

Essays on Household Finance

Benedict Guttman-Kenney (Chicago Booth → Rice Jones)

PhD Defense, Thursday 11th April 2024

Economics of Credit Information:

- Chapter 1. Unraveling Information Sharing in Consumer Credit Markets
- Chapter 2. Disaster Flags: Credit Reporting Relief from Natural Disasters

N.b. Agreed TransUnion data access to 2029 to publish chapters 1+2 (+ 2 other projects)

Behavioral Household Finance:

- Chapter 3. Semblance of Success in Nudging Consumers to Pay Down Credit Card Debt

N.b. Co-author data access restored (this week) to publish chapter 3

1. Job Market Recap
2. Research Agenda
3. Specific Projects
4. Potential New Projects

1. Job Market Recap

Job Market Recap

101 applications (42 finance) → 11 interviews → 3 flyouts → 1 job offer

Flyouts and Interviews (All Finance)

Flyouts	Rice
	U Illinois Urbana-Champaign
	Vanderbilt
Interviews	Boston College
	Colorado Boulder
	Georgetown U
	Maryland
	NYU
	U Illinois Chicago
	U Texas Dallas
	Washington U St Louis



Good match for behavioral / household finance

- Juniors: David Zhang, Stephanie Johnson, Tarik Umar
- Seniors: Alex Butler, Bruce Carlin, James Weston
- Credit reporting data for US (1%, 04-21) & Canada (10%, 07-20) - annual, consumer-level
Dean's office covers $\approx 75\%$ cost for large data acquisitions

Teaching: 2 x sections evening MBA intro finance 14 week course in Fall 2024

- Add Consumer Finance MBA 7 week course section in Year 2+

Contract: 2 x 4 Year Contracts. Tenure review starts end of Year 6

Tenure Expectations: \approx 4.5–5 top 3 finance (JF/RFS/JFE) / top econ

- Will find out more about publication preferences before submitting JMP / other papers

2. Research Agenda

**My research studies household finance topics that are both academically interesting and relevant to inform consumer financial protection regulation.
Topics: 1.Economics of Credit Information & 2.Behavioral Household Finance.**

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Current Research Portfolio for Future Tenure Packet

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2. Credit Reporting Data: JEL (2nd round resubmission by July)
3. FCA Credit Card Trials: AEJ: EP (resubmitting by June) + JMR + Economica

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4. Unraveling (JMP)
5. Disaster Flags (Curriculum Paper)
6. Hard Paternalism (working paper out in June)
7. Dynamic Heuristics (to finish drafting working paper)
8. Auto Loan Prepayment (early stage)
9. Credit Invisibility (early stage)
10. Short BNPL paper (JBEF) + short medical debt paper (JAMA Health)

Research Plan

Now to July 2024

Prioritizing revisions for: AEJ: EP (#3), JEL (#2), & Paternalism working paper release (#6)

Early work: Auto Loan (#8) & Invisibility (#9)

Year 1 (August 2024 to June 2025)

Prioritizing submitting Unraveling (#4) & Disaster Flags (#5)

Continuing: Paternalism (#6), Dynamic Heuristics (#7), Auto Loan (#8), & Invisibility (#9)

Year 2 Onwards

Publish working papers and start new projects!

Future Letter Writers: 🚀

- I have a strong network in behavioral household finance
- But not in economics of credit information. Ideas?

3. Specific Projects

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Unraveling Information Sharing in Consumer Credit Markets

Feedback:

- Tighten drafting throughout
- What's the market failure? How competitive is credit card market?
 - Worsens credit risk measurement. Affects credit allocation beyond just credit cards
 - Worsens credit card competition. Highly profitable incumbents choose data to share

Analysis:

- Updated credit risk prediction: Which consumer types gain and lose?
- Heterogeneity analysis but doesn't seem necessary before submitting:
 - Which consumer types take out new cards post-Trended Data?
 - After credit limits shared, effects on new card financing charges?

