

*Using Credit Card in a Ponzi Scheme
Research Executive Summary*

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



Business Problem: Your bank is looking for new credit card customers and uses balance switching offers as an inducement. How many of your new customers are accepting your balance switching offer primarily to avoid defaulting to another credit card company?

Solution: This research provides a model, statistical techniques and data from an earlier, preliminary period to determine what percentage of credit card users exhibit this type of switching behavior. Banks and other businesses interested in calculating a more current answer can use more recent data from the Ohio State University's Consumer Finance Monthly Survey.

Research Details: The credit card industry believes some customers engage in a Ponzi or pyramid borrowing scheme. In this Ponzi scheme, customers first run up a large amount of debt on their credit card. Then, instead of paying off the debt, the customers open up new credit card accounts and switch the balance to another company. By constantly moving the balance the customers never pay down the debt and by taking advantage of short-term low or no interest teaser offers, they pay little or no interest. The empirical results suggest about 11.5% of card holders may engaged in this type of borrowing.

While it is almost impossible to prove that a customer is engaged in a Ponzi scheme via standard data gathering techniques, it is possible to see which customers exhibit Ponzi-like tendencies. The research suggests these Ponzi customers will have outstanding balances and exhibit financial problems such as numerous credit cards which are charged to their limit. This results in these customers having a high debt-to-credit limit ratio. In addition compared to other credit card borrowers with similar income, demographics and jobs, Ponzi customers will also have more credit cards and a lower average credit line.

The empirical results show that potentially Ponzi borrowers have on average two credit cards more than individuals who simply use cards for convenience purposes. They also have one more card than comparable customers who are paying off a balance. These findings suggest variables that bankers should examine carefully before extending introductory offers.

Research Title: *An Empirical Investigation of Credit Card Default: Ponzi Schemes and Other Behavior*

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