



DISCUSSION OF:
CREDIT CARDS FOR UNEMPLOYED HOUSEHOLDS
AND
CONSUMER REVOLVING CREDIT/DEBT OVER LIFECYCLE

KRISTOPH KLEINER

KELLEY SCHOOL OF BUSINESS, INDIANA UNIVERSITY



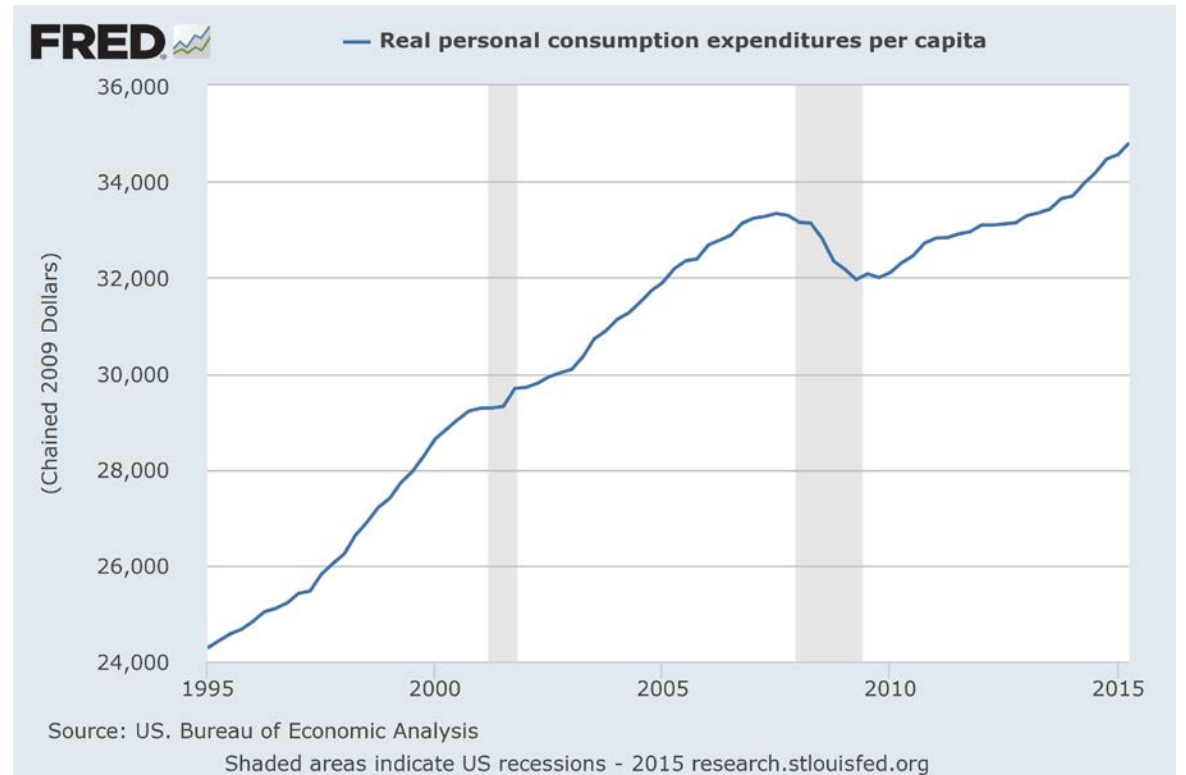
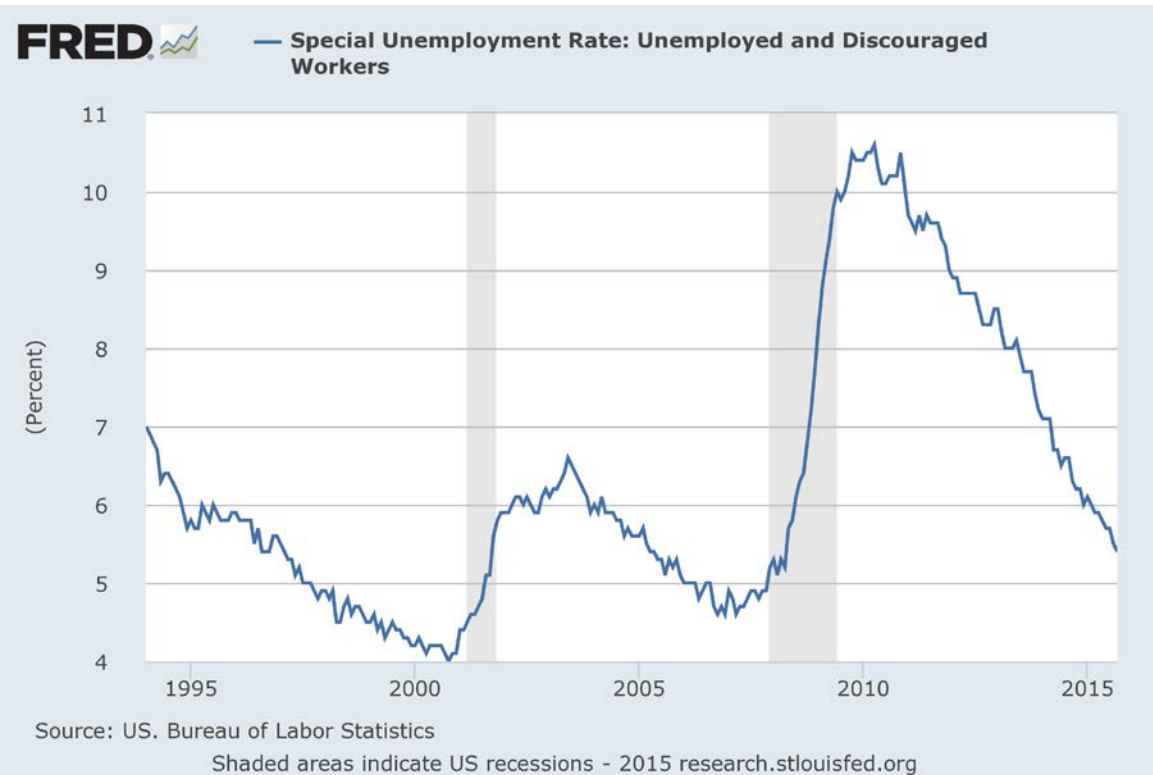
INTRODUCTION TO THE PAPERS

