Discussion of:
Shopping for Consumer Credit

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The views expressed are those of the presenter and do not necessarily represent those of the Federal Reserve Board or its staff.

Session on "Consumer Shopping" but…

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- Both papers share a common theme of being about instances were more information may be bad

- **Ko & Williams**: "Mandating disclosure can decrease welfare, whether measured by the total surplus that accrues to all consumers or the welfare of unsophisticated consumers."

- **Bos & Nakamura**: "Credit arrear removal is welfare enhancing."

- Discussion will focus on understanding why

Ko & Williams

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- “The Effects of Regulating Penalty Fees for Consumer Financial Products”

- Paper looks at a LOT of stuff
  - In many cases, mandatory disclosure either has no effect on welfare or increases welfare

- I am going to focus on one narrow case where mandatory disclosure reduces welfare
  - Homogenous valuation model

What Drives Decline in Welfare?

	Informed	Informable	Uninformed

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Welfare Change	Negative	Positive	Negative

Mandatory disclosure….

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- Reduces cross subsidization
  - But this does not affect welfare
- Causes “informable” consumers to become informed
  - Realizing the high cost of paying late, they now pay on time
  - The loss in benefit from paying late decreases welfare
- Policy “seems” to work, though it results in a loss of welfare

What else might the paper do?

- In optimal world, everyone would pay late (informed, uninformed, informable)

- Competitive market means any revenue gains from high late fees are passed on to consumers
  - Are these results robust to imperfectly competitive markets?

Bos & Nakamura

- "Should Defaults be Forgotten? Evidence from Legally Mandated Removal"

- Exploits an exogenous source of variation on reporting using Swedish data
  - Went from removing at end of calendar year to removal three years after the arrear

- Allows a comparison of results for people with 3 year removal times and people with longer lag times

What Does the Paper Do?

- Treatment Group: Arrear from January to August 2000
  - Arrear removed in October 2003
- Control Group: Arrear from September 2000 to June 2001
  - Arrear removed after three years

- Looks at how removal affects
  - Credit scores
  - Loan applications
  - Acquisition of new credit
  - New arrears after removal

Is this Really What We Need to Know?

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- Only look at people with arrearages

- “Forgetting” credit history, however, will affect *everyone*
  - A proper welfare analysis should look at all individuals

- More fundamental question: What does the removal of this information do to model predictiveness?
  - More accurate models should expand credit availability

Summary

- These are both very interesting papers

- Remind us that requiring more disclosure may be harmful and that requiring the retention of less information may improve market outcomes