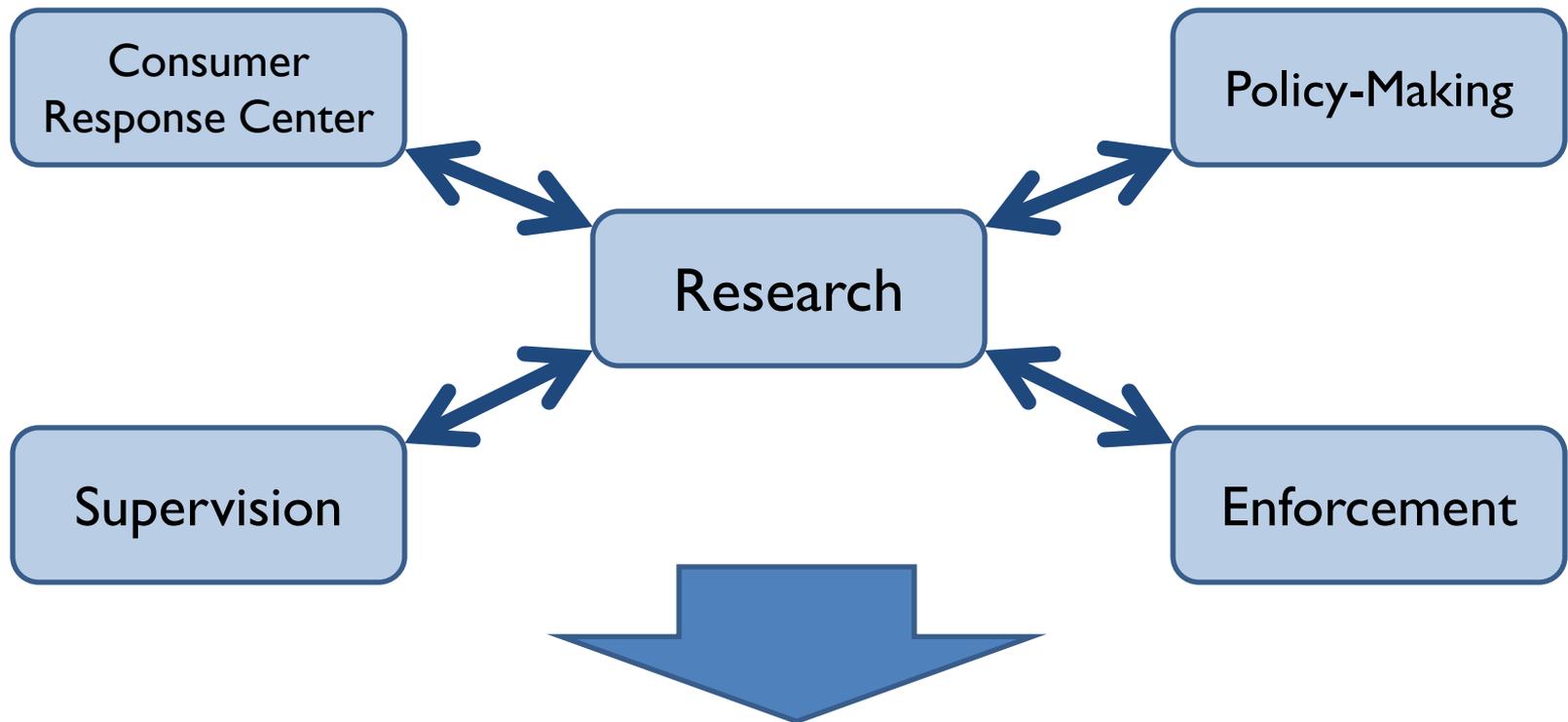
Research, analyze, and report on:

- Market developments
- Access to fair and affordable consumer credit
- Consumer awareness
- Consumer behavior
- Consumer response
- Experiences of traditionally underserved consumers



HOW IS THIS DIFFERENT?

