Prepared Remarks of CFPB Director Richard Cordray at the CFPB Research Conference

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By Richard Cordray – DEC 15, 2016

On behalf of the Consumer Financial Protection Bureau, let me welcome all of you and say that we much appreciate this opportunity to discuss consumer financial markets with so many leading scholars in the field. As you share your perspectives and expertise with us, they will inform our efforts to empower and protect consumers. We look forward to having your insights.

One look at the roster for our Academic Research Council makes clear that consumer finance is an interdisciplinary field, which incorporates not just economics, but also psychology, law, and many other subjects. And I strongly believe that this subject deserves and is now gaining greater prominence. Consumer spending makes up about 70 percent of all economic activity. Much of that spending requires practical and sustainable methods of financing. Yet a few short years ago, many economists were blindsided when the biggest consumer financial market in the world – the U.S. mortgage market – triggered the worst financial crisis in almost a century, domestically as well as globally. For this reason alone, the field of consumer finance demands more of our attention.

Consider too that in the last two generations, the markets for consumer credit and household finance have expanded and become much more complex. Raw numbers tell the story. The mortgage market today stands at just over $10 trillion. Student loan debt has risen rapidly in recent years to over $1.3 trillion. Auto loan debt exceeds $1.1 trillion. And credit card debt now totals around $700 billion. Growing along with this debt has been the availability, variety, and complexity of consumer financial products and services.

Behind these significant changes are the stories of individual consumers. We can all see how credit affords opportunity. It allows forward-looking investments. It expands access to available and expected resources and creates the ability to time-shift inflows and outflows. It can permit smoothing of irregular economic activity to make life more predictable and manageable. In all these ways, it creates new potential, including the opportunity for people to plot a course toward changing their lives for the better. But it can also pose new risks and add to debts that weigh heavily on many American households. We need to understand all of this better to grasp how changes in consumer finance and consumer behavior affect the larger economic picture.

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To protect consumers from danger, you must first be able to diagnose the marketplace and identify the major sources of risk to consumers. Think back a decade ago, when growing irregularities were showing up in the housing and mortgage markets in various parts of the country. We had begun to see an unusually high rate of home foreclosures in Ohio, even though the economy was not in a recession. The most aggressive subprime lenders were showing increasing signs of strain, and some were beginning to collapse. A slow train was coming, but it was gathering speed. The collapse of certain subprime mortgage lenders presaged weakness throughout the mortgage markets, which then decimated the broader credit markets. In the wake of the dislocation of credit came the crippling, widespread economic pain of the Great Recession. Contributing substantially to all of this were the predatory conduct and irresponsible practices that ultimately cost millions of Americans their homes, cost millions more their jobs, and erased trillions of dollars from their retirement savings.

As you know, the Consumer Financial Protection Bureau was created, in part, to help keep this from ever happening again. The Congress took large steps to reform the mortgage market and required this new agency to craft a number of significant regulations to implement those reforms. In addition, I have learned since that the leading policymakers at the time of the crisis came to recognize that they did not know as much as they would have liked about what was going on in the mortgage market, in particular. The effects of a dramatic deterioration in underwriting standards, and in particular the growth in what is known as risk-layering, were not immediately apparent at a macro-level, nor was it clear how widespread some of those harmful practices were in local real estate markets around the country. Policy was being made with blinders on, which meant that the ability of top officials to anticipate and react to events as they unfolded was hampered. This undermined their ability to respond with effective and timely policy measures to counter the problems that were unfolding.

So the research that the Consumer Bureau is conducting to understand consumer financial markets better – most notably the mortgage market, but other markets as well – is a key part of this reform mandate. But we engage in this research in ways that both complement and go well beyond standard academic approaches. We have direct supervisory oversight over many of these companies, with the ability to send in exam teams to scrutinize all aspects of their business for compliance with consumer financial laws. Our market monitoring role is another of the functions that Congress intended us to perform, and we engage in extensive give-and-take with industry representatives to generate data and analysis about how they operate to serve consumers. Wherever we are able to do so, we are also making it a point to share the significant results of our research with other policymakers and the public.