Status:

- Submitted to NBER SI HF, SITE, AEA/AFA. Await decisions before submitting
- Submit paper by Q1 2025. Try QJE then AER

Disaster Flags: Credit Reporting Relief from Natural Disasters

What paper does:

- Five facts on credit report disaster flags
- Difference-in-Differences effects of flags on credit scores and credit access
- Counterfactual for automatically masking disaster defaults affects predicting new default

Status:

- Tidy up counterfactual analysis
- Submit paper in Q3/Q4 2024 once learn about Rice publication preferences
Current plan to first try AER / RESTUD but expect better fit at JF / RFS / JFE

Auto Loan Prepayment (With Andrés Shahidinejad)

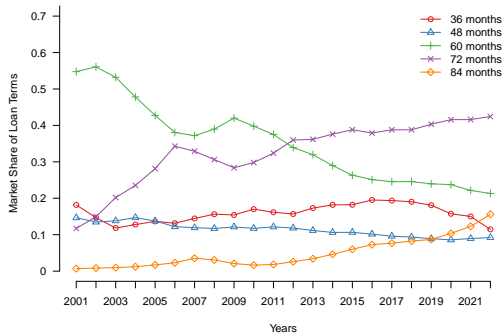
Project at exploratory stage using Booth's TU data.

Aim: Write THE definitive paper on auto loan prepayment. Auto loan prepayment barely studied in literature. Literature focuses on mortgage prepayment.

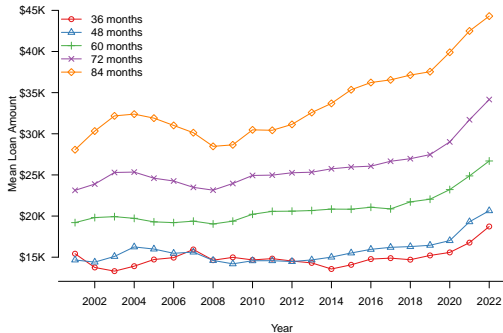
- Describe auto loan market over 25 years
- When do consumers prepay auto loans? What happens to other credit when they do?
- Effects of lender policy changes to loan terms (e.g., 60 to 72 month loans) on prepayment
- Difference-in-Differences effect of auto loan prepayment bans across states on auto loan

Auto Loan Terms Changing (2001 - 2022)

Auto Loan Origination Term
↓ 48, ↓ 60, ↑ 72, ↑ 84 Months



Auto Loan Origination
↑ Amounts



Study How Prepayment Changes in Response to Loan Terms

Histogram of Repayment Month For 60 & 72 Month Origination Cohorts (2001–2016)

Evaluating Hard Paternalism: Evidence from Quebec Tightening Credit Card Minimum Payments (With Jason Allen and Michael Boutros)

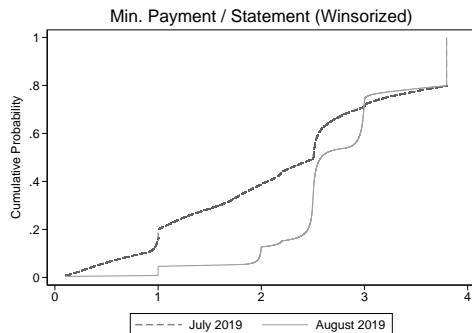
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 - Effects on consumer revolving debt and delinquency?
 - Supply responses of lenders
- Quebec policy introducing minimum payment rule eventually reaching 5% statement balance (Ontario and rest of Canada unaffected)

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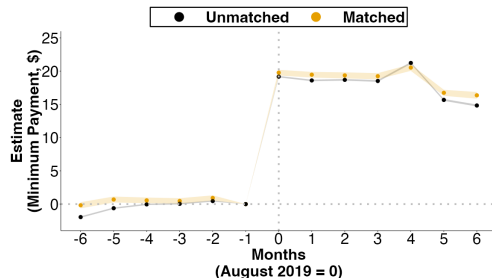
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- Quebec policy introducing minimum payment rule eventually reaching 5% statement balance (Ontario and rest of Canada unaffected)
- Primarily study trade-off debt vs. delinquency
- Can also learn about credit card market
 - substitution and spillovers from credit cards to other debts
 - does restricting terms for revolvers affect transactors (test of x-subsidization)
 - sensitivity of consumers spending and repayments to minimum payment terms

Quebec's policy \uparrow minimum payments by 0.5 p.p. (27%) for cards opened pre-August 2019

