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Personal Bankruptcy and Credit Supply and Demand

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Abstract

This paper examines how personal bankruptcy and bankruptcy exemptions affect the supply and demand for credit. While generous state-level bankruptcy exemptions are probably viewed by most policy-makers as benefiting less-well-off borrowers, our results using data from the 1983 Survey of Consumer Finances suggest that they increase the amount of credit held by high-asset households and reduce the availability and amount of credit to low-asset households, conditioning on observable characteristics. Thus, bankruptcy exemptions redistribute credit toward borrowers with high assets. Interest rates on automobile loans for low-asset households also appear to be higher in high exemption states.

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