

Does CFPB Oversight Crimp Credit?

Andreas Fuster Matthew Plosser James Vickery

Discussion by

Anthony A. DeFusco

Northwestern University and NBER

WFA Annual Meeting

June 2021

This Paper Dives Head First Into a Heated Debate



“In the aftermath of the crisis, Congress passed the 2010 Dodd-Frank Act...As part of that law, Congress created the Consumer Financial Protection Bureau (CFPB).

The agency had one job: to protect the American people from financial tricks and traps. In its first six years of operation, the consumer agency has made good on its mission.”

*– Senator Elizabeth Warren
USA Today Op-ed
November 30, 2017*

This Paper Dives Head First Into a Heated Debate

*“[The President] wants me to fix [the CFPB] and wants me to get it back to the point where it can protect people without **trampling on capitalism**, without **choking off financial services**,...*

*We both share the belief that under the previous administration **this bureau had gone too far to strangle access to capital...**”*

*- Acting CFPB Director Mick Mulvaney
Press Briefing
November 27, 2017*



Let's Lower the Temperature a Bit...



*"It's time to put away the harsh rhetoric, **lower the temperature**, and listen to each other again.*

To make progress, we must stop treating our opponents as our enemy.

We are not enemies. We are Americans."

- President Biden

Twitter

November 29, 2020

Some Context and Overview

What Does the CFPB Do?

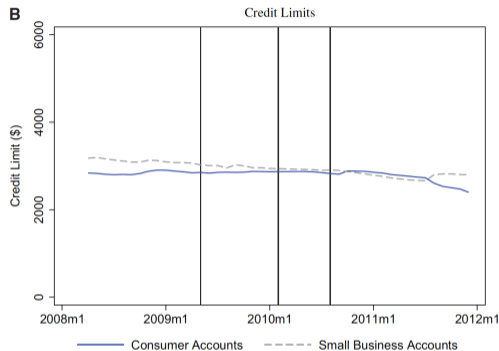
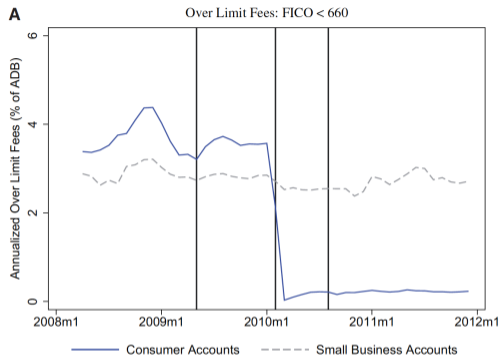
- Rule making
- Enforcement
- Supervision and examination

Some Context and Overview

What Does the CFPB Do? → Early concerns were about new regulations

- Rule making
- Enforcement
- Supervision and examination

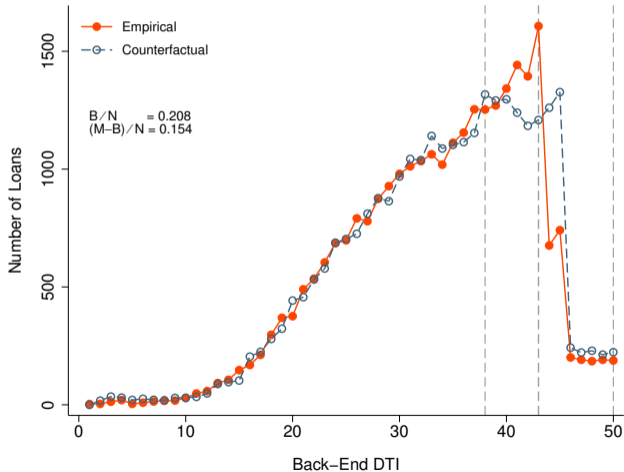
The CARD Act → Restricted Credit Card Fees



“[R]egulatory limits on credit card fees reduced overall borrowing costs by an annualized 1.6% of average daily balances... [with] no evidence of an offsetting...reduction in [credit] volume.”

