

# MARKETING COLLOQUIA

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**Date:** Thursday October 31, 2019

**Where:** 741 JMHH

**When:** 12:00 PM to 1:20 PM

## HOW DOES BONUS PAYMENT AFFECT THE DEMAND FOR AUTO LOANS AND THEIR DELINQUENCY?

*ABSTRACT:* We study how receiving a lump-sum bonus changes the demand for auto loans and the risk of future delinquency. Unlike traditional consumer products, auto loans have a long-term impact on consumers' financial state because of the monthly payment obligation. Using a large consumer-panel data set of credit and employment information, we find that, after controlling for the income change, receiving a bonus increases auto loan demand by 19.4 percent. These loans, however, are associated with a higher risk; the 60- and 90-day delinquency rates increase by 12.9 and 20.8 percent respectively, after controlling for credit score and income. In contrast, while receiving an increase in base salary also leads to higher demand for auto loans, it does not increase the delinquency rate. Furthermore, we find that delinquency for bonus-induced loans only increases for consumers with lower financial resources. For welfare and policy implications, evidence suggests that the higher delinquency risk is costly for both consumers and financing institutions, but financing institutions have not taken into account the increased risk when setting the loan terms.