

Adverse Selection on Maturity:
Evidence from On-Line Consumer Credit
(Hertzberg, Liberman, & Paravisini 2015)

Discussion by

Anthony A. DeFusco

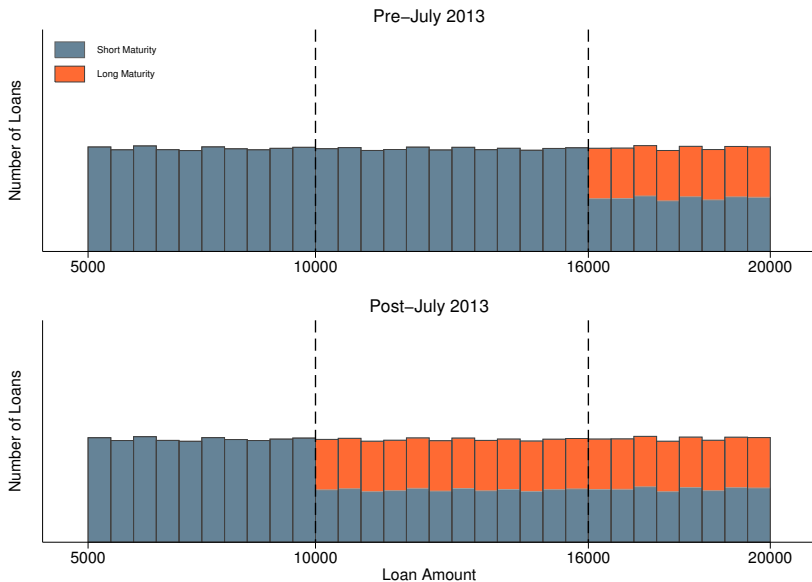
Kellogg School of Management
Northwestern University

Federal Reserve Bank of Philadelphia
Consumer Credit Conference
October 2015

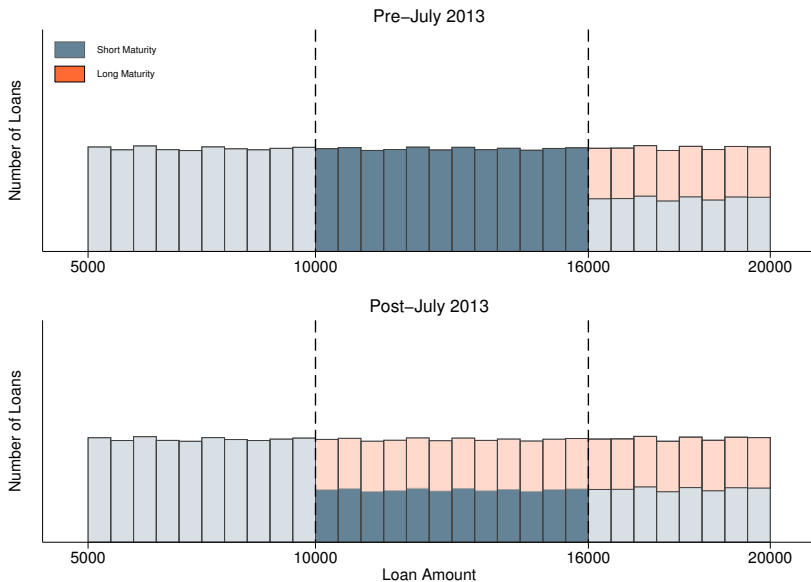
- **Important/interesting question**
 - Can loan maturity be used to screen borrowers in consumer credit markets featuring asymmetric information about future ability to pay?
- **Convincing approach**
 - Exploit changes in the menu of products offered by Lending Club
 - Track changes in the performance of short maturity loans before and after the introduction of an alternative long maturity substitute
- **New findings**
 - Borrowers who choose short maturity when long maturity is available default less, have higher future credit scores, and prepay more
 - Better performance of selected borrowers concentrated in the future

