



The Effects of Competition in Consumer Credit Markets

Stefan Gissler (FRB), Rodney Ramcharan (Marshall School of
Business, USC) and Edison Yu (Philadelphia FRB)

Does not necessarily reflect the views of the Federal
Reserve System or the Board of Governors





What happens when competition increases in the financial system?

Good	Bad
More efficient intermediation	Less profits and lower franchise value
Lower borrowing costs and higher deposit rates	Lenders take more risks
More stability	Less stability





Evidence is mixed

- Competition made banks more resilient in period around the Depression
- Competition helped cause the Depression
- Competition helped cause the 2008-2009 crisis





Hard problem to crack!

Lenders do not randomly enter local markets





Our approach: Low Income Rule for Credit Unions

- Take deposits from anyone
- Make loans to anyone
- Eligible for supplemental capital





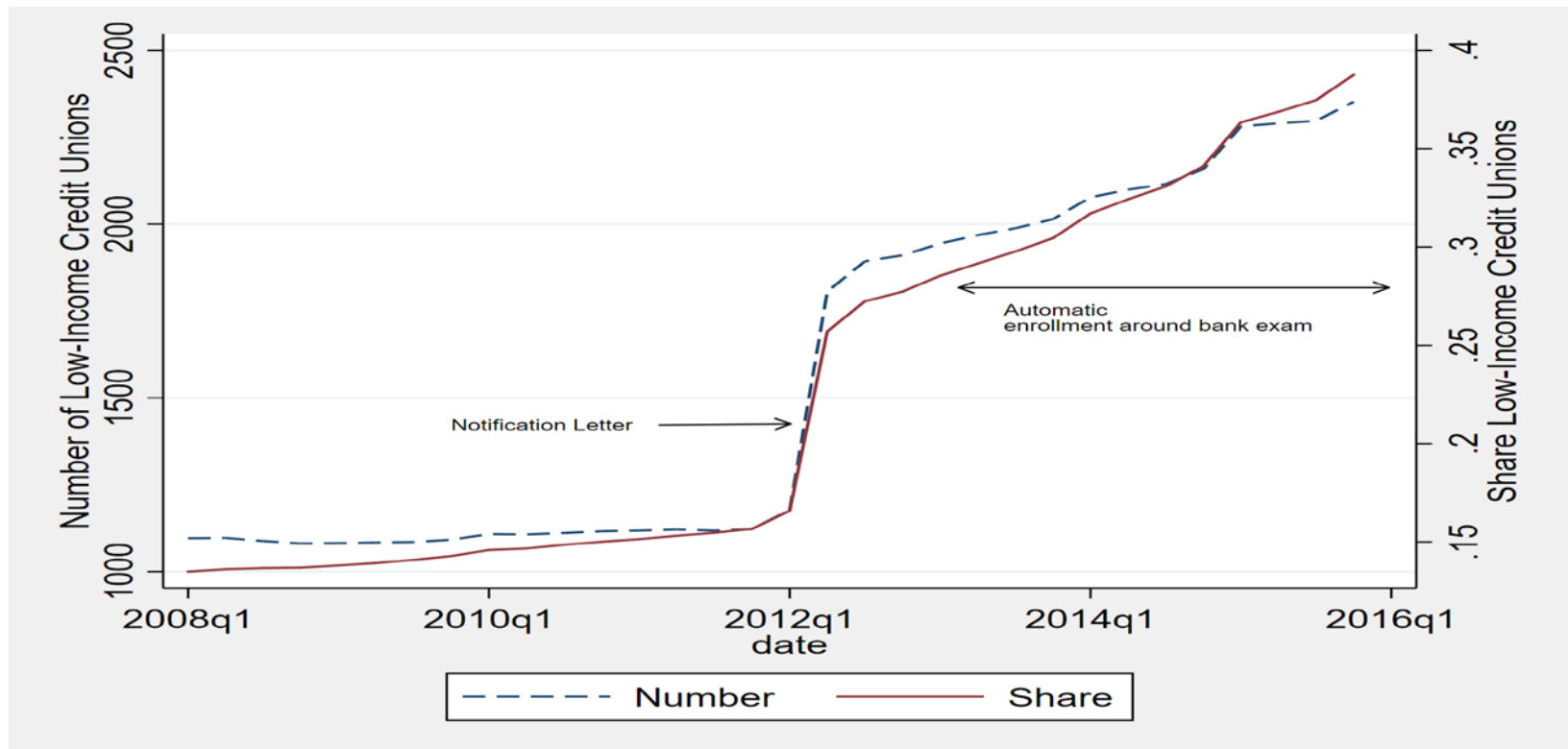
Criteria: 1994-2008

- Credit union had **to apply**
- Show that median **household** income of membership < 80% of household **national** median income
- Make adjustments for high cost areas using administrative data from the Employment and Training Administration of the Department of Labor



