

**Discussion of**

**"Choosing and using payment instruments: Evidence from German micro-data," by  
Ulf von Kalckreuth, Tobias Schmidt and Helmut Stix**

**and**

**"Credit card use after the final mortgage payment: does the magnitude of income shocks matter?," by  
Barry Scholnick**

**Cyril Monnet  
FRB Philadelphia**

**Frankfurt, May 2009**

- **Crucial difference between payment systems in Europe/Germany and North America**
- **In the US, credit cards are a way to access credit**
- **In Germany, "credit card" is a misnomer**
  - **doesn't give access to credit**
  - **banks give equivalent credit via "Dispo Kredit"**

## **Some data:**

### **2007 Survey of Consumers Finances (US)**

73% of families have a CC

60% of those families with CC carry a balance

46% of families carry a credit card balance

median balance: \$3,000 (+25% from 2004)

mean balance \$7,300 (+30% from 2004)

median monthly charges: \$250 in 2007 (\$280 in 2004)

- **US - value of debt holdings (2007)**
  - **Total consumer credit per hhd: \$23,000**
  - **Total revolving consumer credit per hhd: \$8,500**
  - **Total debt per hhd: \$126,000**
  
- **Germany - Loans outstanding per hhd (2007) - s. ECB**
  - **Total consumer credit per hhd: €4,500**
  - **Total revolving consumer credit per hhd: ?**
  - **Total debt per hhd: €35,000**

- **US households borrow(ed) three times more than German households**
- **Consumer debt/GDP (2000)**
  - US: 16.4%
  - Germany: 7%

## **Who has control over credit provision?**

- **German banks are granting revolving credit "on the fly"**
- **Hardly any "control" in the US**
  - **CC offer are being mailed depending on FICO**
- **The volume of credit is affected, not the price**
  - **Dispo rate (DE): 13.25% (yearly)**
  - **Credit card rate (US): +/- 14% (yearly)**

**Electronic payments register transactions**

**If a *central* registry could memorize transactions  
(Kocherlakota, 1999), what would be the best payment system?**

**Spot payments only (Kahn and Roberds, 2007) ?  
Credit sometimes ?**

**Credit is viable only if promises to repay is credible**

**This is difficult with a lack of commitment**

**This constraints the payment system  
imposes debt ceiling, optimal frequency of debt settlement, etc.  
Sanchez, 2009**



**Problems can occur when there is no central registry, but multiple registries (card providers) with limited communication between each other**

**One problem among others:  
The sum of borrowing limits may be too large**

**How can we make sure that competing payment/credit systems are sharing information?**

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**Cash is 82% of trade volume and 58% of trade value.**

**Q: Is the use of cash "rational" or explained only by habit persistence?**

**Data: Survey on "Payment Habits in Germany".**

- **face-to-face interview and drop-off payment diary (euro amount for each transaction, type of location, means of payment).**

## **Results:**

- **CC ownership has no effect on the share of cash transactions**
- **CC, as the debit card, is used as a *payment* device**

## **Comments:**

- **The results concentrate on credit card usage**
- **The question remains: Why do Germans use cash so much?**
  - **Beata Uhse effect?**
  - **Catholic/Protestant effect? (this is testable!)**

## **Information on individual's bank account?**

**Are those with a CC more financially sophisticated?**

**e.g. do they have a money market account**

## **Omitted data:**

**Transactions for which only one means of payment was accepted by the merchant (cash or non-cash) are excluded**

- **Who are those merchants who accept/reject cards?**
- **Where are they located, etc.?**
  
- **Are merchants driving the customer's behavior?**

- **Some answers are difficult to interpret:**
  - **54% of those *without* CC report that "the possibility to use a payment instrument on the internet is a very important attribute"**
  - **25% for those *with* a credit card**
  
  - **93% of those *without* a CC report that "the possibility to use a PI abroad is an important attribute"**
  - **76% of those *with* a CC.**

**I would have expected the reverse trend**

**Is it that credit card holders realize that what they can do with their CC, they can also do with their EC card?**

- **Overall, the results confirm what we know about the German CC market**
- **Another evidence that history and institutions matter**
  - **Small number of large banks in Germany, large numbers of small bank in the US with prohibited branch banking**
  - **Bankruptcy law very lenient in the US, tougher in Germany**

*Discussion of "Credit card use after the final mortgage payment: does the magnitude of income shocks matter?" by Barry Scholnick*

**Q: Do people smooth consumption?**

**i.e. given consumers know a (positive) income shock will hit in the future, do they borrow today to smooth consumption over their lifecycle?**

**Answer depends on the magnitude of the shock.**

**Small income shocks are not worth the effort to smooth  
Large income shocks are worth it.**

**Data:**

**Monthly statement for 20,000 CC *and* mortgage acc. holders.**

**Caveat:**

**No data on income, approx. by the post code level income data.**



## **Comments:**

- **What happens to other types of debt/savings?**
- **How to control for agents being financially constrained?**
  - **Here: those with monthly CC debt/credit-limit > 90% (Agarwal, Skiba, Tabacman 2009)**
  - **What about FICO scores?**
  - **Volatility of consumption could be a variable.**
- **Could refinancing be exploited**

- **Age matters: consumption of elderly is known to be less volatile as they consume less durable goods**
  - **It's Canada: small health expenditure shock**
  - **Likely that mortgage payments <\$750 are from elderly?**
  
- **t-s on FINAL, why not t+s as well?**