– Agarwal, Chomsisengphet, Mahoney, & Stroebel
(QJE 2015)

The ATR Rule → Imposed DTI Limits on Some Mortgages



“[T]he policy had only moderate effects on prices...[However], we estimate that [it] eliminated 15% of the affected market completely and reduced leverage for another 20% of remaining borrowers.”

– DeFusco, Johnson, & Mondragon (REStud 2020)

Some Context and Overview

What Does the CFPB Do? → Early concerns were about new regulations

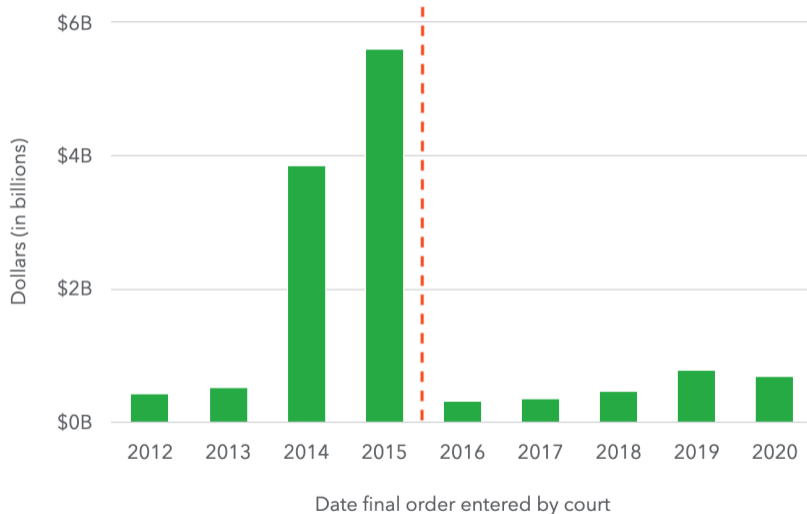
- Rule making
- Enforcement
- Supervision and examination

Some Context and Overview

What Does the CFPB Do? → This paper is about ongoing oversight

- Rule making
- Enforcement
- Supervision and examination

This is Important! → Rules Only Matter if They're Enforced



Total Consumer Relief Ordered in CFPB Enforcement Actions by Year

Some Context and Overview

What Does the CFPB Do?

- Rule making
- **Enforcement**
- **Supervision and examination**

Some Context and Overview

What Does the CFPB Do?

- Rule making
- **Enforcement**
- **Supervision and examination**

Empirical Approach

- Diff-in-diff comparing CFPB regulated -vs- non-CFPB regulated banks
- Pre/post creation of the CFPB (2011)
- Pre/post Trump administration (2016)

Some Context and Overview

What Does the CFPB Do?

- Rule making
- **Enforcement**
- **Supervision and examination**

Empirical Approach

- Diff-in-diff comparing CFPB regulated -vs- non-CFPB regulated banks
- Pre/post creation of the CFPB (2011)
- Pre/post Trump administration (2016)

Main Findings

“...CFPB oversight has little effect on total mortgage lending, but causes...affected banks to withdraw from FHA lending, a market...[that] involves elevated legal and regulatory risk”

Comment #1: Is this a CFPB thing or a big bank/small bank thing?

Empirical Strategy

Figure 1: Empirical strategy

Bank Size	Regulator responsible for consumer financial supervision and enforcement:	
>\$10bn	Prudential regulator	CFPB
<\$10bn	Prudential regulator	Prudential regulator

Pre-CFPB (up to Q2:2011) Post-CFPB (Q3:2011 onwards)

Authors' Interpretation: CFPB oversight leads to a reduction in FHA lending

Empirical Strategy

Figure 1: Empirical strategy

Bank Size	Regulator responsible for consumer financial supervision and enforcement:	
>\$10bn	Prudential regulator	CFPB
<\$10bn	Prudential regulator	Prudential regulator

Pre-CFPB (up to Q2:2011) Post-CFPB (Q3:2011 onwards)

But is this really just about being a big bank?

