

Discussion of **How Do Borrowers Respond to a Debt Moratorium?**

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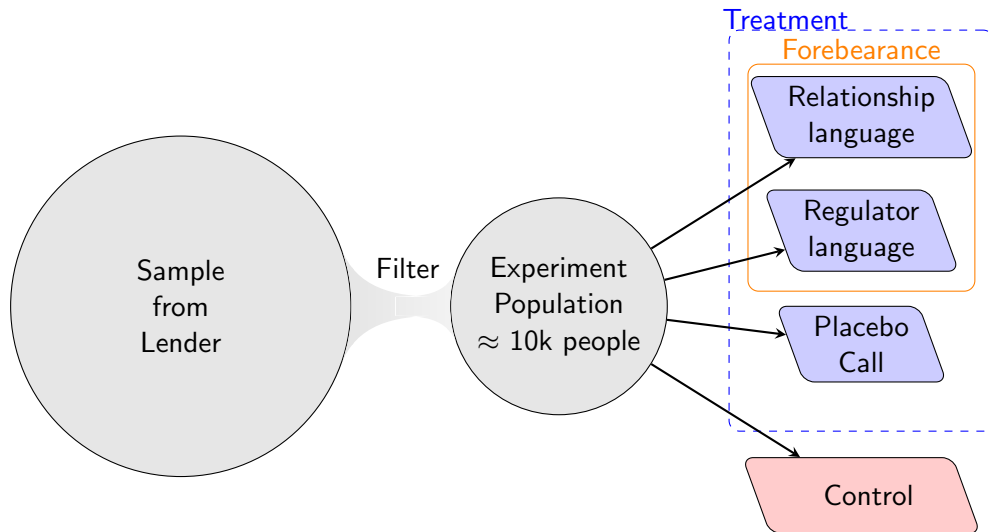
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What's the Basic Idea?

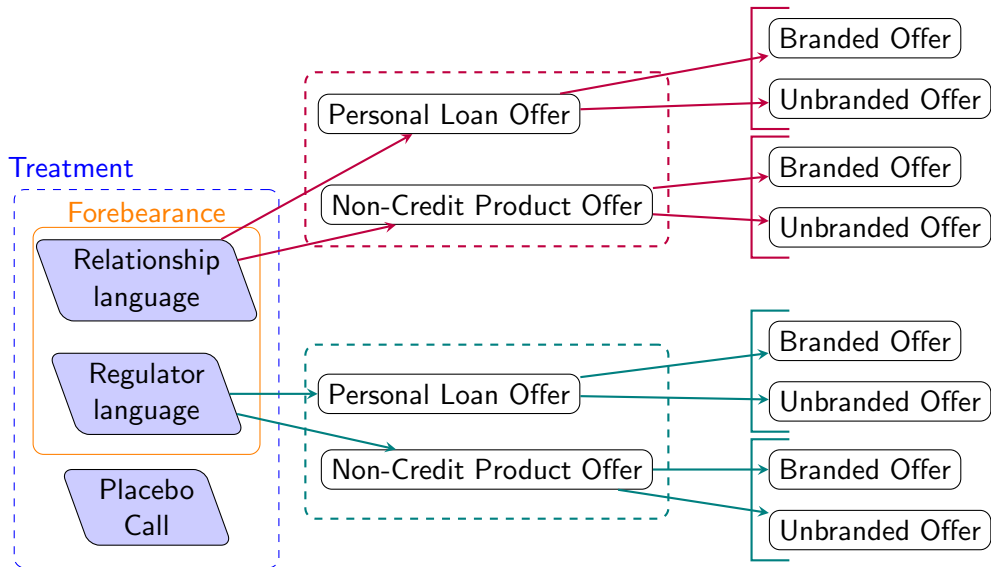
How do borrowers respond to debt forbearance offers that are perceived to come from a lender vs. at the behest of a regulator?

- RCT with a single bank in India
 - ➊ Initial experiment (different forbearance origin language) and then,
 - ➋ follow up experiment (offer of branded vs unbranded personal loan and branded vs unbranded non-credit product) with surveys
 - Individuals that received the lender-highlighting offer initially are more likely to purchase the branded non-credit product than the unbranded version, but no more likely to purchase the branded personal loan than the unbranded version.

