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Yale Program on Financial Stability

Lessons Learned

Sandra Braunstein

By Mary Anne Chute Lynch and Rosalind Z. Wiggins

Sandra Braunstein served as the director of the Division of Consumer and Community Affairs (DCCA) at the Federal Reserve Board of Governors from 2004 to 2014. Braunstein's leadership resulted in regulatory reforms in the mortgage market and the Truth in Lending Act and Home Ownership and Equity Protection Act. She helped assure the smooth transition of consumer protection responsibilities and appropriate staff from the Federal Reserve System to the new Consumer Financial Protection Bureau (CFPB). After 27 years of service dedicated to consumer protection, Braunstein retired in 2014. This "Lessons Learned" is based on an interview with Braunstein in October 2021; the full transcript may be accessed [here](#).

Regulatory agencies need to break down departmental silos and coordinate across all sectors to ensure that the best information is circulated and considered in designing effective policy.

When Sandra Braunstein became director of the Division of Consumer and Community Affairs (DCCA) in 2004, the Fed was focused on financial institutions and banks, she said. But her division was very close to what was happening in the mortgage markets. They heard consumer advocates repeatedly raise alarms about the possibility of systemic risks brewing, but because of the structure of the Fed, she found it difficult to get the Fed officers and directors to pay attention—they didn't see consumer affairs as a "primary mission" for the Fed. As a result, according to Braunstein, "there was not sufficient communication between safety and soundness and consumer protection. There was not a recognition of the impact that shoddy consumer protection could have on safety and soundness and the markets as a whole." Braunstein provided the following example:

When we were writing the new HOEPA [Home Ownership and Equity Protection Act] regulations [in 2007], there was a huge internal struggle on coverage. It was part of our responsibility to define which loans would be covered by HOEPA regulations. We in the consumer area were fighting for very broad coverage. We were being fought by economists and safety and soundness people saying that the coverage we wanted would be too broad, and that we should only cover a narrow portion of the mortgage market. This is related to what Diane [Thompson, a prominent consumer advocate] said about the Fed not thinking that this was a systemic problem; she's not wrong. At that time, the economists and safety and soundness staff still saw the problems as being contained within the subprime markets, and we in DCCA thought a wider swath of the mortgage market, certainly including Alt-A loans, needed to be covered with these protections. We would have liked the lower end of the prime market, too.

Braunstein credits Fed Chair Ben Bernanke with ultimately resolving the struggle in favor of DCCA's point of view.

It's hard to know what tangible benefits better interagency coordination might have brought to the crisis fight, but Braunstein considers it "vitaly important that both sides of regulations coordinate and respect each other's perspectives." Apparently, others at the Fed agreed with her, since changes were implemented after the crisis to promote more communication and integration across departments and functions. Some of those changes were made at the DCCA, which, among other things, "got much more involved in looking at the holding company responsibilities for consumer protection" and making the officers and boards at the holding company level more accountable for "their institutions' consumer protection programs, like they take responsibility for the safety and soundness of their institutions." Another change illustrates the benefits of departmental cross-fertilization to Braunstein:

The other thing is we moved much more to a risk-focused examination for consumer protection. Rather than just going through a checklist of compliance—have they met; did they give out the right disclosures; did they do this, do that?—there's more of a risk focus on the exams in terms of what are the risks here. They are identifying risks and looking at those through that consumer protection lens, as opposed to checklists about legal and technical compliance.

Greater diversity of viewpoints and backgrounds among policymakers can fuel more effective policy approaches and solutions.

While very respectful of her former colleagues, Braunstein pointed out that some of the siloing that she encountered could be the result of past practices at the Fed, which generally hired a narrow set of economists:

I felt that the economists at the Fed at that time were all of one mind. They had very strict protocols and criteria for hiring an economist, and most of them came from a handful of schools that were identified as providing the "right" education for someone to work at the Federal Reserve. That's problematic, because you need diversity of viewpoints. Maybe somebody who didn't have the right education but had a different education and a different viewpoint might have identified something different than what your 2007 economists from the same school did. My feeling was that they needed more diversity, a lot more diversity among the economic part of the Fed in order to try to identify issues.

Among the benefits that Braunstein thinks greater diversity of viewpoints could have brought are more engagement with issues in less traditional ways and considering information in more holistic ways.

It's very much a data-based organization. They like to make decisions based on what they're seeing in data, and the data comes after stuff happens. That was one of the problems with the crisis. When we were fighting the economists about how serious this was, it wasn't showing up in the data yet. It was anecdotal. It was the Diane Thompsons and the consumer people telling us these problems. But, in traditional sources of data that the safety and soundness people and the economists were looking at, it wasn't showing up yet. By the time it showed up, it was a major problem.

Having a greater variety of viewpoints at the table and being heard can help with getting ahead of major problems, which is the key to effective crisis-fighting.

Braunstein also pointed to another factor, of particular importance to the work of the DCCA, that diversity of viewpoints might have helped, and on which the government did not score highly during the GFC—the interest of the taxpayer. The crisis had several components, and Braunstein gives the Fed and government high marks for preventing the collapse of the financial system, but she also pointed out that the accompanying housing and foreclosure crises were not as successfully addressed. Consumers do not have the same voice as banks, she said:

The way our country is currently set up, the banks [corporations] always have the edge, and it's very difficult to get people in the government to focus sufficiently on real people and consumers. We see that not just with financial stuff; we see that with childcare, education, health care.

More diversity of opinions and backgrounds and a willingness to rethink traditional norms might result in greater creativity in assessing problems and designing more effective solutions. As an example, she pointed to one success of the DCCA, a total rewrite of the mortgage and credit card disclosure language:

The other big thing we did was modifying the disclosures, because the old mortgage disclosures were like Greek, and people with advanced degrees couldn't figure out the documents. One of the things that I am most proud of that we did—and the bureau is doing it now, but we did it before the bureau existed—is instead of having a bunch of lawyers sit in a room and develop financial disclosures, which is how they had always done it, we started using focus groups. This was not only for mortgage disclosures. We used them for credit cards disclosures, for all financial disclosures. We hired professionals who ran focus groups. We drafted options and ran them through to see if people understood what they were looking at, and through that method we figured out the best way to present information in the mandated disclosures. I think it helped with more transparency for financial markets.

This is only one example, but Braunstein said it embodies an important lesson—regulators “need to get out of their little narrow scopes and look holistically at what's happening on a much broader level, and still keep in mind the impact of [their] decisions and [their] actions on real people.”

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