- The Role of Credit Cards for Unemployed Households in the Great Recession
 - Households increase Unsecured Credit during Unemployment
 - The Unemployed Continue to Hold Increased Debt into the Future
- Consumer Revolving Credit and Debt over the Life-Cycle and Business Cycle
 - Credit Limits Increase Rapidly early in Life
 - Debt grows almost as Fast
 - Result: Credit Utilization (Debt/Limit) is Fairly Stable over the Life-Cycle (especially Age 20-50)
 - Credit Revolvers See Full Pass-Through of Credit into Debt

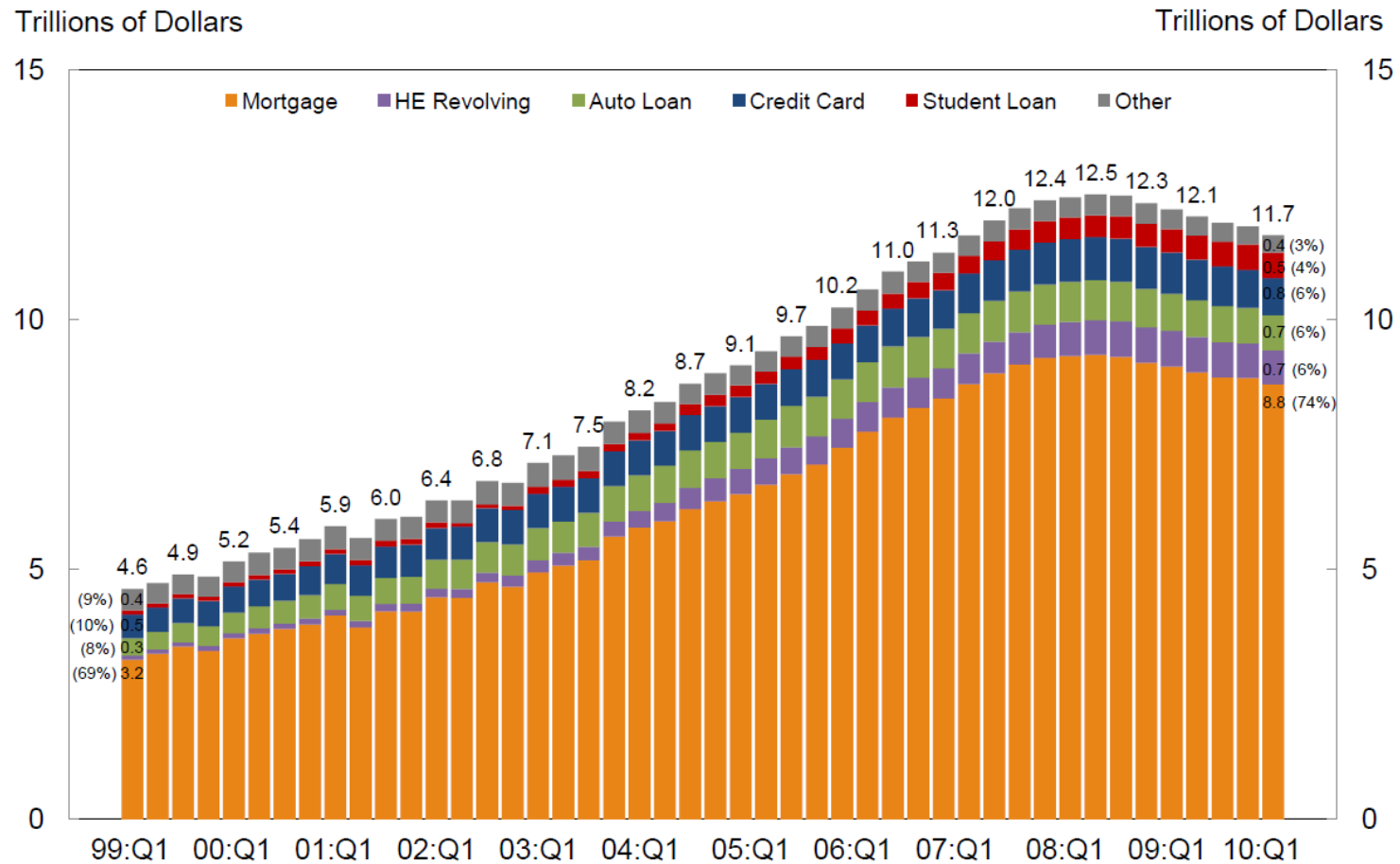
UNDERSTANDING THE CONSUMER BUDGET CONSTRAINT

- Budget Constraint:
 - $d(t + 1) + c(t) + w(t + 1) = y(t) + (1 + r)w(t) + (1 + s)d(t)$ with the Debt Limit $d(t + 1) < \phi(t)$
- Therefore Research Needs to Understand the Relationship between:
 - Consumption
 - Income
 - Debt and Debt Limits
 - Wealth/Assets