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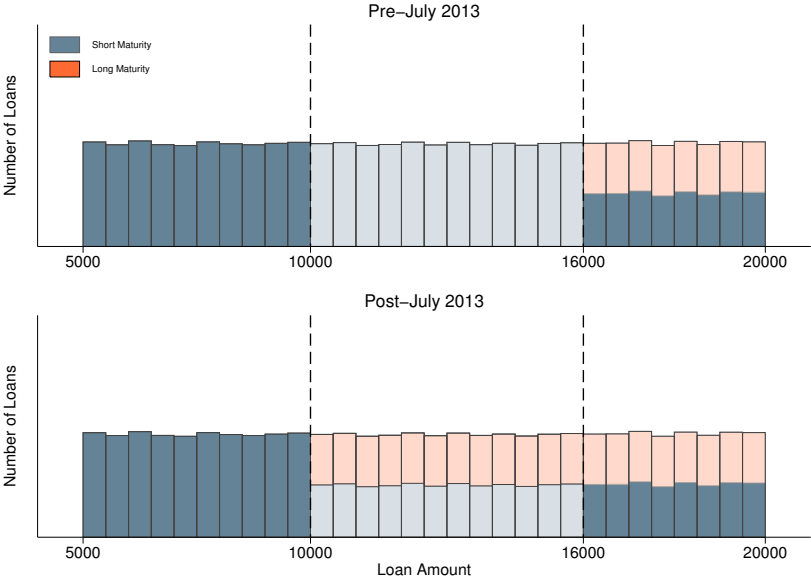
The Research Design With Exogenous Loan Amounts



Treatment Group

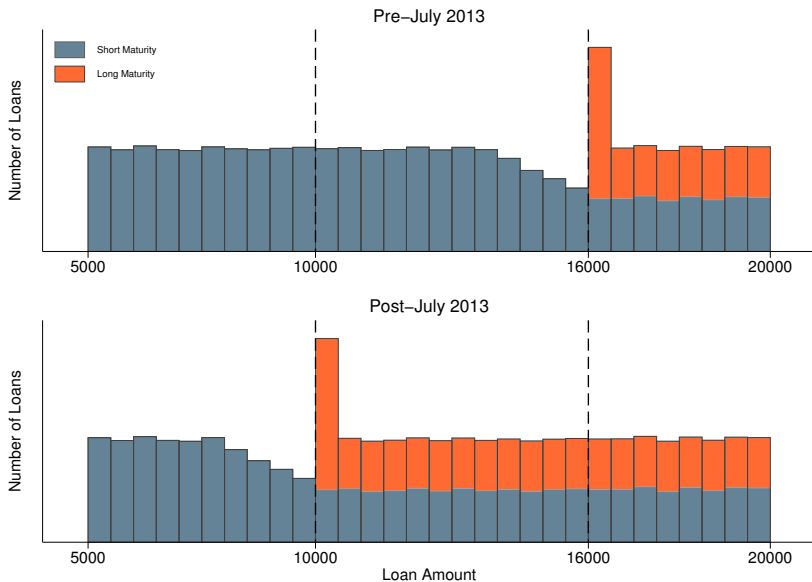


Control Group

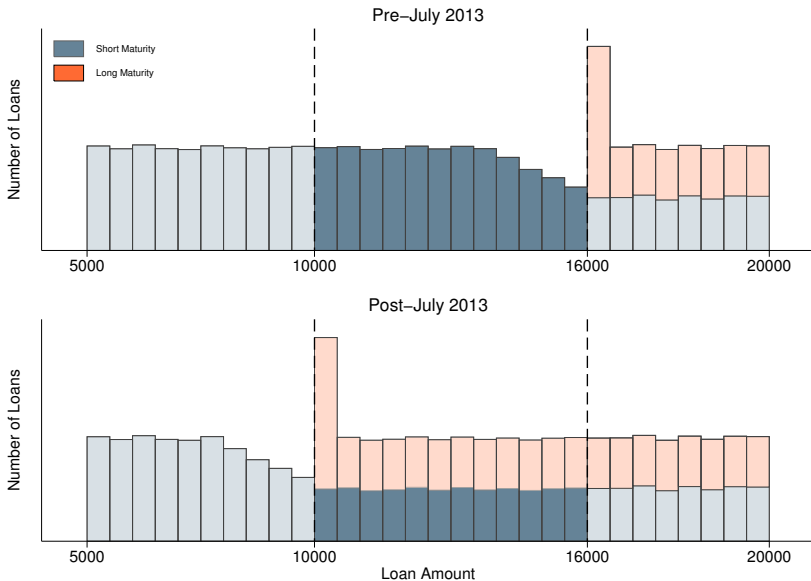


but of course loan size is a choice...

