

When Debt Relief Hits Main Street: Evidence from Consumer Credit Channel

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Motivation

- ▶ Paper studies how weakening creditor rights on unsecured debt affects firm revenue/employment
 - Mechanism: legislation restricting debt collectors' abilities
- ▶ Channel is that the creditor protection decreases in these states, so lenders cut lending, that decreases consumer credit, which decreases their spending, which decreases firm's revenues
 - Indirect channel: reducing creditor rights restricts credit provision to households, households then cut spending at firms → firm profit declines and firm lays off workers
 - Fonseca (2023) and Fedaseyeu (2020) show the first stage ⇒ debt collector restrictions curtail consumer unsecured credit
 - This paper focuses on showing that consumer spending falls and that firm revenues fall

- ▶ NielsenIQ consumer expenditure data (with regressions from 2013-2018)
- ▶ Utilizes a measure of legislation on debt collectors as in Fonseca (2023) and Fedaseyeu (2020)
 - Extends the Fedaseyeu measure 4 years later, from 2014 to 2018
 - So the final index includes 1997 - 2018
- ▶ U.S. Census Bureau - Longitudinal Business Database (LBD) - nearly all US establishments and firms with at least 1 paid employee
 - Payroll/employment data at establishment level
 - Revenue data at the firm level
 - Merged to Survey of Business Owners - whether owners rely on bank loans, credit cards, personal savings, or no external financing since 2002
- ▶ Census County Business Patterns - reports the number of establishments, employees, and annual payroll for third-party debt collection agencies classified under NAICS 561140

The main empirical specification is:

Static:

$$Y_{ispt} = \alpha + \beta_1 \text{Index}_{s,t} + X'_{ispt} \Gamma_1 + \kappa_{pt} + \epsilon_{ispt}$$

Continuous:

$$Y_{ispt} = \alpha + \beta_T \sum_{\tau \in T} I_s(\tau) + X'_{ispt} \Gamma_1 + \kappa_{pt} + \epsilon_{ispt}$$

- ▶ Uses a matched pair sample of bordering counties in different states
- ▶ Controls for homestead exemption - to try to control for strictness of the bankruptcy code – important confounder, more on that later

Main Concern 1: Endogeneity Concern

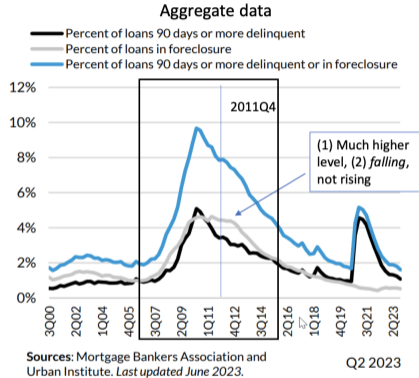
Key argument: DiD should account for differences in economic outcomes because neighboring counties should experience similar economic conditions but not the same loosening of creditor rights

- ▶ If state bankruptcy costs drive worse state outcomes, then the control is not comparable because it is in another state
- ▶ Non-tradable are exactly the types of firms that would be hurt more by consumer decreased spending due to GFC
 - Controlling for homestead exemption attempts to control for harshness of the state bankruptcy code, but more can be done here for example using:
 - other asset exemptions,
 - bankruptcy court costs,
 - ease of evicting a borrower from a house, etc.

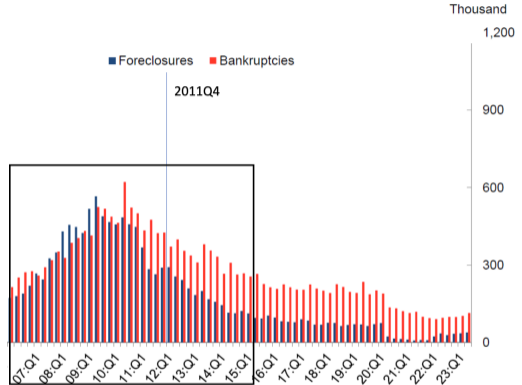
Main Concern 1: Endogeneity Concern (Cont'd)

- ▶ Bankruptcy and foreclosure files increase starting in 2006 peak following the GFC in 2011, but stay elevated through 2015
- ▶ Debt collection changes are not adopted in a vacuum, why did they make the changes - was it because more people were going through bankruptcy/ foreclosure due to the Global Financial Crisis?
- ▶ Concern is that the debt collection restrictions were put into place during 2006-2015 to help safe guard borrowers experiencing hardship due to the GFC?
 - The index is borderline significantly correlated (above the 85% significance level for example) with:
 - unemployment
 - political party
 - homestead exemption (how harsh the bankruptcy code is)
- ▶ If law changes are in response to increased GFC bankruptcies, then the results confounded with endogenous revenue decline and legislation changes in response to the GFC

Foreclosures begin increasing in 2006 bankruptcy follows foreclosure



Foreclosures



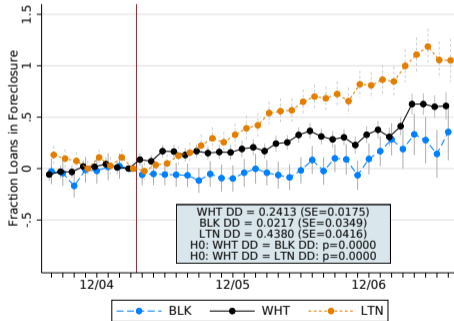
Foreclosures and Bankruptcies

Main Concern 1 (Cont'd)