RESEARCH SHOULD TOUCH EVERYTHING WE DO

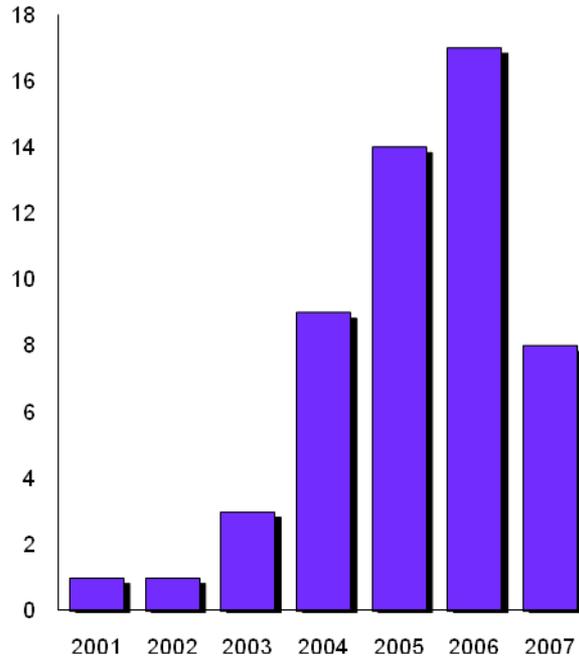


HIGH IMPACT RESEARCH

HIGH-IMPACT RESEARCH CAN SPOT TRENDS EARLY

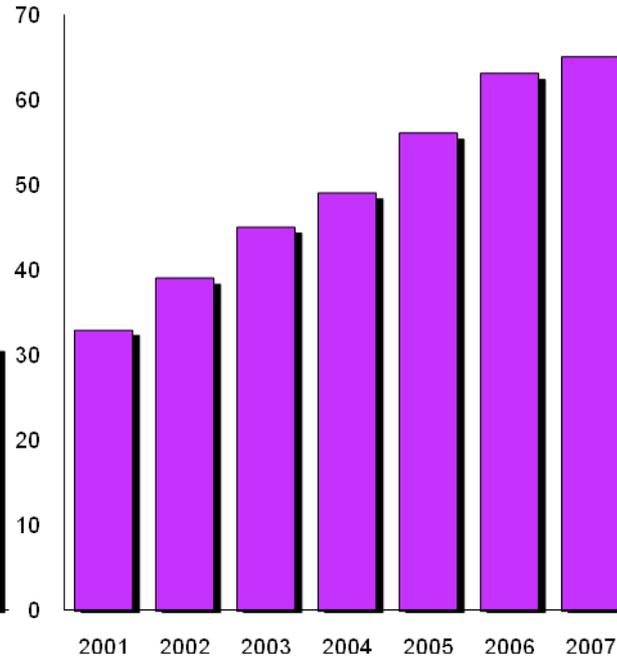
No Money Down

Percent of mortgage originations



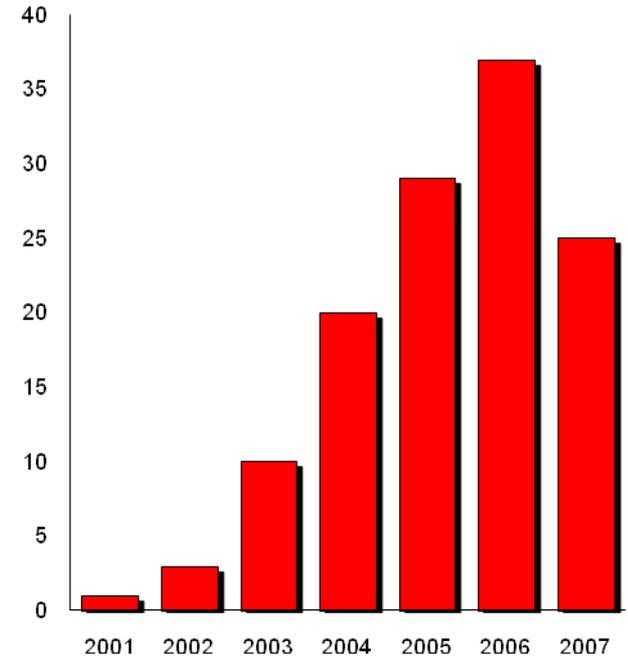