Potential Threats and Solutions

Other Dodd-Frank changes that kick in at \$10bn

- Internal stress testing requirements
- Risk committee requirement
- Volcker rule
- Debit card interchange fee limits

Potential Threats and Solutions

Other Dodd-Frank changes that kick in at \$10bn

- Internal stress testing requirements
- Risk committee requirement
- Volcker rule
- Debit card interchange fee limits
- **Solution:** Small business lending robustness check (paper does this)

Potential Threats and Solutions

Other Dodd-Frank changes that kick in at \$10bn

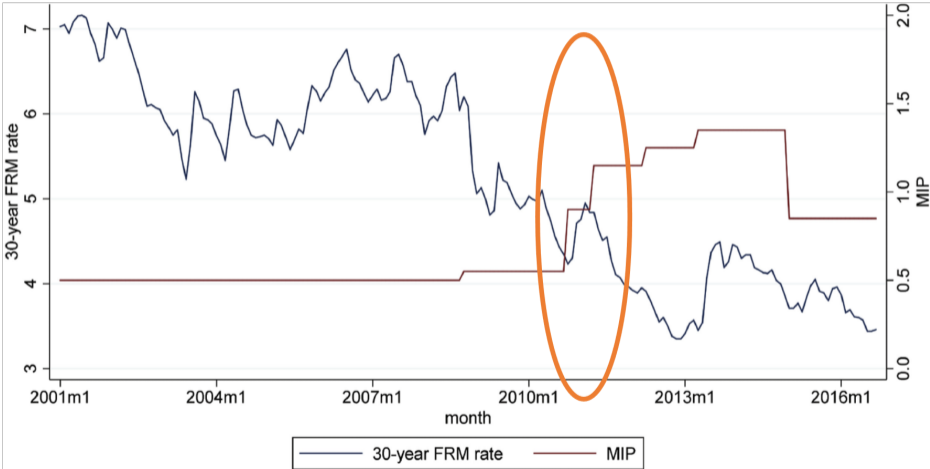
- Internal stress testing requirements
- Risk committee requirement
- Volcker rule
- Debit card interchange fee limits
- **Solution:** Small business lending robustness check (paper does this)

Anything that makes FHA loans less appealing + big banks' ability to adjust

- Large increases in FHA mortgage insurance premiums

FHA Annual Mortgage Insurance Premiums

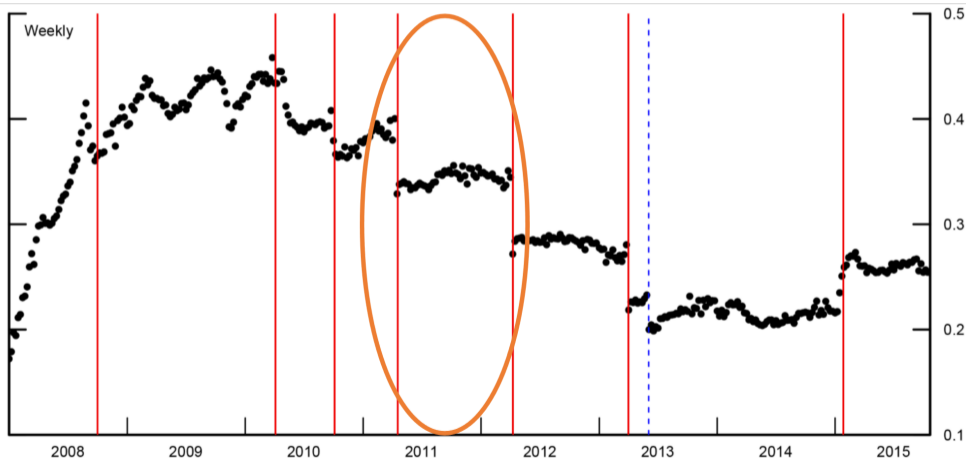
FHA mortgage insurance premiums spiked starting in 2011.



Source: Bhutta and Ringo (JME 2021)

FHA Share of Home Purchase Mortgages

This led to a large contraction in FHA market share...was it differential by lender size?