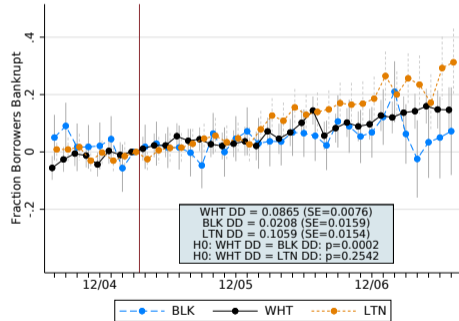
- ▶ Lewis (2026): bankruptcies and foreclosures increased post BAPCPA 2005 (by year of mortgage origination)
- ▶ Borrowers were more likely to be exposed to high risk mortgage products following 2005, and thus at more risk of bankruptcy/foreclosure
- ▶ Consistent with a flood of borrowers entering bankruptcy between 2006 and 2015
- ▶ Debt collection rule changes may be passed to protect borrowers in states where economic conditions were worse and where bankruptcy is more costly → making it more difficult/costly receive bankruptcy insurance in states where people need it most, worsening economic declines
- ▶ The harsh foreclosure/bankruptcy practices could deteriorate firm outcomes in that state (ie revenue, unemployment)
 - Then the border DID design will not remove the fact that economic outcomes are worse in higher-bankruptcy-cost states driving lower firm revenue/employment

Foreclosure and Bankruptcy (Lewis 2026)

My work shows that

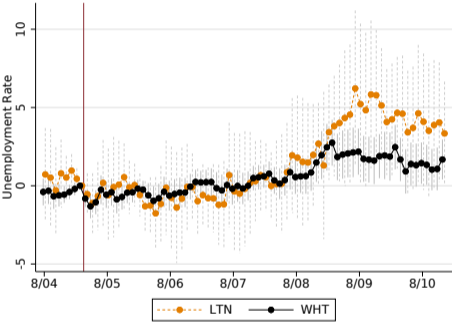


Foreclosures

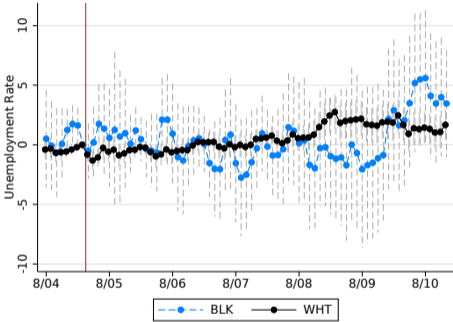


Bankruptcies

Unemployment (Lewis 2026)

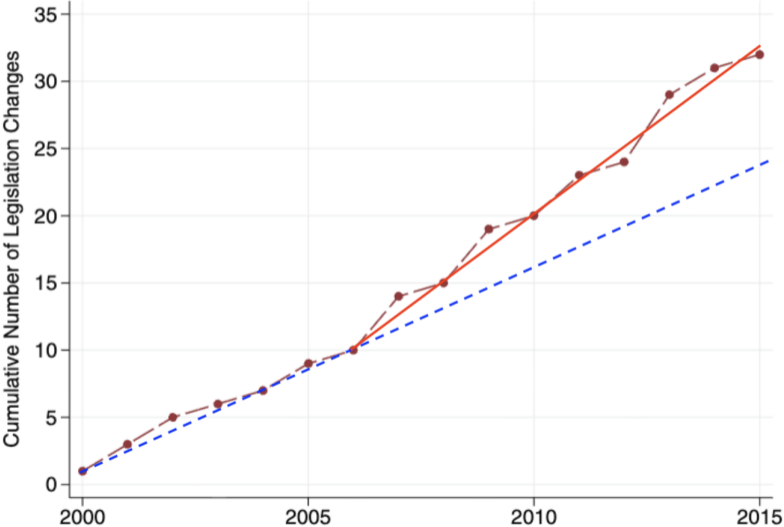


Majority Latino vs White Counties



Majority Black vs White Counties

Legislation Changes (Fonseca 2023)



Main Concern 1: Potential Solutions

- ▶ Would like to see the dynamic specification using pre-2007 data, despite not being able to use the consumption data in this period (or excluding 2007-2015)
- ▶ Another potential solution is to control more extensively for state differences in bankruptcy/foreclosure restrictions
- ▶ Would be good to know what the reversion time of the shock is, can you make the pre and post period's longer
- ▶ Are there any reversals of legislation on debt collectors, are you able to find the opposite effect in response to those?

Main Concern 2: Contemporaneous Dependent & Independent Variables

- ▶ Current empirical strategy uses the current period economic outcome and concurrent period debt collection loosening
- ▶ This means that current economic outcomes in the same period that that regulation was put in place
- ▶ However if the rule changes happens in the second half of the year, I would expect it will take some time for the creditors to cut consumer credit, then even more time for firm revenue to fall and firms to lay off workers

Main Concern 2: Potential Solution

- ▶ Propose using lagged creditor right change on right hand side
 - Precisely because this is an indirect effect I expect it to take longer to take effect and the fact that the effect begins in the same quarter makes me more nervous it is spurious

Remaining Questions

- ▶ Continuous DiD with multiple treatment periods:
 - Callaway, Goodman-Bacon, Sant'Anna (2025) "Difference-in-Differences with a Continuous Treatment" - continuous treatments have a bias term in the beta coefficient that comes from weighting of the individual treatment effects.
 - The weighting that would remove the bias would be weighting based on the population distribution of treatment.
 - So if you have many less treated counties, you would weight those treatment betas more heavily.
 - There can also be a bias introduced from multiple treatment periods, the paper gives some ways to handle these
- ▶ Does buy-now-pay-later minimize the effect, do you see it reported in the Nielsen data?

Thank You!