What's the Experiment? (1/2)



What's the Experiment? (2/2)



Outline

- Literature
- Interpretation
- Extensions
- Smaller Thoughts

Literature

- Forbearance
 - **Covid-19 (U.S.):** Cherry, Jiang, Matvos, Piskorski, & Seru (2021); Suk Kim, Lee, Scharlemann, Vickery (2022); Bergant (2020); An, Cordell, Geng, & Lee (2022); Farrell, Greig, & Zhao (2020);
 - **Covid-19 (Abroad):** Berlinger, Kiss, & Khayouti (2022); Kanz (2016), Ponnathpur & Vishen (2023)
 - **Student Loans:** Lourie, Nekrasov, & Yoo (2023); Dinerstein, Yanellis, & Chen (2023); Catherine & Yannelis (2023)
 - **Other:** Collins & Urban (2018); Mourad, Schiozer, & Dos Santos (2020); Aydin (2023); Chari, Jain, & Kulkarni (2021)
- Debt Restructuring & Strategic behavior broadly
 - Dobbie & Song (2020); Aydin (2023); Ganong & Noel, 2020); Mayer, Morrison, Piskorski, & Gupta (2014); O'Malley (2020); Agarwal, Amromin, Ben-David, Chomsisengphet, Piskorski, & Seru (2017); Indarte (2023)
- Relationship Banking & Trust:
 - Fehr & List (2004); Beck, Degryse, De Haas, & van Horen (2018); Nguyen (2019); Aurier & N'Goala (2010); Agarwal, Chomsisengphet, Liu, Song, & Souleles (2018); Puri, Rocholl, & Steffen (2011 and 2017); Berger, Bouwman, Norden, Roman, Udell, & Wang (2024)

Mechanism

This is the offer language for the two treatments:

I would like to talk about an offer from [lender name] to unlock your phone ... At [lender name], we care about our customers and truly value your business. We understand that people all over India are facing great hardships due to the current economic situation. Helping our valued customers in these challenging times is our first priority at [lender name]. That is why we are offering you repayment flexibility on your loan.

vs.

We are extending an offer in accordance with guidelines issued by the Reserve Bank of India to all lending institutions to help customers manage their finances in the current economic crisis. As a result of guidance issued by the Reserve Bank of India, we are offering you repayment flexibility on your loan, comparable to programs offered by most other lenders.

Alternative Interpretations

Is this really about the source of the relief or is it the tone of the offer? Both the source of the forbearance and the tone of the letter are being changed, and the treatment effect includes the interaction of these two changes.

We care about our customers and truly value your business. We understand that people all over India are facing great hardships due to the current economic situation. Helping our valued customers in these challenging times is our first priority, and in accordance with guidance issued by the Reserve Bank of India, we are offering you repayment flexibility on your loan.

Interpretation

- Could still be strategic moral hazard, if borrowers perceive non-credit product as a gate for continued access (close to what the paper is driving at right now). Difference in future default rates? - how long before moral hazard? Ponnathpur & Vishen (2023)
 - What about adverse selection going forward?
- Can you rule out that generic branding matters versus goodwill with a specific institution? Yes, I think so.

Important Details

- What did the forbearance landscape look like in India at this time?
 - how many institutions chose to forbear? i.e., credibility of this coming from the regulator...
- IRB and preregistration.
 - Both offers originate from the lender (1) at the request of regulators (2).
 - The framing of the two offers emphasizes a different component (and omits a different component) of this truth.
- External validity:
 - Compare the 10k participants with the Indian population.

Extensions

- Other outcomes besides ultimate repayment (repayment timing, future delinquency?).
- Use experiment with fees to backout value of goodwill?
- How long does goodwill last? And how to think about what would happen if this were repeatedly done - at least a paragraph acknowledging that the effect of repeated treatment seems likely to diminish in equilibrium.

Smaller Thoughts

- Show me all three of the treatment coefficients in the regressions
- Where is assumption 3?
- Predicted Take-Up regressions need to show first stage
- What about splits by credit score?
- Robustness: same results if look at repayment within 6 months?
- What was the cost of the credit product?
- Branded vs unbranded for regulator is only marginally insignificant.
- Square results with survey data. Lower initial credit scores and people think it's for the most creditworthy Table 6 vs b.8
- Table 1 Day Called and prior loan differences, add borrower controls and see what happens.
- I liked the figures way of showing the results - I would reference them more in the paper.

Conclusion

- I think there is a lot of good work here, and I think the question is compelling.
 - There are clear policy implications: forbearance programs may have very different effects than identical offerings depending on the language and method of origination.
- Tightening the pitch of the paper to steer clear of the debt renegotiation literature and focusing on the relationship banking dimension makes it easier for me to see the contribution.
 - importance of forbearance source and the language of the offer.