Source: Bhutta and Ringo (FEDS Notes 2016)

Potential Threats and Solutions

Other Dodd-Frank changes that kick in at \$10bn

- Internal stress testing requirements
- Risk committee requirement
- Volcker rule
- Debit card interchange fee limits
- **Solution:** Small business lending robustness check (paper does this)

Anything that makes FHA loans less appealing + big banks' ability to adjust

- Large increases in FHA mortgage insurance premiums

Potential Threats and Solutions

Other Dodd-Frank changes that kick in at \$10bn

- Internal stress testing requirements
- Risk committee requirement
- Volcker rule
- Debit card interchange fee limits
- **Solution:** Small business lending robustness check (paper does this)

Anything that makes FHA loans less appealing + big banks' ability to adjust

- Large increases in FHA mortgage insurance premiums
- **Solution:** Look at substitution away from risky loans within non-FHA segment

Potential Threats and Solutions

Other Dodd-Frank changes that kick in at \$10bn

- Internal stress testing requirements
- Risk committee requirement
- Volcker rule
- Debit card interchange fee limits
- **Solution:** Small business lending robustness check (paper does this)

Anything that makes FHA loans less appealing + big banks' ability to adjust

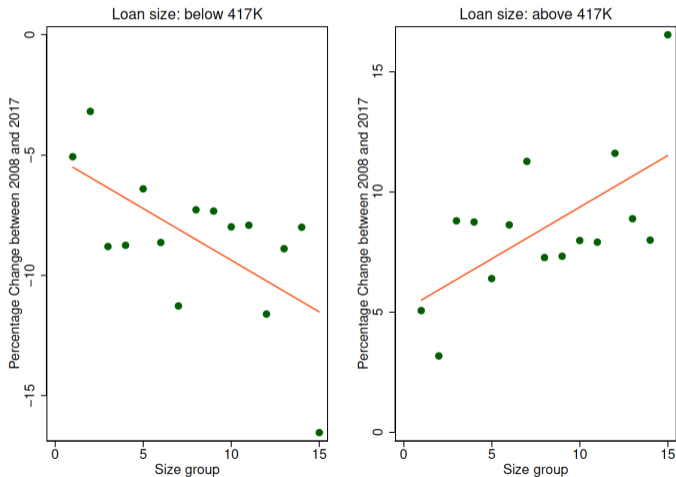
- Large increases in FHA mortgage insurance premiums
- **Solution:** Look at substitution away from risky loans within non-FHA segment

Anything that makes small loans less appealing + big banks' ability to adjust

- D'Acunto and Rossi (RFS 2021) fixed costs story

Post-Crisis Change in Originations by Loan and Lender Size

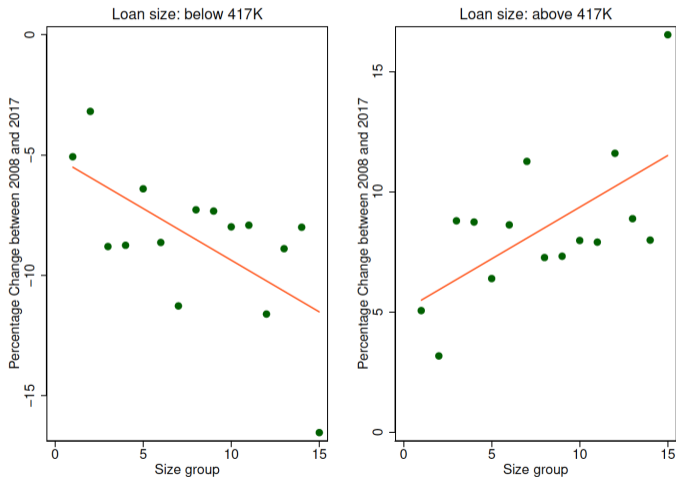
Large lenders retreated from smaller loans (including FHA) post-crisis.



Source: D'Acunto and Rossi (RFS 2021)

Post-Crisis Change in Originations by Loan and Lender Size

This effect was monotonic in lender size...is \$10bn a red herring?