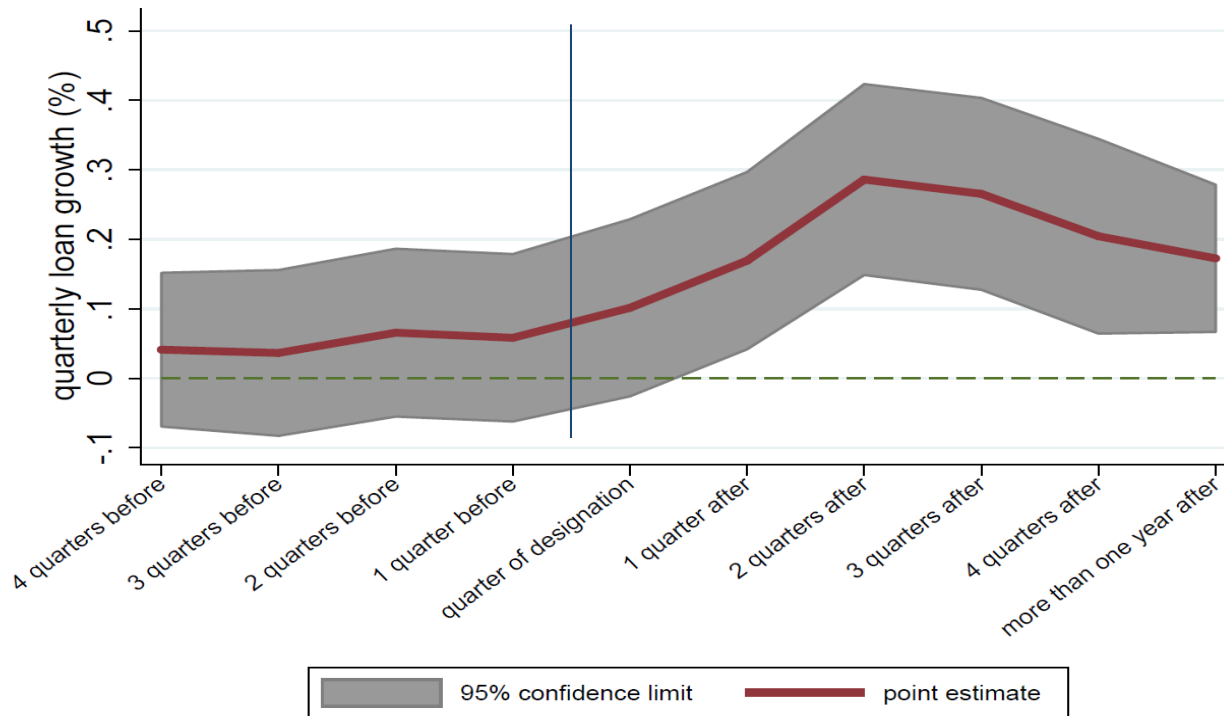


After 2008: Automatic enrollment at time of bank exam



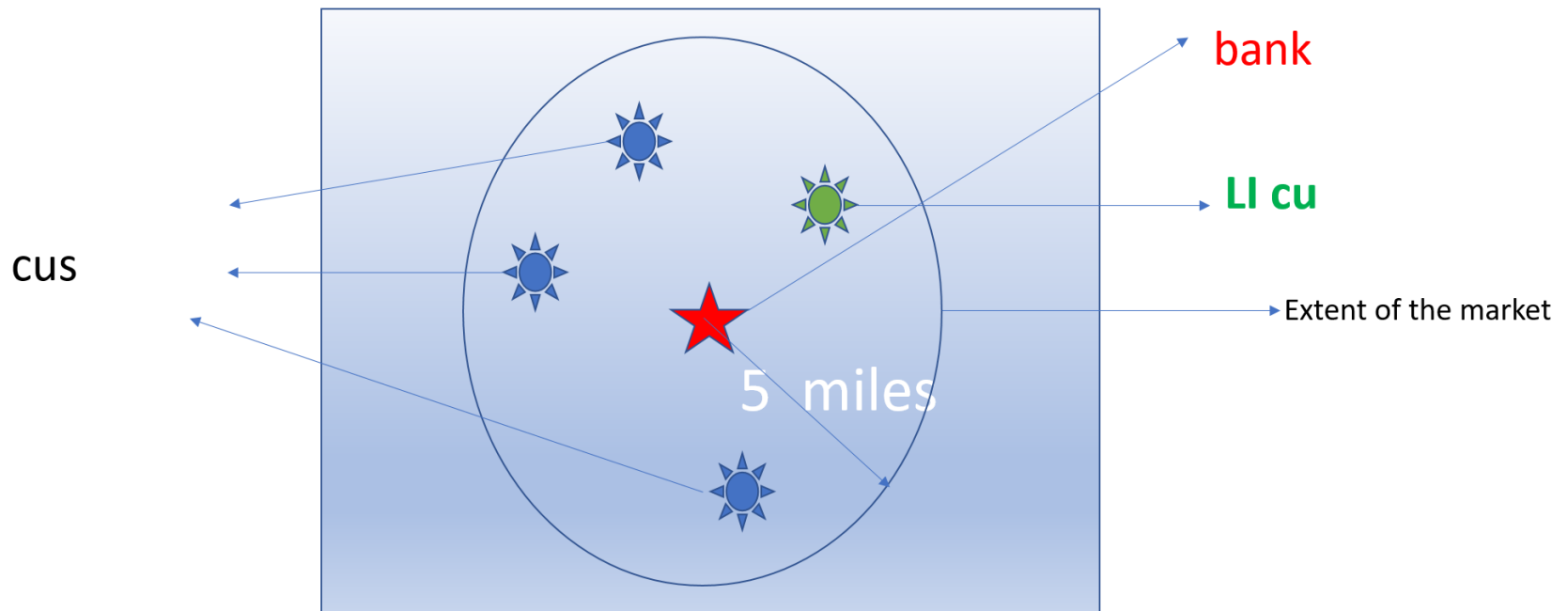


Lending growth at CUs after LI status



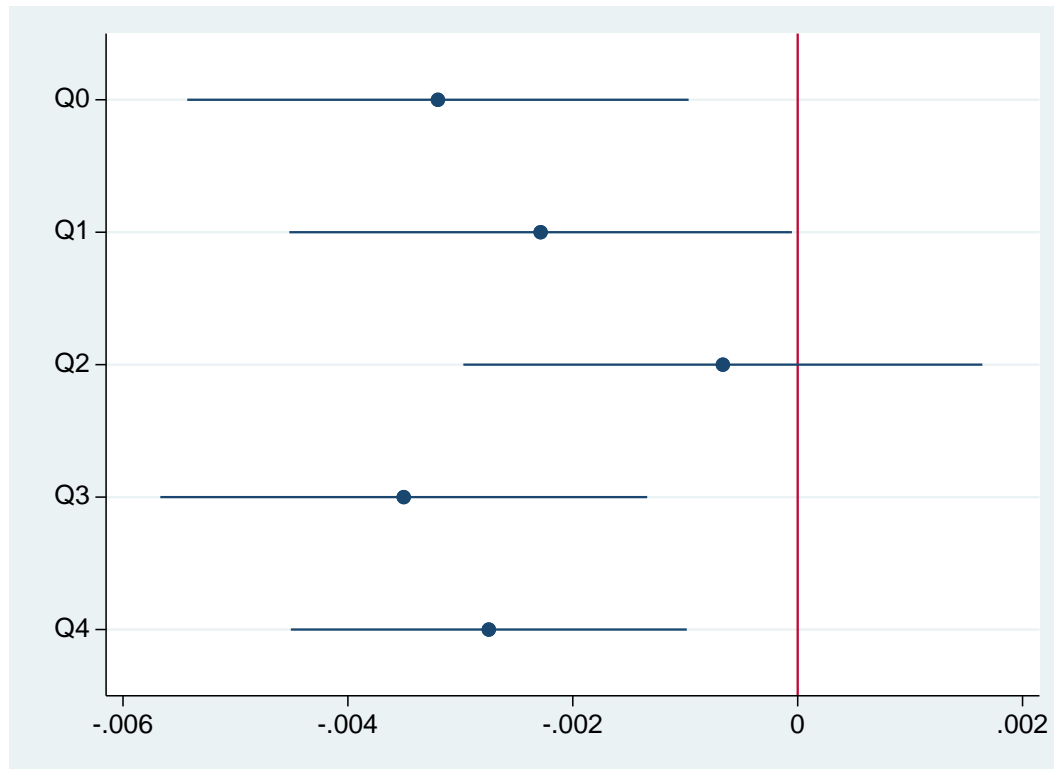


measuring the CB bank response





CBs contract aggregate lending





Cars, credit unions, banks and non-banks

Impact of LICU
competition

Panel A: all

	(1) all institutions	(2) credit unions	(3) banks	(4) non-banks
Four quarters	0.027*** (0.0052)	0.019** (0.0093)	0.0070 (0.0094)	0.042*** (0.0061)
Observations	557828	557828	557828	557828





Competition and a subprime credit expansion

Panel B: 1st quartile in Equifax Risk Score

	(1) all institutions	(2) credit unions	(3) banks	(4) non-banks
Four quarters	0.067*** (0.0082)	0.044*** (0.014)	0.021 (0.015)	0.081*** (0.0088)
Observations	557828	557828	557828	557828





Panel C: 2nd quartile in Equifax Risk Score

	(1) all institutions	(2) credit unions	(3) banks	(4) non-banks
