

June 2015

# Consumer Advisory Board

June 17-18, 2015

## Meeting of the Consumer Advisory Board

The Consumer Advisory Board (CAB) of the Consumer Financial Protection Bureau (CFPB) met in person at 9:00 a.m., Central on June 17, 2015. The CAB met at the Century Link Center-Omaha Convention Center located at 455 North 10th Street, Omaha, Nebraska 68102.

<b>Board members present</b>	<b>CFPB staff present</b>
Gary Acosta	CFPB Director, Richard Cordray
Ann Baddour	Julian Alcazar
Jo Ann Barefoot	Ken Brevoort
Don Baylor	Matt Cameron
Maeve Elise Brown, Co- Chair	Kelly Cochran
Bill Bynum, Chair	Crystal Dully
Steve Carlson	Delicia Hand
Laura Castro de Cortés	Morgan Harper
Elizabeth Costle	Manny Mañón
Prentiss Cox	Zixta Martinez
Patricia Garcia Duarte	David Silverman
Julie Gugin	Corey Stone
Patricia Hasson	
Brian Longe	
Jennifer Mishory	
Joann Needleman	

Patrick O'Shaughnessy	
Dory Rand	
Ellen Seidman	
Josh Silverman	
Gene Spencer	
Robert Stoll	
James Van Dyke	

June 17, 2015

Welcome

**Richard Cordray, director, Consumer Financial Protection Bureau**

**Delicia Hand, staff director, Advisory Board and Councils Office**

**Bill Bynum, chair, Consumer Advisory Board**

Chair Bynum called the meeting of the Consumer Advisory Board (CAB) to order on June 17 at 9:00 am and welcomed CAB members. He thanked staff members for their work in preparing for the meeting and thanked CAB members for their participation.

Director Cordray also welcomed CAB members and expressed his appreciation for their efforts to help improve the Bureau's work. Director Cordray provided an overview of the Bureau's recent activities and highlighted the Bureau's work including: rulemaking in the prepaid market, the mortgage market, and debt collection market. Director Cordray also thanked CAB members whose terms were ending shortly and encouraged them to remain active with the Bureau.

Staff Director Delicia Hand welcomed CAB members and reviewed the agenda for the meeting. She thanked CAB members for their time and noted that some of the focus of the meeting would be on the financial industry and consumers in Nebraska.

### **Community Engagement session: Payments Industry in Nebraska**

Representatives from financial industries led a panel discussion on financial services in Nebraska. John Muller, vice president of Global Payments at PayPal provided an overview of PayPal's services. Mr. Muller explained that the main operations center, located in La Vista, Nebraska, allows the company to be in contact with costumers directly. He provided a brief history of the company and noted that the core business is facilitating transactions online and on mobile devices. Mr. Muller noted that there are security benefits associated with using PayPal because the consumer does not have to share account information with the merchant.

Brad Hanson, president of Meta Payment Systems of Meta Bank, provided an overview of the institution's mission and services. He explained that Meta Bank seeks to promote financial inclusion and distinguish itself from traditional banking. Mr. Hanson noted that while regulation is important in the marketplace, competition is a more effective means because it

promotes innovation and drives more value to the consumer over time. He also described the bank's effort to promote educational materials and offer clear statements on fees and disclosures.

There was a discussion about simplifying disclosures for consumers in order to promote innovation and meet the needs of underserved consumers. Additionally, there were also discussions about the use of mandatory arbitration clauses, the popularity of mobile banking as well as the need for coordinated financial literacy programs, and security risks related to mobile banking. A panelist noted that where mobile banking is growing the most, the responsibility resides with the bank. Another panelist cited Regulation E and Regulation Z and that any kind of device that is used to access an underlying account, whether it be access devices, mobile devices or a physical card are covered under the law for protection. Panelists encouraged collaboration between government regulators and financial institutions to help balance innovation and regulation.

