

Discussion “Minimum Payments and Debt Paydown in Consumer Credit Cards” by Keys and Wang

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Summary of the paper

- ▶ Incredible dataset covering one quarter of U.S. general purpose credit card market at the account-month level
- ▶ Documents that 29% of all accounts usually make minimum payment or up to \$50 more each month
- ▶ Behavioral response to i) changes to minimum payment and ii) disclosures from CARD act suggest minimum payment is an anchor
- ▶ Anchoring is very prevalent and costly

Comments

- ▶ Lots to like:
 - ▶ Data
 - ▶ Ambitious and important questions: How do people choose how much to repay/borrow? Effect of contractual features on repayment?
 - ▶ Evidence of persistence in repayment behavior: “types” of repayers
 - ▶ Tries to estimate how much is lost due to anchoring bias
 - ▶ A pleasure to read
- ▶ My focus: evidence on anchoring

Idealized setting

- ▶ Want to measure prevalence of anchoring
 - ▶ Anchoring: “...arbitrary and irrelevant numbers bias people’s judgements...” (Stewart, 2009)
- ▶ Credit card borrowers, randomly-select 50% and treat by showing a randomly selected monthly installment (between \$1 and full balance)
- ▶ Measure fraction of treated group that switches to randomly selected number
 - ▶ Refinement: people like round numbers (second bias); if number is “strange” (e.g., \$23) include interval up to next multiple of \$10

Paper

- ▶ Descriptive section: many people pay minimum payment, and regularly do so; there is a cost
 - ▶ OK, consistent with anchoring but cannot rule out rational behavior
- ▶ Two relatively well-identified analyses:
 - ▶ Changes to minimum payment
 - ▶ Disclosure of different payment rule

Changes to minimum payment

- ▶ Some accounts see changes to minimum payment(=changes to maturity)
- ▶ Focus on accounts “affected” by the change: those who pay less than the higher minimum before the change
- ▶ Idea: measure the number of affected borrowers who pay strictly more than the higher minimum after the change
- ▶ Null: zero
 - ▶ If all affected borrowers are rational, then no one should pay strictly more than new minimum
- ▶ Alternative: anchoring to the new minimum payment
- ▶ Result: significantly different from zero, suggests large prevalence of anchoring

Changes to minimum payment: concerns

- ▶ Minimum payment is not only a potential anchor, its also the minimum payment amount that prevents individuals from being in default
- ▶ Behavioral responses to changes to minimum payment can also be used to measure individuals' assessment (or distribution) of cost of default
- ▶ Can we isolate response due to anchoring?
 - ▶ E.g., increase “minimum” payment, but keep individuals who pay more than the old (lower) minimum in good standing
- ▶ Not current setting

Changes to minimum payment: concerns

- ▶ Authors are aware of this and suggest focusing on individuals who pay strictly more (\$1) than new minimum
- ▶ Why is this anchoring?
 - ▶ Second alternative: rational borrowers pay new minimum and round up slightly?
- ▶ In my opinion, very hard to disentangle anchoring using this experiment

CARD act

- ▶ CARD act experiment is closer to idealized setting: show another payment amount (reduce maturity to 3 years) that is potentially irrelevant
- ▶ Result: small but significant number of accounts shift to this new number
- ▶ This is evidence of anchoring, but it suggests the effect is not very large
 - ▶ Authors' interpretation: anchoring still important, but minimum payment is stronger anchor (why?)
- ▶ Replace minimum payment with new anchor?
 - ▶ Careful with effect on default: authors argue no effect in analyses using changes to minimum payments, but significance does creep in to some tests

Conclusion

- ▶ Very interesting descriptive stats
- ▶ Changes to minimum payments/maturity have a strong response, but hard to infer what is due to anchoring
- ▶ CARD Act test does provide evidence of anchoring, but suggests effect is small
 - ▶ Perhaps effect blows up for some subpopulation? Effects of financial education?
- ▶ You should read the paper!

Thanks

Thank you!

Other comments

- ▶ Interesting that there does not seem to be a selection effect into new minimum payments: Herztberg, Liberman, and Paravisini (2015) suggests shorter maturity (higher minimum payment) would attract better borrowers