

The Challenge of Debt Collection Policy

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The views expressed are those of the speaker and do not necessarily reflect those of the Federal Trade Commission.

Background

- ▶ Unique (and problematic) market
- ▶ Market size: \$110b
- ▶ Largest source of complaints to FTC

Importance of Market

- ▶ Lowers cost of credit
 - ▶ Creditors recoup otherwise unpaid debt
 - ▶ Deterrence
- ▶ Credit facilitates household investment
- ▶ Economic growth

Collections Lower Cost of Credit

- ▶ Transfer from non-payers to payers (lower interest rates)
- ▶ Pass through depends on industry structure
- ▶ Cost of collecting

DWL Example

- ▶ Policy restricting collections activity
 - ▶ Raises interest rate from 10% to 15%
 - ▶ Inframarginal consumer priced out of market

Collections as Painful Process

- ▶ Collection as series of sticks/threats
- ▶ FDCPA
- ▶ Direct harm is social cost too

Loans As A Bundle

- ▶ Bundle of price and collection protections
- ▶ What is optimal bundle
 - ▶ Empirically: No variation in bundle
 - ▶ Adverse selection
 - ▶ No one knows current protections

Research Frontier: Supply

- ▶ Relationship between collections and interest rate
 - ▶ Insight from industrial structure
- ▶ How laws affect collections

Research Frontier: Demand

- ▶ Do consumers know laws?
- ▶ Does knowledge change consumer behavior (moral hazard)?

Big Picture Questions

- ▶ Other ways to search for optimal policy?
 - ▶ Quantity doesn't do it
- ▶ How many mistakes are there?
- ▶ Improving signaling