Reduced Documentation

Percent of mortgage originations



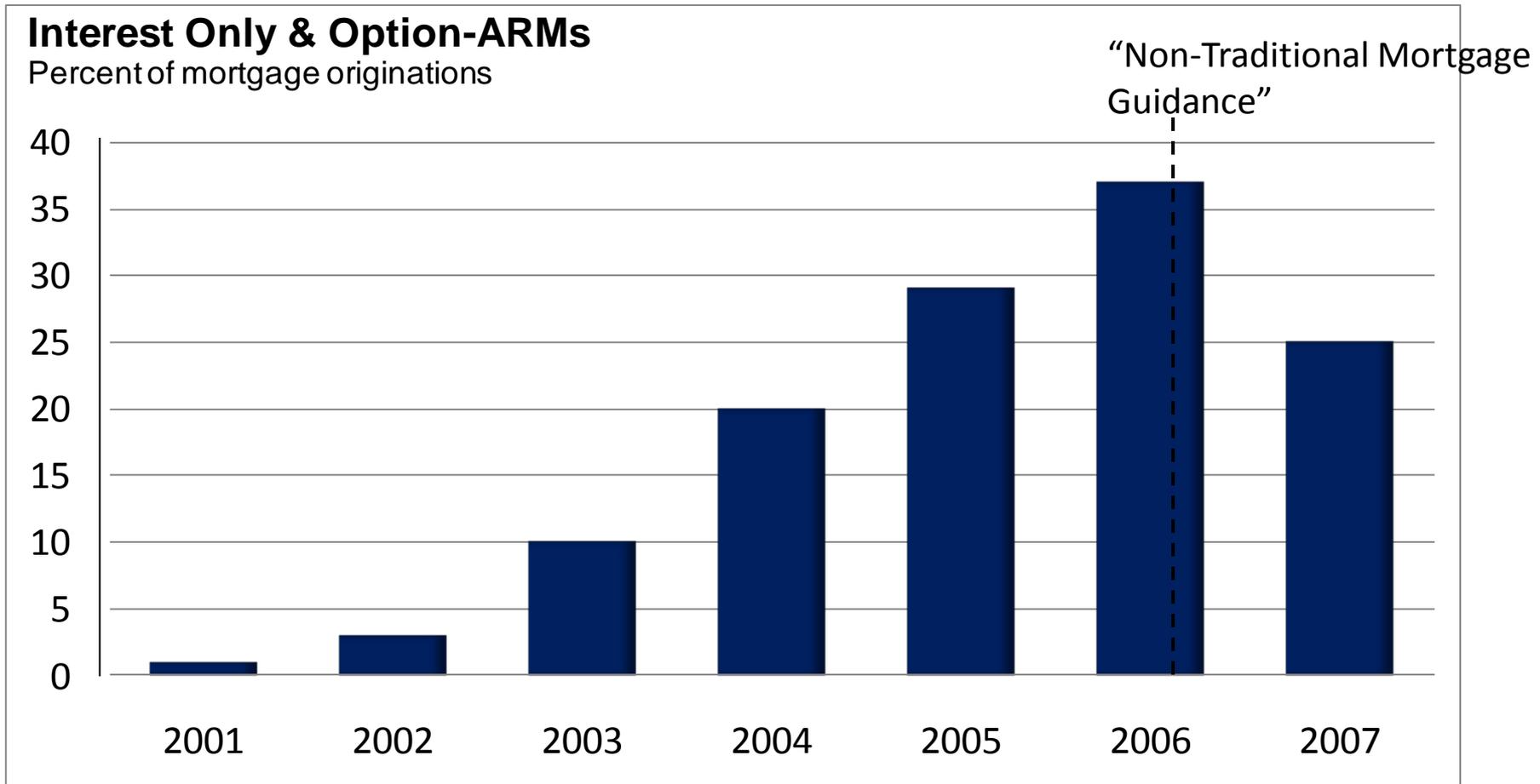
Interest Only & Option-ARMs

Percent of mortgage originations



Source: Cambridge Winter Center for Financial Institutions Policy, citing Deutsche Bank; Credit Suisse; LoanPerformance.

