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- A little personal bankruptcy history: back in the 1980's, I crossed paths with Elizabeth Warren (yes, that one!).
  - I gave her my first paper on consumer bankruptcy for comments
  - She told me to trash it and find another field! This continued for years…

- The issue we disagreed on--the same as the AINP paper—do debtors behave strategically w.r.t. bankruptcy?
  - My view: consumers behave strategically in making their bankruptcy decisions. (I called this strategic behavior, their paper calls it moral hazard.)
  - EW's view: consumers don't behave strategically--they file for bankruptcy if an unanticipated adverse event occurs and they can't resolve their financial distress any other way.

# Implications for delay

- Paper assumes all consumers behave strategically/with moral hazard.
  - Measures moral hazard by delay in filing
  - Estimates how much filers gain from delay by accumulating more dischargeable debt.
- But both theories predict that consumers delay, so the delay result doesn't rule out non-strategic behavior
  - Strategic consumers benefit b/c more dischargeable debt
  - Non-strategic consumers benefit from more time to resolve their financial problems w/o bankruptcy.

- No, but hides a lot of the interest of the problem by forcing all filers into the economic model.
- Can they instead try to separate out the non-strategic versus strategic consumers and measure how they differ?
  - Use direct measures of adverse events as additional controls --- divorce, health problems, job loss?
    - (they probably don’t have these variables.)
  - Other approaches? (Return to this.)

# Other Issues—homeowner sample

- Nice data—great to have a merge of PACER data with other data, here credit bureau data.
- But they use credit bureau data only for homeowners (mortgage holders). Problems:
  - Few filers are homeowners, so they are not typical of most filers.
  - Homeowners often file to save their homes, so their incentives to delay filing differ from those of filers in general:
    - Less incentive to delay, since lender may foreclose and mortgage arrears aren't dischargeable.
    - Strong incentives to delay if filers plan to give up their homes—free housing for longer plus discharge of mortgage deficiency.

# Other Issues—homeowner sample

- Could make the sample more typical of bankruptcy filers generally by dropping filers whose incentives differ strongly:
  - Drop filers who have foreclosures ongoing
  - Drop Chapter 13 filers, since homeowners can only save their homes in Chapter 13. Focus on Chapter 7 filers who are more typical.

# Other Issues—wage garnishment

- Garnishment is only possible for a subset of debtors. Strengthen identification by dropping debtors for whom garnishment is impossible or unlikely?
    - Can’t garnish social security income, so drop the elderly/disabled
    - Can’t garnish wages if debtor not working or works for multiple employers or irregularly. PACER data shows this?
    - Not worthwhile to garnish if wages are low.
- Lenders often choose not to garnish wages—in equilibrium, they follow a mixed strategy.

- Drop pre-BAPCPA cases, since many rules changed with BAPCPA in 2005 and costs of filing rose.
- Drop those with income > state median, since filing for bankruptcy is less attractive if filer is subject to the means test.
- Drop business owners, since the rules of bankruptcy differ for them--no means test.
- Both MN and FL have unlimited homestead exemptions, but no change over time.  Does this matter?

# SN Paper

Looks at the effect on credit use of a change in rules for credit bureaus: can't use information in public records (except bankruptcy filings).

- Paper shows dynamic effects on credit use—captures both effects over time and market adjustments.
- (Disagreement with AINP paper: do credit bureaus include info on rent, utilities, and debt owed directly to sellers?)
- Nice paper. Makes me think about broader questions concerning credit reporting—maybe relevant for their next paper

# The social value of credit reporting and extra information in credit reports

(Note: credit reporting not permitted at all in the EU)

- More borrower information in credit reports benefits lenders by reducing the risk of lending.
- But more information also benefits borrowers
  - breaks up local lending monopolies (previously only local lenders had information about individual borrowers),
  - allows national markets in lending to develop, which increases competition among lenders so loan supply increases and interest rates fall.
  - In the US, credit reporting (plus other regulatory changes) allowed credit cards to be offered nationally.

# The social value of credit reporting and extra information in credit reports--2

- Information also affects redistribution across borrowers:
  - W/ less information, lenders rely more on observable characteristics such as race, sex and credit score
  - They discriminate more against observable groups with worse characteristics:
    - Lenders less likely to lend to people with low credit scores if no public record information, since this group more likely to have undisclosed judgments for unpaid debt.
    - Lenders also more likely to discriminate by race or sex depending on which group has more undisclosed judgments.

# Social value of credit information when it may be inaccurate

- Suppose type I and II errors are equal probability:
  - Then redistribution is intra-group—harms those with false bad signal and helps those with false good signal.
- Suppose type I and II errors are unequal probability:
  - Then, say, if low CS borrowers are more likely to have false public records on their credit reports, then redistribution of loans from low CS to high CS borrowers.

What is the best solution?

- ban the use of the inaccurate information (as the reform did)?
- allow the information, but improve accuracy?

- Good to connect to the "ban the box" literature. Use their theory?
- Emphasize the redistribution results (which they compute):
  - Who gains/who loses?
  - Do the gains to the gainers exceed the losses to the losers?
  - Are the gains/losses concentrated vs dispersed?