## **Community Engagement session: Consumers in Nebraska**

Representatives from community-based organizations in Nebraska led a panel discussion on their work to serve consumers. The panelists included Julia Craig from Family Housing Advisory Services, Julie Kalkowski of the Financial Hope Collaborative, and Maribel Alarcon-Craven of Catholic Charities. Julia Craig provided an overview of the Family Housing Advisory Services, a grassroots organization dedicated to providing financial stability to families. Ms. Craig described several programs offered by her organization. These include: tenant services which assists with helping individuals find safe places to rent; Smart Change, a program to help clients maximize savings; a home ownership education program; and a financial education program.

Next, Maribel Alarcon-Craven provided an overview of Catholic Charities in Omaha. Ms. Alarcon-Craven noted that the mission of the organization is to empower, serve, and advocate for individuals and families in need. In the Omaha area, Catholic Charities offers shelter and safety to women and children and also has two food pantries serving the northeast and southeast areas of Omaha, where the levels of poverty are the highest. Furthermore, the organization provides assistance to immigrants and women who have been victims of domestic abuse. Via the microbusiness program, Catholic Charities seeks to create economic development opportunities for low-income individuals through entrepreneurship and employment. The program provides culturally supportive formal training. There is eight week training for those who would like to open and operate a business in Nebraska and/or Iowa.

Julie Kalkowski discussed the functions of the Financial Hope Collaborative. The program helps low-income single mothers deal with financial issues. Ms. Kalkowski leads these efforts and helps women with budgeting, saving for emergencies, financial coaching, and using money management systems.

CAB members and panelists discussed challenges faced by consumers in Omaha. The panelists listed several challenges including: medical debt, student loans, predatory lending, language barriers, and lack of credit history. CAB members inquired about the Volunteer Income Tax Assistance (VITA) program used for tax refunds. A panelist noted that there has been an increase in use of the VITA program, which includes an educational component, and that many clients use the tax refunds toward savings. For the duration of the session, CAB members and panelists discussed systematic issues that consumers face which can trigger financial hardship.

## Committee Breakout Sessions

### **Ellen Seidman, chair, Card, Payment and Deposit Markets Committee**

The Card, Payment and Deposit Markets Committee received a briefing from Jake Fuentes, co-founder of Level Money. Level Money is a personal finance management tool aimed to individuals ages 18 through 35. The average users make \$42,000 annually, are age 26, and live in an urban environment. According to the speaker, sixty percent of people who track their money spend less. Members discussed how personal finance tools operate in a non-regulatory space and inquired about any regulatory challenges faced by the company. Members noted that, in general, operators of such products can take more risks than traditional banks. Members recommended that the Bureau encourage innovation.

### **Patricia Hasson, chair, Consumer Lending Committee**

The Consumer Lending Committee spent the breakout session time preparing for their presentation to the full CAB membership on the Bureau's Small Business Regulatory Enforcement Fairness Act (SBREFA) proposals for a rulemaking on Payday, Vehicle Title, and Similar Loans.

### **Patricia Garcia Duarte, chair, Mortgages Committee**

The Mortgage Committee discussed issues related to mortgage servicing agreements (MSAs). Most members seemed to agree that MSA's are not providing much benefit to consumers. Members expressed concerns that some industry players are getting away with kickbacks, a

violation of RESPA section 8. Some committee members believe that a significant number of real estate professionals are not aware of RESPA Section 8 requirements and how it impacts them and their consumers. Additionally committee members briefly highlighted the most recent National Association of Realtors' DANGER report on MSA's and how these agreements negatively affect real estate markets. Members also inquired about the possibility of the Bureau requiring the industry to provide RESPA disclosures which would inform consumers if the parties involved are participating in any profit sharing activities during the transaction.

## Consumer Lending Committee: Consumer Lending Committee presentation

The Consumer Lending Committee discussed the Bureau's Small Business Regulatory Enforcement Fairness Act (SBREFA) proposals for a rulemaking on Payday, Vehicle Title, and Similar Loans. The committee identified four key issue topics for discussion: consumer impact of the proposals; areas for where there are still potential benefits or harm; impact on the small dollar lending industry; and the future of the small dollar lending marketplace. Some members noted that, in terms of consumer impact, the ability to repay standard will benefit consumers. This may serve as catalyst for creating other kinds of lower-cost loan products and perhaps lower-cost in that market space. These standards would also be beneficial to military and veteran communities.