We are also the first federal agency with jurisdiction over both banks and the nonbank financial companies that compete against them in markets like mortgage origination, mortgage servicing, auto finance, consumer installment lending, and the like. Just as an umpire must be authorized to assess the entire field of play, this authority enables us to level the expectations and compliance standards of these two types of financial services providers. This is crucial, because both logic and experience teach that oversight over only one portion of any marketplace is likely a recipe for failure. And it is easy to lose sight of how large a role the nonbank financial companies play in many of these markets.

That role expands or contracts over time in response to many different influences. Right now, about half of all new mortgages are being originated not by banks, but by mortgage finance companies, whose market share has been growing rapidly. Nonbank companies now service about 25 percent of all existing mortgage debt, whereas just four years ago it was only 7 percent. Nonbank finance companies originate about 40 percent of auto loans made today and over 85 percent of auto leases. They account for almost half of all unsecured installment lending in this country, and almost all of the small-dollar lending. We have insight into all of this, as well as into the larger banking institutions that fall within our jurisdiction.

As you see reflected in this conference agenda, the diversity of these markets alone presents a full plate of issues. So, too, does the pace of change. What is now called the "FinTech" industry comprises financial firms that are creating, shaping, and adapting fast-moving technologies. They are developing new products and services that are evolving rapidly and often operate largely outside of the traditional banking system. They accordingly pose challenges for existing regulatory frameworks. The influence of these innovations, and the pressure they are putting on traditional financial products and services, are worthy of close attention and careful analysis. There is much promise for empowering consumers in these new modes of financial innovation, which may improve accessibility, affordability, convenience, and transparency in consumer financial products and services. We are carefully considering how to address those issues.

As you can see, we cover the range of consumer financial markets from a favorable vantage point. We are in position to keep Congress and the public informed about how these markets are changing over time, as we do in our mandatory report to Congress every other year about the latest developments in the credit card market. This work is making a difference for consumers, and it will continue to do so.

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Today, we are unveiling the latest example of how we are working to spot and understand emerging issues in consumer credit markets, which is a tool we call Consumer Credit Trends. Going online today in its beta stage, this new source of information offers a fresh and timely perspective on the performance of consumer financial markets both today and over time.

Our Consumer Credit Trends tool is built on a nationally representative sample of credit records from one of the top three nationwide credit repositories. The credit records are de-identified before being sent to the Bureau – meaning we do not receive names, addresses, Social Security numbers, or any other information that would reveal the identity of anyone in our sample. This protects consumers' privacy as we generate this valuable information on market trends.

Using the data we receive at the individual loan level, we can track originations for several different consumer credit products, such as mortgages, credit cards, auto loans, and student loans. We plan to update this information regularly as new data arrives to supply timely, ongoing information about these markets.

Dipping into this dynamic stream of information can tell us much about the current state of these consumer financial markets and how consumers are faring. It also may help us see where the markets seem to be headed. For example, it may supply early warning signals when problems are building in a given market, which can help our colleagues at the Consumer Bureau consider how they could take action to prevent these problems or devise appropriate remedies.

Highlights from the initial release show, for instance, that mortgage lending between August and October is up nearly 50 percent over last year. Specifically, 917,000 mortgages were originated in October 2016 with a volume of $243 billion, which is nearly a 70 percent increase over this time last year. Credit card lending is up nearly 14 percent year-to-date in low-income neighborhoods. Over 2.2 million auto loans were originated in October with a volume of $47.9 billion, more than at this same time last year (which itself was a record year in the auto market). Through October 2016, there was, however, a slight decrease compared to last year in higher-risk auto lending to consumers with lower credit scores. And finally, student lending is down slightly.

The charts and graphs we see on the Consumer Credit Trends tool can also tell us more about subcategories. We can look at applications for credit, whether credit in these markets is tight or loose, delinquency rates, and consumer debt levels. This deeper dive into the numbers will help us assess the state of consumer credit markets across the spectrums of credit scores, communities, and income levels, and will enable us to spot developing trends.

