

Discussion of “Borrowing During Unemployment: Unsecured Debt as a Safety Net,” by James X. Sullivan

Motivation

- Families face uncertain income flows, some permanent and some transitory.
 - The TRANSITORY uncertainties may be offset by household saving and borrowing, AND government tax and transfer programs (self-insurance versus social insurance)
 - Thus, net savings will respond to TRANSITORY income changes but consumption will not
 - Q: Does unsecured debt that has been trending up help poor households smooth consumption?
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Comments

- Challenges
 - Is the identified unemployment spell truly transitory?
 - What is the role of government transfer programs, the UI program in particular?
 - Policy lessons
 - Poor people have little safety net!! (the failure of government transfer programs?!)
 - Households are living beyond their means?! (record level personal bankruptcy!!)
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Discussion of “Negative Effects of Bankruptcy for Homeowners: Reduced Access to Credit and Lost Option Value,” by Cheryl Long

Contribution

- Extremely important question because
 - Mortgages are households’ largest debt
 - Households in financial trouble often cannot meet the payment of any obligation
 - Quantify the negative effects of personal bankruptcy filing on homeowners
 - Increased probability of losing their homes because of reduced access to credit
 - Lost option to file again
 - Results: Negative effects large!!
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Comments

- Caution in interpreting the results
 - Homeowners optimally choose default sequence? (State foreclosure laws govern when borrowers default on mortgages. Bankruptcy filing stops the foreclosure process for up to 6 months or a year)
 - Homeowners file more often under Chap. 13 (thus, they can file repeatedly)
 - Policy lesson: Optimal bankruptcy design needs to take into consideration laws governing secured debt and vice versa!!
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