Credit and Debt Collection Markets Panel Discussion

K. Jeremy Ko
Division of Economic and Risk Analysis
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Debt Collection

The Economics of Debt Collection: Enforcement of Consumer Credit Contracts by Viktar Fedaseyeu and Robert Hunt

- Interesting unexplored research question: how can one explain the existence and structure of the debt collection industry?
    - Economies of scale? No, DCFs are disperse and unconcentrated.
    - Specialization? No, creditors possess information and regulatory advantages.

Proposed Explanation

- Creditors outsource debt collection to avoid reputational damage to their lending business.

- Model:
  - Two period game with lending to identical set of consumers in both periods. Firms choose either harsh or lenient collection practices.
  - Consumers switch lenders with exogenous probability ρ after harsh collection.

  - Simultaneous choice of harshness without DCFs → higher incentives to be lenient.
  - Sequential choice of harshness with DCFs → lower incentive to be lenient.

Critiques

- Is a simultaneous game economically meaningful? If game without DCFs is sequential (i.e., creditors can revise their collection practices in response to competitors) → no rationale for outsourcing to DCFs.

- Consumer propensity to switch lenders after harsh practices should be endogenous.

- Authors may consider an alternative model where reputational damage from harsh collection is dissociated from the original creditor when outsourced. For example, if more than one creditor hires a harsh DCF → harshness won't be associated with a single creditor.

Further Work

The authors have opened the door to an interesting new literature:

- Regulatory implications: tradeoff between disutility from harrassment and expansion of credit.

- Empirical work: how have technological changes in communication with and location of people changed debt collection practices and industry structure?

- Application to other settings, e.g., political action committees.

Credit Card Fees

The Evolution of Credit Card Contracts: Risk-Based or Bias-Based by Ben Keys and Jialan Wang

- Authors explore reasons for increase in credit card penalty fees from 2000-2009.
- They find fee levels are uncorrelated (or negatively correlated) with default risk while APR levels are positively correlated with this risk.
- Fee increases occur simultaneously with increases in fee complexity (i.e., tiered fee structures) and generosity of promotional offers.

Suggestion

- Is it possible to distinguish between theories of overoptimism (e.g., Ausubel, AER1991) and inattention (e.g., Gabaix and Laibson, QJE 2006)?

- Is it possible to draw any conclusions about consumer welfare over this time period? Did aggregate profits of credit card lenders (and aggregate fees incurred by consumers) increase? Did these markets become less fair in terms of cross subsidies between "sophisticated" and "unsophisticated" consumers?