

A Discussion of

Song Han, Ben Keys, and Geng Li's  
“Credit Supply to Bankrupt Consumers: Evidence  
from Credit Card Mailings”

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(\*) The views represented here are mine and not necessarily those of the Federal Reserve Bank of Boston or the Federal Reserve System.

# What's the paper about?

- Using a fascinating survey of credit card mail offers combined with some credit history information, HKL explore the supply of unsecured credit to consumers who have filed for bankruptcy.
- Comparing filers to non-filers in their data, they find that:
  - Filers are less likely to receive credit card offers except for those who filed fewer than 2 years ago.
  - On average, over one fifth of bankrupt consumers receive at least one offer in a given month.
  - However, offers extended to bankrupt consumers carry substantially less favorable terms.

# Methodology

- Using cross-sectional data collected between Aug'09-Jul'10, estimate differences in credit supplied to filers and non-filers.
- Control for observable characteristics, including credit scores of individuals.
- Probit and OLS regressions for various measures of credit supply:
  - Quantity: Whether or not received a credit card offer and the minimum credit limit on the offer
  - Price/Terms: interest rate, annual fees etc.

# Main Comments

- Really interesting question, but I guess I am biased as I worked on this very subject!
- Fascinating data, complementary to some of the work in the Legal Literature that also use such survey info.
- Directly gets at the potential endogeneity of supply and demand
  - And, not just the quantity but price of credit supply

# Main Comments (cont'd)

- Since have only cross-sectional data, need a “control group” but I’m not sure non-filers are the best for this purpose.
  - Filers are different than non-filers in observable and unobservable ways, e.g. shocks.
- Need a more careful way of identifying the counterfactual credit availability
- Timing
  - Is it possible to provide a bit more detail on the timing of offers, e.g. when in the first two years?

# Main Comments (cont'd)

- Have information only on “current” credit scores, and not history:
  - Cohen-Cole et al.'09 show that there is significant heterogeneity: individuals with high pre-bankruptcy credit scores are hit much more.
  - Bankruptcy as a signal of future repayment behavior
- CS drops about 150-200 pt following bankruptcy
  - In other words, many of the figures already include this penalty, which implies that the bankrupt offerings are bigger than the non-bankrupt
- Selection in survey response
  - Need a bit more thoughtful discussion of this as weights aren't enough

# Other comments

- Crisis
  - It would really be nice to see how this changed the overall picture. Our results suggest significantly.
- Comparison to the literature for some context
  - For example, show that credit supply to bankrupt households decreases as they get closer to the 10 year mark, which is inconsistent with Musto'04.
- Drop the lender section?
  - Show most of the offers are not sent simply as a “blanket campaign” but are more targeted by “niche” lenders
  - Very nice but probably not surprising. Leave for another paper?