

Discussion of Bankruptcy Lawyers and Credit Recovery

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WFAs, June 2024

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What's the Basic Idea?

How does variation in exposure to television advertising by bankruptcy lawyers affect the proclivity of filers to file and the subsequent evolution of their credit quality?

- Follow Shapiro (2018) and exploit the variation in advertising by examining neighboring counties that straddle borders between Designated Market Areas (DMAs) to:
 - ① look at filing elasticity wrt advertising, and
 - ② look at bankruptcy filing effects on future credit/financial outcomes
 - 1k more ads increase:
 - filing by about 1 p.p., and
 - is associated with higher future Equifax Risk Scores, higher home ownership rates, and lower foreclosure rates.

Literature

- Ex Ante Bankruptcy
 - Declining default costs (Gross & Souleles, 2002)
 - cross-state variation (Lefgren & McIntyre, 2009)
 - Payday loans (Skiba & Tobacman, 2019)
 - Information/social spillovers (Dick, Lehnert, & Topa, 2008, Scholnick, 2014, Miller, 2015, and Kleiner, Stoffman, & Yonker, 2021)
 - Strategic behavior (Fay, Hurst, & White, 2002)
- Ex Post Bankruptcy
 - equilibrium credit card rates (Gross et al., 2021)
 - Credit Availability (Gropp et al., 1997, Berkowitz & White, 2004, Han, Keys, & Li, 2010, and Severino & Brown, 2017).
 - Future borrowing (credit card, home, auto, etc.) activity (Cohen-Cole, Duygan-Bump, & Montoriol-Garriga, 2009, Han & Li, 2011)
 - Future Consumption (Filer & Fisher, 2005, 2007)

Where can this paper best contribute?

- I really like the first half.
- I'm less enamored of the second half
 - matching is a hard sell in any context, but especially here.
 - Fay, Hurst, and White (2002): people that file are different.
- Are we picking up a lawyer **treatment** effect? - from the introduction, I thought the the ideal experiment would randomly assign lawyers, conditional on filing (which is a *lawyer* treatment), but the second half is trying to pin down the treatment effects of bankruptcy, not of legal counsel.
 - It seems like even the results of the paper lead one to conclude that advertising induces **selection** of filers:
 - Ad exposure leads to significant (only at the 10% level but large point estimates) variation on chapter choice, the discharge rate, and the review length (and other variables - see Table 7). It seems like advertising is eliciting a different type of filer.

Lean into the Selection

- I think we're avoiding selection so that the 2nd half of the paper about the treatment of declaring bankruptcy is not tainted with selection concerns, but this doesn't seem justified from the data, and is a missed opportunity.
- **SUGGESTIONS:**
 - Explore the selection:
 - don't compare filers to non-filers; compare filers in the *advertised-to* border counties with the filers in *not-advertised-to* border counties
What is about the advertising that is attracting a different type of filer?
 - dig into regional variation/Size of county & DMA variation
 - variation in law firms that advertise, i.e. law firms that are in areas that advertise more? (is this in the Kantar data?)
 - Demographics/characteristics of marginal filers, i.e. look at FJC petition characteristics as a function of advertising (e.g., dismissal codes). Do Table 7 in the Northeast (where all of the action is).
 - Don't throw out Covid. People are home watching TV more and the filing elasticity should increase.

Question on the 1st half

- Why are results stronger in later sample (I would expect TV ads to be less effective)?
- Are lawyers leaving money on the table? In equilibrium, marginal income should equal marginal cost
 - Cost of advertising (\$100) vs. revenue of bankruptcy lawyer (\$240)? Drill on these numbers more.

Other Extensions of the First Half

- Timing (during day) of advertisement airing?
- Effects on other industries?
- Online advertising? Broadband penetration?
- Does the pro se filing rate go down?
- Does this experiment just change the timing of filing, i.e. were these people going to eventually file and we're just shifting the timing?

Smaller Thoughts

- Shapiro (2018) is monthly. Why not here as well?
- Back-of-the-envelope calculation on net effect on society?
- Improvements in risk score (fig 8) seem very small. 2 points?
- I don't like the matching, but this seems like a good machine learning application, and also
- report the matching results.
 - I don't get figure 6. Why would the risk score start to recover for the non-filers, let alone at the same time as the filers?

Conclusion

- I think there is a lot of good work here, and I think the question is interesting.
- I think focusing on the link between information/marketing and bankruptcy is more solid than trying to use this experiment to comment on the effects of bankruptcy generally, given the power of this experiment.
- I think it looks to me like there is selection on who these ads affect, and I would suggest that the paper focus more on the selection that appears to be occurring.