Four quarters	0.035*** (0.0085)	0.062*** (0.013)	0.0096 (0.014)	0.047*** (0.010)
Observations	557828	557828	557828	557828

Panel D: 3rd quartile in Equifax Risk Score

	(1) all institutions	(2) credit unions	(3) banks	(4) non-banks
Four quarters	0.030*** (0.0082)	0.011 (0.013)	0.018 (0.012)	0.058*** (0.011)
Observations	557828	557828	557828	557828

Panel E: 4th quartile in Equifax Risk Score

Prime borrowers	(1) all institutions	(2) credit unions	(3) banks	(4) non-banks
Four quarters	-0.0011 (0.0084)	-0.0028 (0.013)	-0.0051 (0.013)	0.016 (0.011)
Observations	557828	557828	557828	557828





Credit Misallocation?

log number of non-performing auto loans in 2017								
	1st quartile in Equifax Risk Score				2nd quartile in Equifax Risk Score			
	(1)	(2)	(3)	(4)	(1)	(2)	(3)	(4)
	all institutions	credit unions	banks	non-banks	all institutions	credit unions	banks	non-banks
Change in number of designated credit unions (2010 - 2013)	1.19*** (0.12)	0.71*** (0.073)	0.54*** (0.071)	1.13*** (0.12)	0.38*** (0.058)	0.100*** (0.023)	0.10*** (0.030)	0.28*** (0.054)
Observations	23346	23346	23346	23346	23346	23346	23346	23346
R-squared	0.180	0.104	0.103	0.195	0.145	0.038	0.047	0.144

	3rd quartile in Equifax Risk Score				4th quartile in Equifax Risk Score			
	(1)	(2)	(3)	(4)	(1)	(2)	(3)	(4)
	all institutions	credit unions	banks	non-banks	all institutions	credit unions	banks	non-banks
Change in number of designated credit unions (2010 - 2013)	0.048** (0.018)	0.0074 (0.0070)	0.014 (0.0091)	0.031* (0.016)	0.0079 (0.0068)	0.00079 (0.0021)	-0.0012 (0.0011)	0.0086 (0.0068)
Observations	23346	23346	23346	23346	23346	23346	23346	23346
R-squared	0.064	0.008	0.013	0.058	0.013	0.002	0.004	0.010





Conclusion

NCUA deregulation increased CU “entry” and competition in local consumer credit markets



CBs accommodate entry by shifting to C&I lending.

Non-banks and CUs compete for market share and sharply expand subprime auto-lending

Sub prime consumers benefit, but is **credit misallocated?**