WE GENERALLY STUDY CONSUMPTION AND INCOME

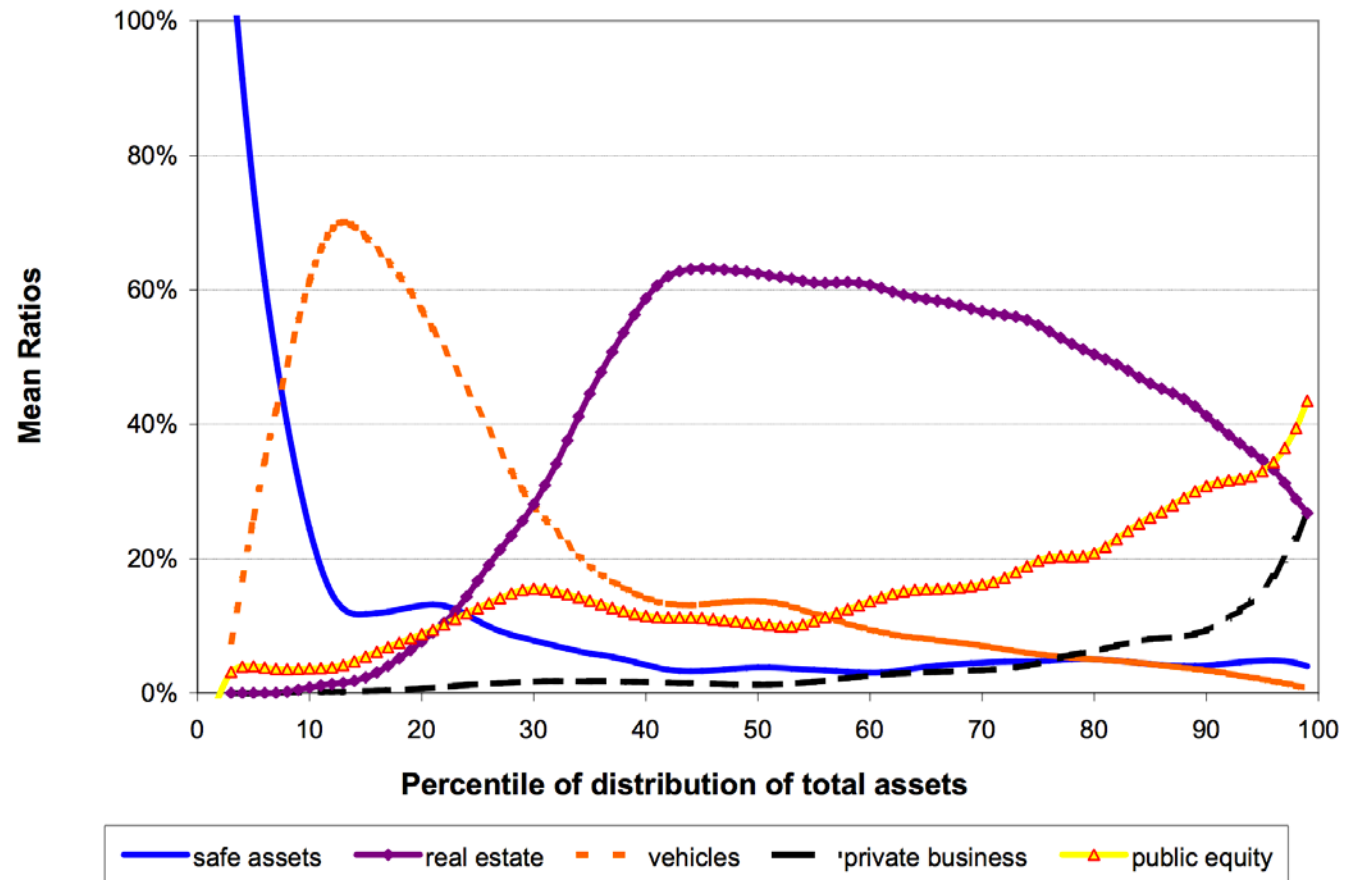


MORE RECENT OF KNOWLEDGE OF CONSUMER DEBT



LESS KNOWLEDGE OF CONSUMER WEALTH

Figure 3: Asset Class Shares in Household Portfolios



WHAT ARE WE LEARNING ABOUT THE BUDGET CONSTRAINT?

- The Role of Credit Cards for Unemployed Households in the Great Recession:
 - Households take on debt $d(t + 1)$ when Experiencing a loss of income $y(t)$
 - Households Do not Live in Autarky
- Consumer Revolving Credit and Debt over the Life-Cycle and Business Cycle:
 - There are some Consumers that are against the Debt Limit $d(t + 1) = \phi(t)$
 - A Fairly Constant Proportion of Consumers are Constrained across the Lifecycle
 - Markets are Incomplete
- Connection between the Papers:
 - In Response to Permanent Income Shocks, Non-Revolver may become and Remain Revolver
 - There is not Complete Insurance as some Consumers are Financially-Constrained

THE ROLE OF CREDIT MARKETS FOR UNEMPLOYED HOUSEHOLDS IN THE GREAT RECESSION

Alternative Research Question:

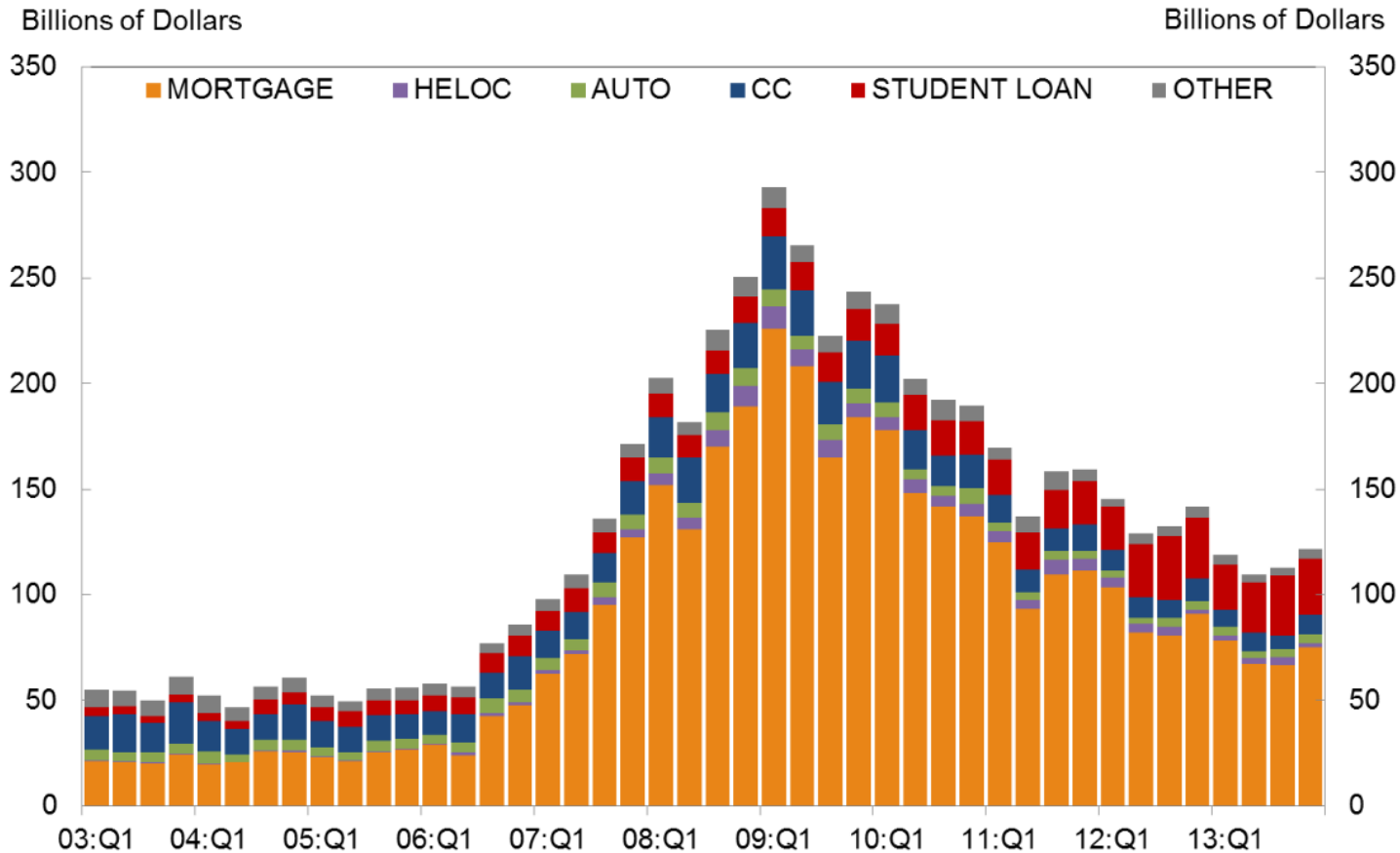
- Was there a Contraction in Non-secured Household Debt during the Great Recession?
 - Commercial and Industrial Loans Reported on the Aggregate Balance Sheet Rose \$100 Billion from Sept-Oct 2008 (Chari, Christiano, and Kehoe, 2008)
 - This was Driven not by an Increase in New Loans but an Increase in Drawdowns on Existing Credit Lines (Ivashina and Scharfstein, 2010)

To Answer this Question we Need to Expand the Data and Distinguish between Types of Debt:

- What Type of Secured Debt? (Mortgages, Car Loans, Home Equity Lines of Credit)
- Non-Secured Debt? (Credit Card, Student Loans, Medical Bills, Loans)
- What Type of Wealth in Terms of Assets and Savings?

WHY MIGHT WE THINK THERE WAS A CONTRACTION IN NON SECURED CONSUMER DEBT?

