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
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Overview

- **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

<table>
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<th>Number of Loans</th>
<th>Loan Amount</th>
<th>Pre−July 2013</th>
<th>Post−July 2013</th>
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<tbody>
<tr>
<td>5000</td>
<td>5000</td>
<td></td>
<td></td>
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<td>10000</td>
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<td>20000</td>
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</tbody>
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Number of Loans

- **Short Maturity**
- **Long Maturity**
Treatment Group

Pre–July 2013

Post–July 2013

DeFusco Discussion of Hertzberg et al. (2015)
Control Group

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but of course loan size is a choice...
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Treatment Group

Pre–July 2013

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Number of Loans

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DeFusco Discussion of Hertzberg et al. (2015)
Control Group

Pre–July 2013

Number of Loans

Short Maturity
Long Maturity

Post–July 2013

Number of Loans

DeFusco Discussion of Hertzberg et al. (2015)
Control Group

- **Pre-July 2013**
  - Number of Loans: 5000, 10000, 16000, 20000
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DeFusco Discussion of Hertzberg et al. (2015)
• 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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Alternative Experiment Using Long Maturity Outcomes

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