Regarding areas for potential harm, members noted that as written the rule may ultimately reduce credit and limit consumer choice. Members also stated that the proposal did not address the demand for credit, and could push consumers toward other areas of more expensive credit, late payments, or overdraft.

Highlighting missed opportunities, several members felt the rule should be based on ability to repay standards that include both income and expenses. Members were concerned that if the alternative solution is only income-based, there is much potential for people to get into loans that they cannot afford to repay. Some members suggested that overdraft be included in the proposal. Other members believe that the rule will not level the playing field. They also felt that there should have been disclosure requirements and that there are unanswered questions about the effect of this proposal on other state laws' preemption. In terms of the future of the small lending dollar marketplace, members noted that there could be dramatic change and potential for both positive and negative unintended consequences.

## Consumer Lending Committee: Credit Invisibles Report

### **Ken Brevoort, section chief, Credit Information & Policy**

Ken Brevoort, section chief of Credit Information and Policy, provided a briefing on the Bureau's data point report on credit invisibles published in May 2015. The purpose of this data point is to get a better understanding of the credit invisibles population, individuals with no credit record or with records that do not have enough information on them to generate reliable credit scores. The Office of Research used the consumer credit panel (CCP) to get an estimate of the population. The CCP contains a 1-in-48 sample of consumer credit records from one of the three main nationwide credit reporting agencies as of December 2012. The research also contains information about the sample of consumers dating back to September 2001.

The research analyzes how either being credit invisible or having an unscored credit record varied with age. Most of the people who are 18 and 19 years old are credit invisibles. In this age group there is also a large amount of consumers who do not have enough information to have a score generated. In the sample, people who are unscored because of a stale credit record tend to be middle aged. Stale credit records are records that contain outdated information. The data also shows that many "unscorables" are those age 75 and older. The Bureau also examined income and the likelihood of being credit invisible. Using census tract data from 2008 – 2012, the research identified a pattern showing that higher income neighborhoods had a decreased likelihood of being invisible or "unscorable."

Furthermore, the Bureau analyzed the number of people who are credit invisible or people with unscored credit records across different racial and ethnic groups. The research showed that African Americans and Hispanics are more likely to be credit invisible than other races or ethnicities. Additionally, the Bureau looked into the likelihood of being credit invisible by age across different racial and ethnic groups. The findings suggested that African Americans and Hispanics have a higher likelihood of being credit invisible across the entire age range.

## Adjournment

Chair Bynum adjourned the first day of the meeting on June 17, 2015 at 4:29 p.m.

June 18, 2015

## CFPB Consumer Advisory Board Meeting Public Session

Zixta Martinez, associate director of External Affairs, welcomed audience members to the CAB public meeting and introduced CAB members and CFPB staff. Director Cordray welcomed the chair, vice chair, CAB members, and members of the public. Following Director Cordray's remarks, Kelly Cochran, assistant director of the Office of Regulation, led a discussion on the CFPB's Bureau's Small Business Regulatory Enforcement Fairness Act (SBREFA) proposals for a rulemaking on Payday, Vehicle Title, and Similar Loans..

After the small dollar lending discussion, the CAB adjourned for a closed working lunch. During the working lunch discussion, CAB member Ellen Seidman spoke about the Center for Financial Services Innovation (CFSI) Financial Diaries project.

Chair Bynum reconvened the meeting at 2:30 p.m. CAB members Ann Baddour, Julie Gugin, and Gene Spencer led discussions on trends and themes in the marketplace. Ann Baddour provided an overview of payday and auto title lending in Texas. Lastly, CAB members Julie Gugin and Gene Spencer discussed challenges lower income consumers face in the mortgage market. The video of the public session is available on [consumerfinance.gov](http://consumerfinance.gov).

### Adjournment

Chair Bynum adjourned the ninth meeting of the CFPB Consumer Advisory Board on June 18, 2015 at 4:00 p.m.

I hereby certify that, to the best of my knowledge, the foregoing minutes are accurate and complete.



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Delicia Reynolds Hand  
Staff Director, Advisory Board and Councils Office  
Consumer Financial Protection Bureau