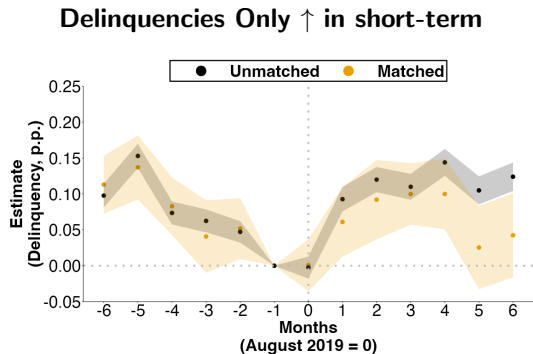
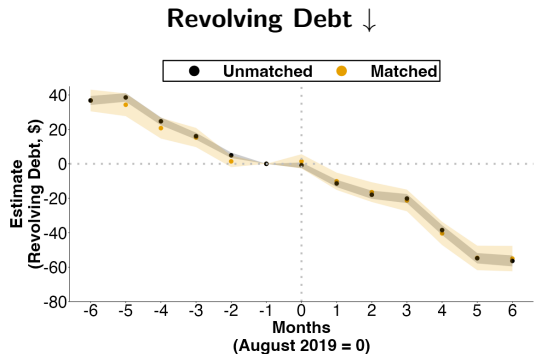
CDF Minimum Payments in Quebec



Difference-in-Difference Minimum Payments in Quebec (control group is Ontario)



Trade-off Revolving Debt vs. Delinquency



- Given pre-trends, applying Rambachan & Roth (2023, RESTUD)

4. Potential New Projects

RCT Testing Reducing Credit Card Debt

US FinTech RCT of active choice nudge to de-anchor / de-target from minimum payment

Credit Card Payment Options

For the next question, we'd like you to think about how much money you have right now.

There is an example credit card bill below. Obviously you might not expect to get a bill like this. But if you did, bearing in mind how much money you actually have, how much would you repay?

Make a payment

Full statement balance
£532.60

☐ Full statement balance £532.60

☐ The minimum £11.98

☐ This much (please specify)

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Shrouding Minimum Payment Option

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- Initially a short paper
- Bigger paper by testing other treatments (full payment target, default, recommendations) & robo-advice recommendations with linked checking account data
- Also discussing with Thaler getting data from Tally to see if it works

Longer-Term Research Topics of Interest

RCT Opportunities

- Bank in Chile (Daniel Schwartz, Universidad de Chile)
- Payday lender in Canada/US

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Topic: Unprofitable Credit Cards & Deposit Stickiness

- Some credit cards that appear ex-ante unprofitable at account-level. Why offered?
- Hypothesis: Credit Card \rightarrow \uparrow Deposits \rightarrow \uparrow Net Interest Margin
- Partner with bank with exogenous credit cards offerings and track deposit behavior. Describe banks vs. monoline portfolios.

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Topic: Consumer Understanding & Attention to Credit Reports

- Survey understanding of what affects FICO? How knowledge relates to actual behaviors?
 - Effects of correcting credit reporting errors on credit access?
- Attentive consumers correct errors *before* new autos / mortgages? Or mistakenly correct *after*?

Thank you! Please stay in touch!

 www.benedictgk.com

 **benedict@chicagobooth.edu**
benedictgk@rice.edu

 [@gk_ben](https://twitter.com/gk_ben)

Good network in behavioral household finance:

- Hunt Allcott, John Campbell, James Choi, George Loewenstein, Ben Keys, Brian Melzer, Michaela Pagel, Christopher Palmer, Richard Thaler, Jon Zinman.

Not many on economics of credit information. Ideas?

- Enrique Seira, Daniel Paravisini

Credit Invisibles (With Tony Cookson and Will Mullins) 🚀

- Effects of time to becoming credit visible on credit access across life cycle.
- Examine consumers of same age with different years of credit visibility based on year of SSN assignment

(Bernstein, Diamond, Jiranaphawiboon, McQuade, Pousada 2022 AER R&R)

- 32 million “consumers”, 25 million (79%) with SSN (or EAE/ITIN), 2.3 million (9%) immigrants (or assigned SSN as adults)
- Among immigrants, 1 year later SSN assigned (conditional on birth year), 8 months later credit report first created.