New Seriously Delinquent Balances by Loan Type



CONSUMER REVOLVING CREDIT AND DEBT OVER THE LIFE-CYCLE AND BUSINESS CYCLE

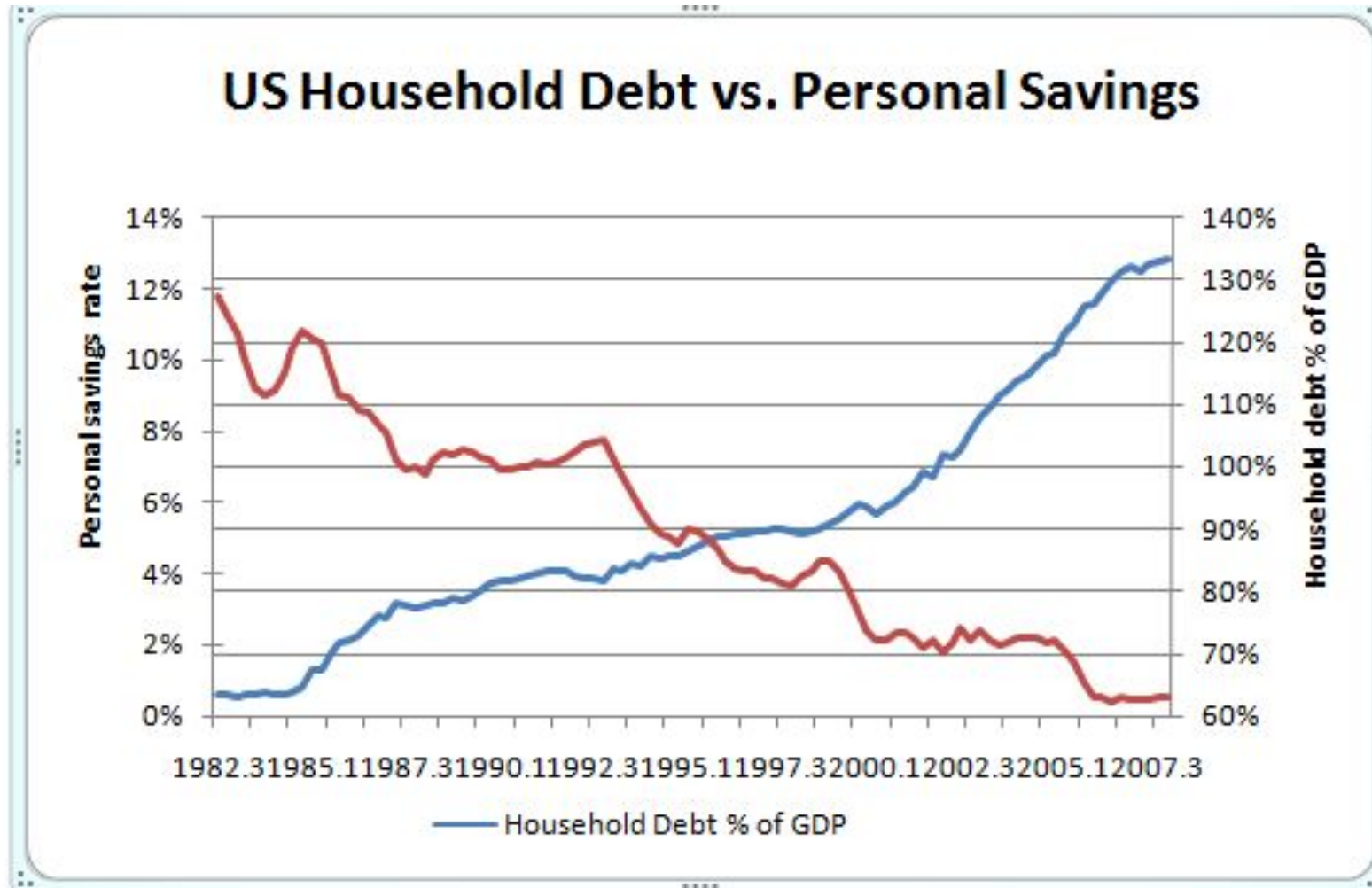
Alternative Research Question:

- Do Increased Credit Limits Explain the Lack of Savings Among US Adults?
 - Credit is a Form of Wealth, the young are effectively getting wealthier through credit increases, reducing their need to save
 - Savings for these Consumers should be mostly about paying down previous debts since paying off credit cards has a riskless return which averages 14%
- Develop a full Life-Cycle Model with Increasing Credit Limits to Understand Household Savings Decisions

Framing the Question from a Policy Angle:

- What is the Relationship Between Credit Expansions and Household Saving?
 - Credit Expansions Increase Lending to High-FICO individuals, exactly those that don't increase Borrowing (Agarwal, Chomisisengphet, Mahoney, and Stroebel, 2015)

WHY DO WE CARE ABOUT HOUSEHOLD SAVING?



CONCLUSION

Overall, These Papers Consider an Important, Yet Over-Looked Area of Research

- The Role of Credit Cards for Unemployed Households in the Great Recession:
 - Break Down Non-Secured Debt by Type
 - Test Which Debt saw a Contraction during the Recession
- Consumer Revolving Credit and Debt over the Life-Cycle and Business Cycle:
 - Expand the Conclusion to Analytically determine if Credit Limits can Explain Savings
 - Relate this Argument to the Relationship between Credit Expansions and Household Savings

Glad to Meet you All! Enjoy the Lunch and Have a Safe Trip Back!