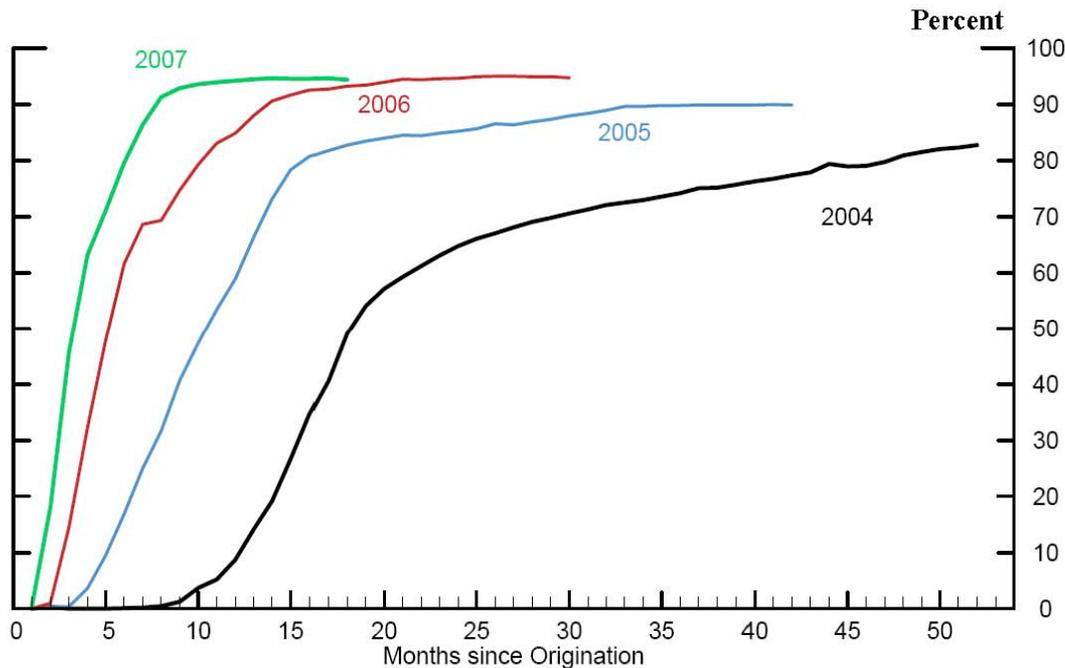
HIGH-IMPACT RESEARCH CAN SPOT TRENDS EARLY



Source: Cambridge Winter Center for Financial Institutions Policy, citing Deutsche Bank; Credit Suisse; LoanPerformance. Board of Governors of the Federal Reserve System, *Federal Financial Regulatory Agencies Issue Final Guidance on Nontraditional Mortgage Product Risks* (Sept. 29, 2006).

RESEARCH MUST BE GROUNDED IN THE MARKET

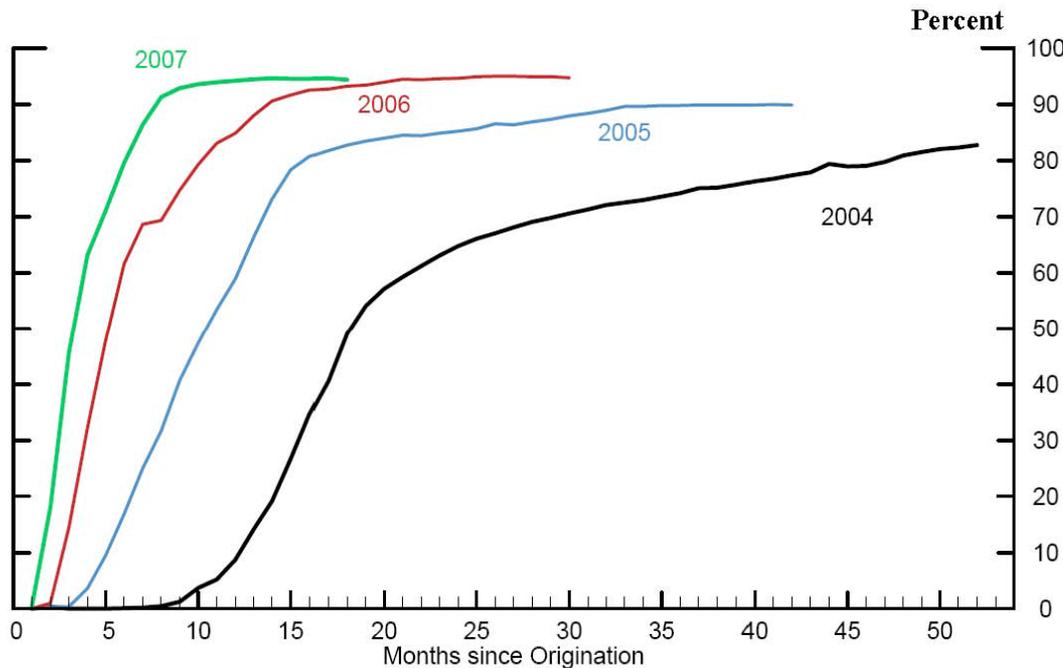
Option Adjustable-Rate Mortgages with Balances Larger than at Origination



