

Discussion of Foley, Hurtado, Liberman, & Sepulveda “Information Sharing Regimes and Financial Access”

Benedict Guttman-Kenney
Rice University



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DISCUSSANT DISCLAIMER: I HAVE NOT READ THE PAPER



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- More precisely:
- I have not read the version of the paper with the results the authors presented
- Why? **The authors said they could not share an updated version of the paper**
- My discussion is based on the November version of the paper + their WFA slides
 - Their WFA slides contain many different methodologies/results not in the paper

How does sharing positive credit information affect financial inclusion?




Chilean setting

- Credit cards issued by retailers only share “negative” information (defaults)
- Credit cards issued by banks share “negative + **positive**” information
(defaults + **accounts, balances, limits**)

Main Data & Methodology:

- Bank of Chile regulatory data: All credit cards issued by banks and retailers
- Diff-in-diff: Bank buys retailer. Compare retail borrowers vs. borrowers at other retailers

Key findings:

- Retailer cards (vs. bank cards):  limits,  default rates, &  % first-time borrowers
- When the Bank buys the Retailer:
 - New borrowers more likely to be older & male
 - Economically large increases in credit card limits (for existing borrowers)

#1: Cross Subsidization

Relationship lending \neq cross-subsidization

- **Cross-subsidization:**
 - Lend at an expected loss to one group of consumers
 - Paid for by excess profits from a different group of consumers
- **Relationship lending (Petersen & Rajan 94, 95):**
 - Lend to a group of consumers with an expected loss in period 1
 - Why? In expectation, this group are profitable over lifetime, based on repeat business
 - Does not require cross-subsidization

Relationship lending \neq cross-subsidization

- **Research lacks data on profit/revenue/costs** (or credit risk scores) to evaluate cross-subsidization

Suggestion: remove references to cross-subsidization

- To study relationship lending, show effects on relationships (see Sutherland, 18)
- Information production story **confounded by selection**: who goes to bank vs. retailer
 - Bank cards have larger, broader customer base, with far higher initial credit limits
 - Information production focus is challenging given limited data to evaluate underwriting quality (contrast: Cherry, 25)

**Suggestion: Match retailer & bank first-time borrowers at origination
and study outcomes over time**

#2: Access to Credit

Do your results show a trade-off between information sharing and financial access?

Paper Abstract:

- “Our findings are consistent with a trade-off between full information sharing regimes and financial inclusion”

Conclusion in slides:

- “Trade-off: information sharing expands access for incumbent borrowers but may reduce lenders’ incentives to originate credit to new, informationally opaque borrowers.”

I do not understand your conclusions: Lending expands!

I do not understand why you conclude there is a trade-off: (1) There is no decline in new lending!

Figure 7: Average credit limit of new Lender borrowers

“After the transaction, the monthly number of new borrowers remains as in the pre-period at roughly 200”

