"Dynamic Poaching in Unsecured Lending"
by Ricardo Serrano-Padial.

Abstract:
The paper studies the effects of dynamic poaching in the unsecured credit market featuring multiple rounds of bank competition, and nonexclusive credit line contracts (credit cards)—the major form of unsecured credit in the US. Dynamic poaching refers to a situation when a lender, after observing an improved creditworthiness of a borrower, undercuts the existing lenders (and their future profits) by extending a more attractive credit line that the borrower prefers and uses to transfer her existing debts. We develop an equilibrium theory to study this phenomenon and focus attention how it affects the insurance role of the institution of personal bankruptcy. The model has important policy implications for bankruptcy regulation and can be used to understand the rise of the charge-off rate on credit card debt in the recent period (1990–2008).