

*Home Bank Versus External Bank Credit Card Holding
Research Executive Summary*



*The Ohio State University's
Consumer Finance Monthly Survey*

Business Problem: You are a banker interested in understanding if there are advantages to offering credit cards to current checking or savings account customers versus offering credit cards to individuals with no relationship to your bank.

Solution: Results from this research using earlier data suggest that banks do not necessarily extract extra profits from customers with a relationship at the bank. However, relationship banking does enable financial institutions to select a group of credit card customers with a lower risk of defaulting. Banks interested in calculating a more current answer can use recent data from the Ohio State University's Consumer Finance Monthly Survey.

Research Details: Credit Bureau reports, which only track the liability side of individual's financial lives, are available to any financial institution. However, banks, can have access to private asset information for their own customers. By combining customer information on checking, saving, and other accounts with credit report data, banks are able to understand both sides of their customer's balance sheet. Beyond this private asset information, banks by looking at how often and how much is deposited can also determine which customers have steady income and which customers have erratic or unstable income.

Using this additional information banks should be able to identify superior groups of customers to receive credit card offers compared to outside financial institutions, which do not have access to internal data. The research builds a theoretical model and then uses data to estimate how valuable this extra information is to a bank that is making credit card offers. The research finds by having access to private information on their own customers, banks will know a great deal about the credit-worthiness of customers, including information that cannot be had by buying public credit reports. This is valuable in deciding what interest rate to offer. Banks are not found to necessarily earn superior profits from relationship customers because they are offered lower credit card interest rates, but there are advantages because these customers default less.

Research Title: *Do Banks Use Private Information from Consumer Accounts? Evidence of Relationship Lending in Credit Card Interest Rate Heterogeneity*

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