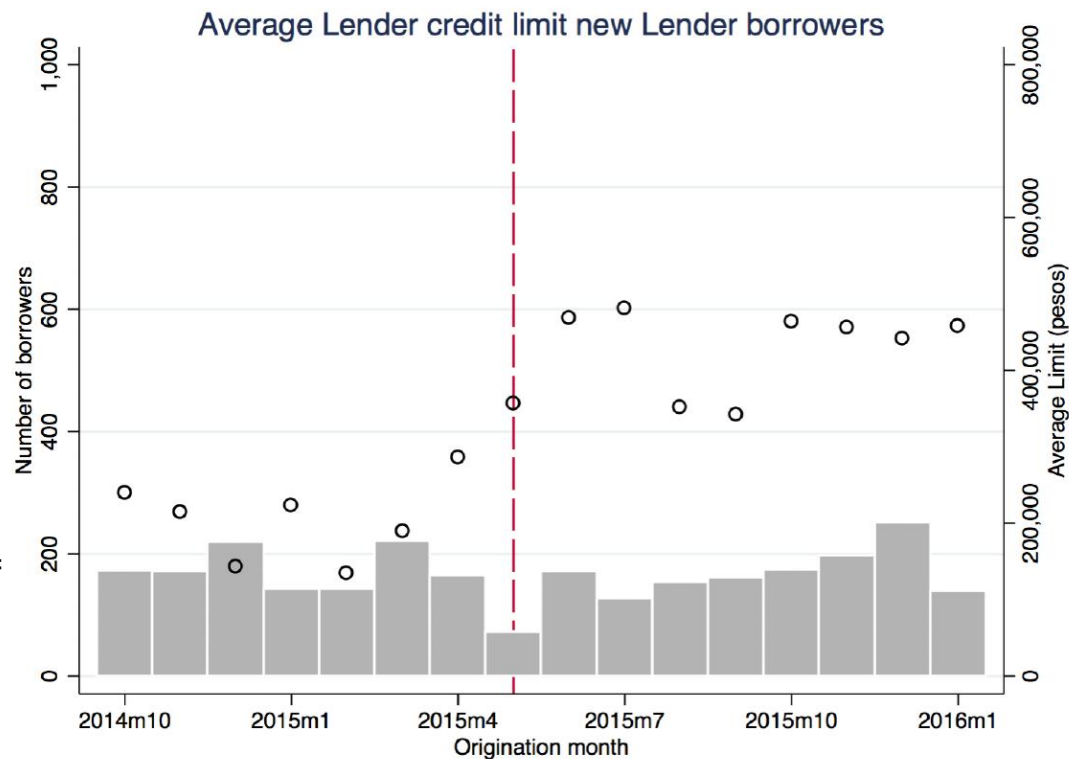


Table V: Origination characteristics

	(3)
Lender × Post	216.64*** (16.80)
Dep. variable Mean	210
Observations	70,337
R-squared	0.0232

Also, the levels matter for financial access:

Lower % to low income ≠ lower low-income lending

I do not understand why you conclude there is a trade-off: (2) There is a massive increase in limits!

Table III: Exclude joint venture

	Bank Card Limit (1)	Retail Card Limit - (2)
Lender x Post	106.13*** (6.67)	9.03*** (1.31)
Lender x Bank x Post		
Sample	Banks	Retail
Dep. variable Mean	2,383.36	933.02
Observations	7,569,285	7,569,285
R-squared	0.95	0.93
Clusters	504,619	504,619

Table A.II: Joint Venture limit

	(1)
Post	177,391.00*** (2,039.60)
Dep. variable Mean	852,809
Observations	2,696,190
R-squared	0.82
Clusters	179,746

Direct effect of the bank  its credit limits >>> indirect  limits for other banks or retailers

Suggestion: Evaluate direct vs. indirect effects by showing dynamic differences-in-differences estimates for:

(1) total limits, (2) bank limits (excluding joint venture), (3) retailer limits (excluding joint venture), (4) the joint venture limits

Do similar splits for number of new borrowers and evaluate whether consumers no longer have access to ANY credit card

#3: Joint Venture

Research seeks to learn about the effects of information sharing from a portfolio acquisition...

Concern is whether acquisition conflates information & non-information factors

Approach contrasts with literature isolating pure (exogenous) information changes

- Bankruptcy (Musto, 04; Dobbie, Goldsmith-Pinkham, Mahoney, & Song, 20; Gross, Notowidigdo, Wang, 20; Herkenhoff, Phillips, & Cohen-Cole, 21; Jansen, Nagel, Yannelis, & Zhang, 25)
- Defaults (Bos, Breza, & Liberman, 18; Liberman, Neilson, Opazo, Zimmerman, 19; Blattner, Hartwig, & Nelson, 22; Guttman-Kenney, 26)
- Medical debt (Duarte, Fonseca, Kohli, & Reif, 26)
- Public records (Fulford & Nagypal, 23)
- Credit card limits (Guttman-Kenney & Shahidinejad, 25)

Acquisition suggests non-information channels are important

Bank said ([May 15](#)):

- "We are happy to complete this acquisition and begin to **provide our customers with more credit card options, attract new customers** and build scale in Chile...in line with our strategy to **increase market share**"

Retailer said ([June 14](#)):

- "This business association is part of the Retailer's long-term strategy, which aims to **boost the financial services it offers clients without having to use its own resources**"

Reporters ([June 14](#)):

- "Deal could help the Retailer **reduce its debt levels**, something the chief executive said in April the company would **focus on in order to keep its investment-grade credit rating**"

Credit Rating Agency ([June 14](#)):

- "Revising the Outlook to Stable from Negative"

My Read

1. The bank has a small credit card portfolio (how small unclear) and wants to grow
2. The retailer's lending was constrained by its debt overhang / other financial frictions
3. The bank's cheaper funding (deposit base) alleviates retailer's financial constraints
 - Bank may also have better underwriting technology, marketing, risk diversification to expand lending
4. The bank expands lending
5. Expansion by the bank **changes competition with other banks** irrespective of information
 - Borrower pool (& changes) likely reflect gender-based sorting of retail cards vs. bank cards (Blascak & Tranfaglia, 25; Ganduri, Paradkar, & Zhang, 26; Lee, Yang, & Anderson, 26)
 - On information also see: De Giorgi, Drenik, & Seira (23) and Novrijnykh, Livshits, & Zetlin-Jones (26)

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Suggestion: Acquisition offers a **great example to study impact of financial constraints, & how retailer finance differs from banks**

This can connect with broader work on non-banks vs. banks:

- Minority banks (Hurtado & Sakong, 23)
- Credit unions (Shahidinejad, 26)
- FinTechs & shadow banks (Buchak, Matvos, Piskorski, Seru, 18; Fuster, Plosser, Schnabl, Vickery, 19)

Thank You!

 www.benedictgk.com

 benedictgk@rice.edu



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