Source: Chris Mayer, Karen Pence, and Shane M. Sherlund, *The Rise in Mortgage Defaults* (Nov. 2008), available at <http://www.federalreserve.gov/Pubs/feds/2008/200859/>.

RESEARCH MUST BE GROUNDED IN THE MARKET... AND INDEPENDENT

Option Adjustable-Rate Mortgages with Balances Larger than at Origination



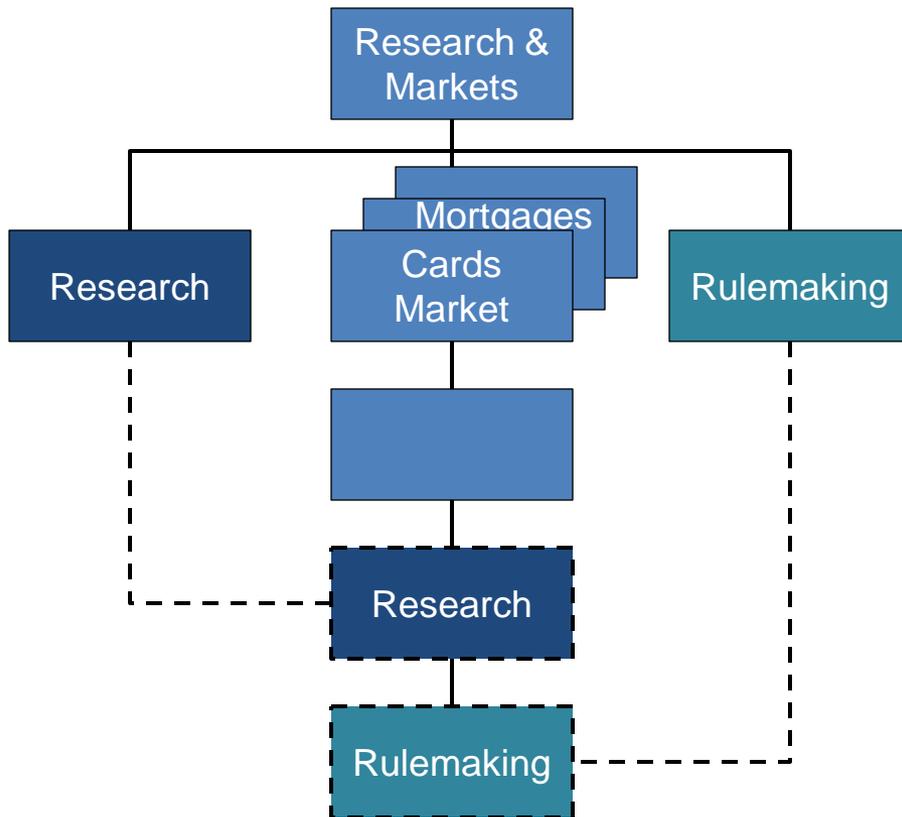
“Much of the tenor of the Guidance is that non-traditional mortgage products are inherently riskier than other products. We believe that is incorrect; rather, they simply present different types of risks that may be well-managed by prudent lenders.”

- Major trade association, March 2006¹

Source: Chris Mayer, Karen Pence, and Shane M. Sherlund, *The Rise in Mortgage Defaults* (Nov. 2008), available at <http://www.federalreserve.gov/Pubs/feds/2008/200859/>.

1 Excerpt from a Comment Letter on Non-Traditional Mortgage Guidance (March 29, 2006).

BUILDING MARKET-FACING, INDEPENDENT RESEARCH CAPABILITY



Goals:

- Pragmatic
- Integrated
- Timely
- Specialized
- Accountable