

Welcome Remarks

Eighth Biennial Research Conference
New Perspectives on Consumer Behavior in Credit and Payments Markets
Co-organized by the Research Department and Payment Cards Center
of the Federal Reserve Bank of Philadelphia

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Patrick T. Harker
President and Chief Executive Officer
Federal Reserve Bank of Philadelphia

Welcome to the Federal Reserve Bank of Philadelphia and to our eighth biennial research conference on consumer credit and payments, co-organized by the Bank's [Research Department](#) and the [Payment Cards Center](#).

We held the first event in this series in 2001. So much has changed since then.

What hasn't changed is the drive to understand the interaction between credit markets and the real economy.

Over the years, we have also gained greater access to data about consumer credit and payments, which has helped shape the research shared at this biennial conference.

The topics of this conference come from current events. In the wake of the financial crisis that began in the subprime housing market and expanded into the Great Recession, economists at the Federal Reserve and many researchers returned to the subject of financial intermediation, an area of study that had almost faded away.

This conference has become one of the signature events on consumer credit and payments in the United States.

Many papers featured in our earlier conferences have been published in the highest tiers of academic journals and have gone on to influence policy.

For example, over the years, papers have addressed:

- The effects of information technology on loan markets and consumer defaults;
- The effects of securitization on the success of mortgage workouts;
- Models of predatory lending; and
- Incentive problems in payment networks that may contribute to identity theft,
- ... to name just a few key topics.

This policy-oriented research is also reflected in the audience gathered here today. Participants include academic researchers, policymakers, and providers of financial services and data.

This year, the organizing committee received more than 140 high-quality submissions and selected seven excellent papers for presentation and discussion today. The selected papers revisit four important issues:

- The design, and sometimes renegotiation, of financial contracts;
- The linkages between consumer credit and the real economy;
- The effects of government policy during the Great Recession; and
- The effect of timely disclosures about the cost of student loans on borrowing decisions.

We are excited to hear from our presenters and discussants, but let me just acknowledge the work that this Bank does to advance the understanding of these important issues.

Indeed, the Philadelphia Fed has one of the largest concentrations of expertise on household finance, consumer payments, and the retail side of bank portfolios in the Federal Reserve System or anywhere.

The economists in our [Research Department](#), led by [Mike Dotsey](#), are known for pathbreaking studies using new data and techniques. Seven of our 24 economists have the economics of consumer behavior and regulation as either the primary focus or as a significant part of their research. Our research economists examine these issues from perspectives ranging from

sophisticated econometrics applied to terabytes of data to dynamic stochastic general equilibrium models.

The [Payment Cards Center](#) (PCC) is a unique interdisciplinary research group created here about 15 years ago.

[Bob Hunt](#) and his 12-member team produce research that is accessible and relevant to a broad audience, including industry, consumers, policymakers, and academic researchers. Since it first began, the PCC has produced [130 studies](#) and organized or co-organized more than [40 conferences](#). Moreover, the PCC has been a major participant in regulatory initiatives within the Federal Reserve System and most recently in the Federal Reserve's efforts to improve the speed and security of the nation's payments system.

In addition to the Research and the PCC departments that co-organized this event, the Bank has two important teams in the [Supervision, Regulation, and Credit Department](#) (SRC) that are recognized centers of expertise in the quantitative supervision of banks' consumer portfolios, risk modeling, and stress testing. Paul Calem leads a team of 20, including Ph.D. s, in our Retail Risk Analysis and Financial Monitoring Group. In addition to its supervisory work, Paul's team is helping to advance the research frontier by producing and publishing academic studies.

The SRC Department is also the home of the System's Risk Assessment, Data Analysis, and Research (RADAR) unit, which manages a huge data warehouse of U.S. consumer credit databases and information about the asset-backed securities portfolios. Larry Cordell leads a staff of 16 and has helped make RADAR an invaluable resource for the Federal Reserve System's supervisory and research activities around consumer credit. He and his team have also published a number of important studies in academic journals.

Our [Community Development Studies & Education Department](#), led by [Theresa Singleton](#), is also actively engaged in data-driven research on consumer credit focusing on housing and economic inclusion for low- and moderate-income communities. In addition, Theresa and her team provide [training, lesson plans](#), and other resources for teachers, who are educating our young people about consumer credit and payments.

So, as you can see, the Philadelphia Fed has a multidisciplinary, broad-based approach to consumer credit and payments. All of these departments collaborate here in Philadelphia and with colleagues around the Federal Reserve System.

An awareness of supervisory issues informs our academic research, and the rigor of our academic research informs our supervisory work. At the same time, frequent interactions with market participants, policymakers, and consumer groups — facilitated by the PCC — creates opportunities for further understanding with the ultimate goal to influence future policy decisions.

You can see the results in our research in just the past 12 months. The Philadelphia Fed has published more than [25 new studies and articles](#) on student loans, credit risk modeling, and securitization. The work has delved into the costs of foreclosures, information problems in the home appraisal process, and the macroeconomics of the housing cycle. Topics also have covered the functioning of private money, such as bitcoin, the collections process, and the role of consumer bankruptcy. Again, this just names a few.

Let me conclude by telling you a little more about Philadelphia's work on identity theft.

Last year, five members of the PCC published [two papers](#) on this topic. In the first, the authors studied the various types of "alerts" that consumers place in their credit bureau files for fraud protection.

The authors found that the type of alert they choose often depends on initial conditions, including their credit scores. They also found that filers of "extended alerts," which require the consumer to submit a police report or similar record, are clearly victims of severe examples of identity theft.

In their second paper, the authors reviewed these severe identity theft events based on the records in their credit bureau files. Let me emphasize that the data they used have been completely anonymized. The authors found there is a negative effect of identity theft on consumers' credit reports, but for consumers with prime credit scores, these effects are

transitory. There is a drop and then a recovery in credit scores within three to six months of identity theft being discovered.

What is most intriguing is the pattern among consumers with subprime credit scores. These consumers also experienced a negative shock — their credit scores drop — but they subsequently experienced a rebound in their credit scores that is even larger and persistent. In other words, after experiencing a severe identity theft event, these subprime consumers have a credit score that is systematically better than we would expect from a comparable group of subprime borrowers who are not victims of identity theft.

In addition, these consumers apply for and obtain more revolving credit than their peers who did not experience identity theft.

These consumers also perform better in terms of repayment on their debts, which is why their credit scores remain elevated even after they gain access to more credit.

The authors conclude that for some consumers, identity theft is a “teachable moment,” in which consumers appreciate the significance of their credit reports on access to credit. They begin to police mistakes in their credit reports, whether they are the result of crimes or honest mistakes by one of the credit reporting agencies. They may also become more diligent in their repayment behavior, which is an extremely important component of credit scores.

That is just one example of the work our Bank is doing to advance the understanding of consumer credit and payment markets.

Now, let me turn the podium over to Bob Hunt, who will introduce our first panel.