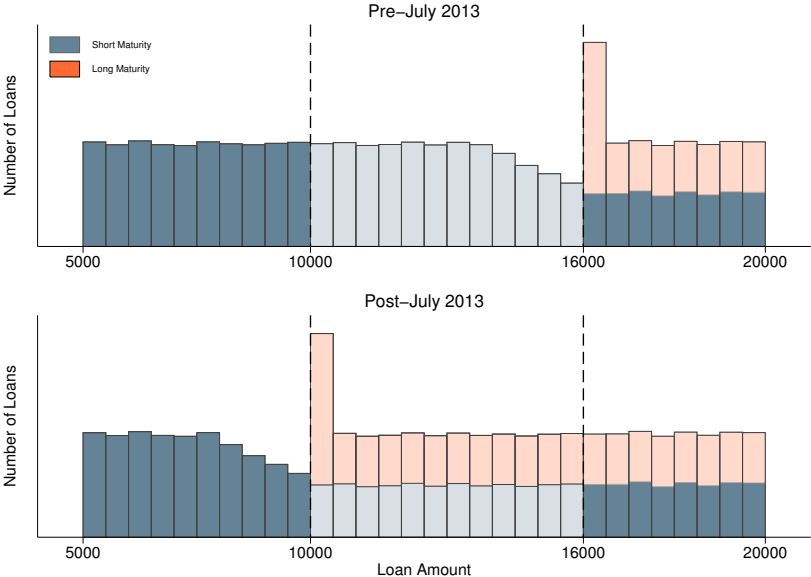
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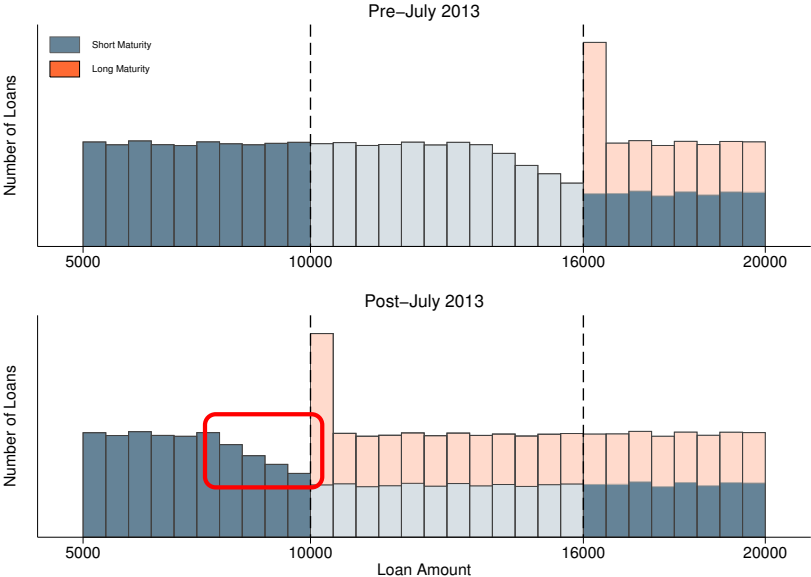
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- Change may induce selection into long maturity in the control group
 - Paper provides some evidence to the contrary (insig. 3.6% ↓ in short maturity loans near new threshold)
 - Surprising given existing literature...why might LC borrowers differ? (Attanasio et al., 2008; Karlan and Zinman, 2008)
 - Robustness checks:
 - Show the loan size distributions
 - Repeat the analysis using only short maturity loans > 16K as control
- Why look only at short maturity loans?
 - Do “missing” short maturity loans show up as new long maturity loans?
 - DiD above 16K on long maturity outcomes with short maturity as control
 - Can you estimate elasticity of loan size w.r.t. maturity from bunching? (DeFusco & Paciorek, 2014; Best et al., 2015)

