

## The Prevalence of Debt Juggling and Its Impact on Household Finances

Grant Proposal to the NBER Household Finance Working Group  
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### Debt Juggling Overview

“Debt juggling” is a practice used by households to manage their finances. It entails transferring debt from one instrument to another, either by using revolving credit facilities or by opening new credit accounts. Financially sophisticated households can use debt juggling to increase access to debt, postpone their interest payments, and take advantage of lender-provided incentives. Some households, however, must resort to debt juggling to appease a lender or temporarily ease the pressure of upcoming or past-due debt payments—potentially leading to increased financial strain in the long term.

Low-income households are systematically more likely to use debt juggling out of necessity and systematically less likely to use it as a beneficial tool. Some debt instruments are particularly likely to either lead to or result from low- and moderate- income families resorting to debt juggling. Payday loans, for example, are structured in ways that make it easy for households systemically to over-borrow.<sup>1</sup> Low- and moderate-income families lack access to products and services that enable savings, like automatic savings plans and direct deposit.<sup>2</sup>

Low-income households pay a higher proportion of their income toward debts and are more likely to default on their loans than wealthier families. In 2010, over a quarter of low-income households paid more than 40 percent of their income toward debts, compared to 13.8 percent of all households.<sup>3</sup> The same year, 21 percent of low-income households had at least one debt that was 60 days or more past due, compared to 11 percent of all households.<sup>4</sup>

Additionally, missed debt payments result in lower credit scores, which in turn limit low- and moderate-income families’ access to resources and opportunities. For example, a low credit score could prevent a consumer from getting a job, securing housing, or accessing banking services and sources of credit. Without savings and access to these opportunities, low- and moderate-income families are unable to make the investments or seize opportunities that would promote their long-term well-being.

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<sup>1</sup> Michael S. Barr, *No Slack: The Financial Lives of Low-income Americans* (Brookings Press 2012), 151.

<sup>2</sup> *Ibid.*, 38.

<sup>3</sup> Jesse Bricker, Arthur B. Kennickell, Kevin B. Moore, and John Sabelhaus, “Changes in U.S. Family Finances from 2007 to 2010: Evidence from the Survey of Consumer Finances,” *Federal Reserve Bulletin* 98, No. 2 (June 2012), 72, <http://www.federalreserve.gov/pubs/bulletin/2012/pdf/scf12.pdf>

<sup>4</sup> *Ibid.*

## Project Description

Funding from the NBER Household Finance Working Group would support work assessing the nature of debt juggling and exploring behavioral and structural barriers to more effective debt management. In addition, this project will investigate potential factors that might result in better debt outcomes. These findings could then be used to develop products and services that could then be tested in the marketplace.

To add to the body of knowledge in this area, I will use two studies conducted in Detroit: (1) the Detroit Area Household Financial Services Study and (2) the Michigan Recession and Recovery Study. These studies provide detailed data about household finances and in particular reveal the wide range of borrowing and repayment strategies of these households. The Michigan Recession and Recovery Study was conducted in waves, which makes it possible for me to examine variation over households and time.

In addition, I am working with Professor Michael Barr<sup>5</sup> to acquire access to proprietary data on actual, real time financial transactions. These data provide a full picture of the income, spending, debt, and assets of a large sample of U.S. consumers in real time, on a daily basis. With these data, we will be able to see how households use debt instruments—including how they decide to open new instruments and move debt between instruments.

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<sup>5</sup> Professor of Law and Public Policy, University of Michigan

Funding Request

<b>Proposed Budget</b>	
Data acquisition	\$7,500
Research assistance	\$2,500
Total	\$10,000

# DANIEL SCHAFFA

Curriculum Vitae

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**LANGUAGES:** English (*native*), German (*fluent*), Portuguese (*fluent*)

**CITIZENSHIP:** United States

**SPECIALIZATION:** Law and Economics, Public Finance, Applied Theory

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## EDUCATION

Ph.D., Economics—University of Michigan, 2016 (*expected*)  
J.D., Law—University of Michigan, 2014 (*expected*)  
M.A., Economics—University of Michigan, 2012  
M.Acc., Accounting—University of Michigan, 2007 (*with High Distinction*)  
B.A., Economics—University of Michigan, 2006 (*with minors in German and Mathematics*)

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## TEACHING EXPERIENCE

ECON 101: Principles of Economics I, Instructor (Summer 2014)  
ECON 502: Applied Macroeconomics, TA (Winter 2014)  
ECON 408: Philosophy and Economics, TA (Fall 2013)  
ECON 441: International Trade Theory, TA (Winter 2013)  
ECON 491: History of the American Economy, TA (Fall 2011, Fall 2012)  
ECON 482: Government Revenues, TA (Winter 2012)  
ACC 271: Principles of Financial Accounting, TA (Winter 2007)

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## OTHER EXPERIENCE

Legal Intern—Internal Revenue Service (2013)  
Research Assistant—Michael Barr, Law Professor (2012-Present)  
Research Assistant—Joel Slemrod, Economics Professor (2009-2010)  
Research Assistant—James Hines, Law and Economics Professor (2009-2012)  
Investment Banking Analyst—CIBC World Markets (2007-2008)

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## EDITORIAL POSITIONS

Articles Editor, *The University of Michigan Journal of Law Reform*, 2013-2014  
Associate Editor, *The University of Michigan Journal of Law Reform*, 2012-2013

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## HONORS, GRANTS, AND FELLOWSHIPS

Population Studies Center Training Fellowship, 2014-2015  
Summer Research Apprenticeship, 2011, 2012  
Peter and Julie Borish Fellowship, 2010-2011  
David Weston Scholarship, 2006-2007  
Ernst & Young Scholarship, 2006-2007  
James B. Angell Scholar, 2006

**RESEARCH**

"Deterrence and Incapacitation" (with Daniel Jaqua)

"Correlated Crimes" (with Daniel Jaqua)

"Federal Collection of State Individual Income Taxes"

"Climactic Climates"

"Tax Evasion and the Business Cycle" (with Ben Meiselman)

"The Impact of the Great Recession of Detroit Area Households" (with Michael Barr)