For instance, with the Consumer Credit Trends tool, we can observe how specific groups of consumers, such as older Americans or those in low-income communities, are faring. It can tell us how many auto loans are being made to borrowers with subprime credit scores or of different ages. And it can show how credit is flowing to consumers in low-to-moderate-income communities or those in rural areas or big cities. This will help us better understand evolving patterns of credit use and availability, as well as the kinds of challenges consumers are facing when they try to access that credit.

Put another way, our Consumer Credit Trends tool will allow these individual threads of information to be woven together to reveal new and unexpected patterns in consumer financial markets. Just as a seemingly random array of stars becomes a constellation, once you know where to look, what to look for, and how to look for it, even so these data will yield striking insights once they are organized and analyzed more fully.

We will not keep this information to ourselves. While we cannot make all the underlying data publicly available, we will be sharing our findings broadly with researchers, industry, other regulators, and the public. When we identify especially notable findings or trends, we will amplify them with blog posts or publish them in more detailed studies.

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Our Consumer Credit Trends web tool is just one of the ways our researchers support the overall mission of the Consumer Bureau. Right from the start, we have worked to integrate our research economists and scientists with our regulatory staff and our market analysts. This means policy analysis by our researchers is central in developing and assessing the effectiveness of our rules. Their research infuses our fair lending and compliance missions and our consumer engagement team. It also helps fuel our Project Catalyst efforts to foster innovation in consumer financial products and services. Supporting this work is our Academic Research Council, a group of scholars with diverse expertise and experience. They advise us on research methodologies, data collection, and analysis, and they also give us valuable feedback on our efforts.

At the Consumer Bureau, our researchers study how consumers interact with financial products and services to help identify potential problems in the marketplace and achieve better outcomes for all. That requires solid data, such as the data that is driving our Consumer Credit Trends tool, the data we receive through the Home Mortgage Disclosure Act, or the data we gather to conduct supervisory examinations or investigations. Let me emphasize again here how seriously we take our responsibility to protect the confidentiality of the information we receive and the privacy of individual consumers. That is why we have built robust policies to govern decisions about what data we receive, how we handle information, and how we protect the privacy and identities of individual consumers.

Once we gather the data, our experts share many of these findings broadly through papers, presentations, and reports. Our Data Points and Innovation Insights reports present analyses that our researchers conduct on specific issues or practices, without making policy recommendations or drawing conclusions in the document itself. Thus, they offer an evidence-based perspective on consumer financial markets and consumer behavior.

Recent reports have uncovered steep hidden costs for some borrowers of online payday loans, and found that one-in-five auto title borrowers lose their vehicles because they cannot meet the mounting payments. One drew from the same data as our Consumer Credit Trends to document the startling number of Americans – some 45 million – who have little or no credit history or only stale history. These include people who are "credit invisible" and are often denied access to credit because they do not have credit records that can be scored. And most recently, an Innovation Insight study found that financial institutions which offer small incentives can get big results for people who were previously unbanked or underbanked.

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Our work at the Consumer Bureau is not intended to reduce the freedom or effectiveness of economic markets; rather, it permits honest competition to flourish. Our charge is to understand these forces so we can perceive where the market is failing to serve the interests of consumers, or where players are gaining undue advantage from unfair competition. Our work involves forging innovations like our Consumer Credit Trends web tool as a digital roadmap to tell us where we have been, where we are now, and where we are going in the consumer financial marketplace.

It is our responsibility to empower consumers to direct their own financial lives, to inform them of their financial rights, and to protect them against fraud and abuse. Fair and effective regulation must be grounded in the type of exacting research on display at this conference, which we are developing and putting to use in all of our work at the Consumer Bureau. All of this is living proof of something Ben Franklin said: "An investment in knowledge pays the best interest." We look forward to today's presentations and to hearing from all of you. Thank you.

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The Consumer Financial Protection Bureau is a 21st century agency that helps 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. For more information, visit consumerfinance.gov.