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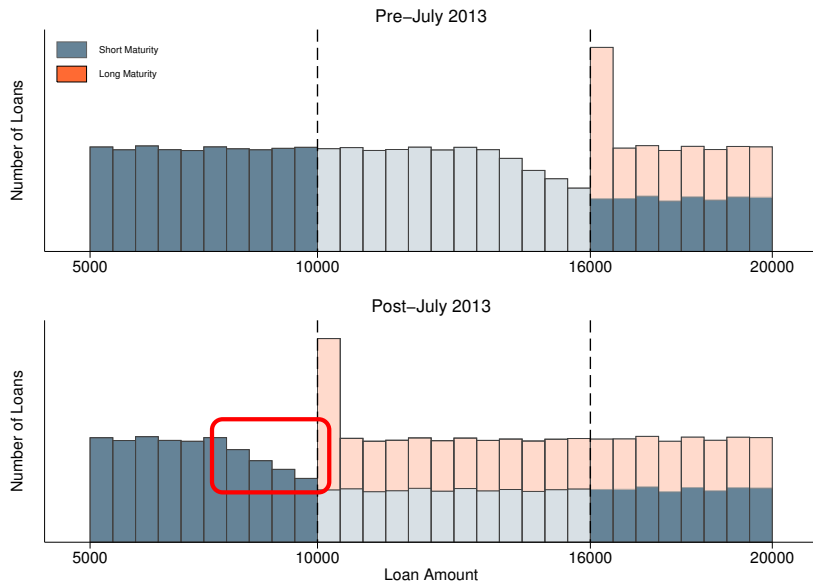
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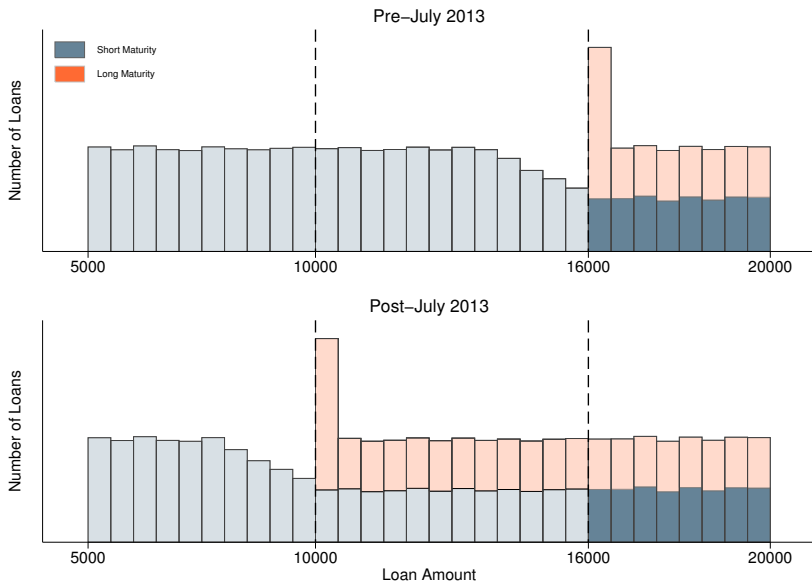
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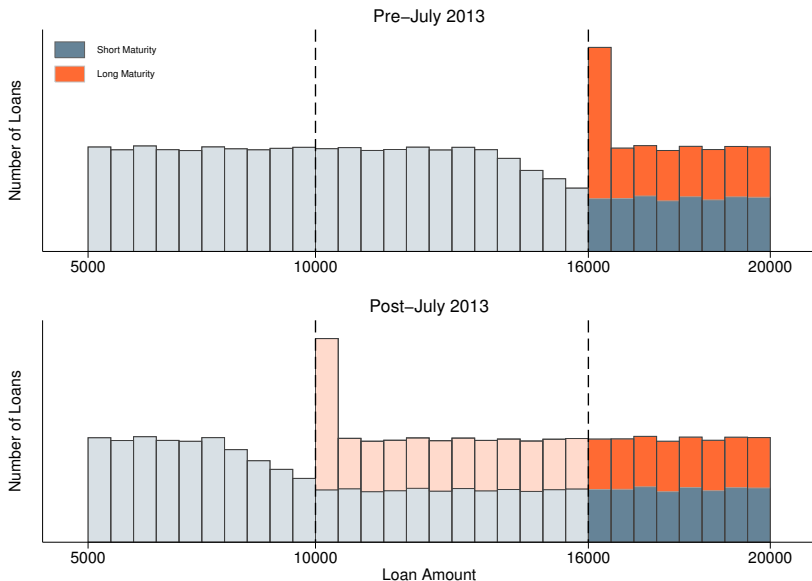
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Alternative Experiment Using Long Maturity Outcomes



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Thanks!