Source: D'Acunto and Rossi (RFS 2021)

Potential Threats and Solutions

Other Dodd-Frank changes that kick in at \$10bn

- Internal stress testing requirements
- Risk committee requirement
- Volcker rule
- Debit card interchange fee limits
- **Solution:** Small business lending robustness check (paper does this)

Anything that makes FHA loans less appealing + big banks' ability to adjust

- Large increases in FHA mortgage insurance premiums
- **Solution:** Look at substitution away from risky loans within non-FHA segment

Anything that makes small loans less appealing + big banks' ability to adjust

- D'Acunto and Rossi (RFS 2021) fixed costs story

Potential Threats and Solutions

Other Dodd-Frank changes that kick in at \$10bn

- Internal stress testing requirements
- Risk committee requirement
- Volcker rule
- Debit card interchange fee limits
- **Solution:** Small business lending robustness check (paper does this)

Anything that makes FHA loans less appealing + big banks' ability to adjust

- Large increases in FHA mortgage insurance premiums
- **Solution:** Look at substitution away from risky loans within non-FHA segment

Anything that makes small loans less appealing + big banks' ability to adjust

- D'Acunto and Rossi (RFS 2021) fixed costs story
- **Solution:** RD at \$10bn?, Placebo test splitting big/small conditional on >\$10bn?

Comment #2: What about the non-banks?

Empirical Strategy

Paper focuses (almost) exclusively on comparison between big/small banks...

Figure 1: Empirical strategy

Bank Size	Regulator responsible for consumer financial supervision and enforcement:	
>\$10bn	Prudential regulator	CFPB
<\$10bn	Prudential regulator	Prudential regulator

Pre-CFPB (up to Q2:2011) Post-CFPB (Q3:2011 onwards)

Empirical Strategy

But non-banks were also "treated" by the new CFPB

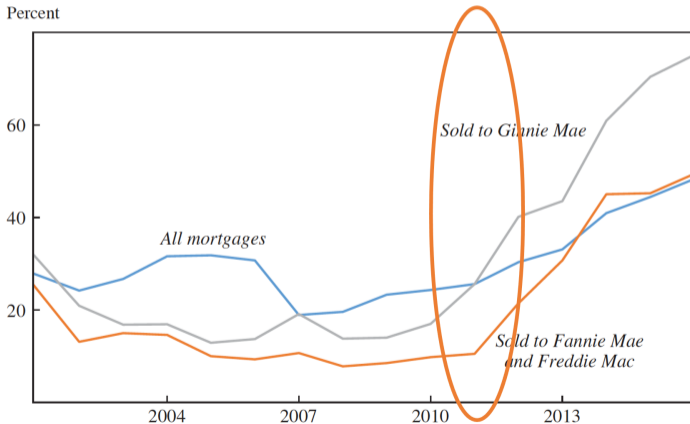
Figure 1: Empirical strategy

Bank Size	Regulator responsible for consumer financial supervision and enforcement:	
>\$10bn	Prudential regulator	CFPB
<\$10bn	Prudential regulator	Prudential regulator
Non-Banks	Prudential Regulator/Nobody	CFPB

Non-Bank FHA Lending Share Increased Post-CFPB

Is this evidence that becoming newly regulated by the CFPB increases lending?

Figure 1. Percentage of All U.S. Mortgages Originated by Nonbanks, 2001–16



Source: Kim et al. (BPEA 2018)

Conclusion

This is an important paper!

- Addresses a contentious debate about the CFPB
- First to focus on *oversight*, which may be where CFPB has the most "bite"

Don't Just Take My Word For It



“Many people – both opponents and supporters of the agency – assumed that the CFPB would seek to accomplish these goals primarily by issuing...new regulations. **While there certainly is a place for rules aimed at specific abuses, we do not envision new rules as the main focus of how the CFPB can best protect consumers.** Indeed, the ideas put forth by the Administration and the legislation adopted by Congress provided several different tools for protecting consumers precisely so that the CFPB could use the best one for the job...”

– Senator Elizabeth Warren
Congressional Testimony
March 16, 2011

Conclusion

This is an important paper!

- Addresses a contentious debate about the CFPB
- First to focus on *oversight*, which may be where CFPB has the most "bite"

My take

- Would like some further evidence that this is not just about bank size in general
- More discussion of non-banks' role would be helpful