# WORK IN PROGRESS: Default Propensities Across Generations and Strategic Default Behavior

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Defaulting on a personal loan represents a financial misfortune to the private borrower as well as posing a cost for the creditor behind the loan. We provide empirical evidence that the propensity to default is transmitted from parents to their children. The intergenerational correlation prevails for all parental income levels, and although it is diminished it remains even when controlling for an array of additional parent characteristics that also correlate with the child's default propensity. This result establishes that there is substantial individual heterogeneity in the propensity to default and that this heterogeneity is dynasty specific. Children are less likely to honor their debt obligations if the same holds for their parents. Any approach that describes the occurrence of default as representative agents being hit by negative liquidity shocks would overlook this potentially important pattern in default behavior.

We also present preliminary results on what we dub "strategic default behavior". Specifically borrowers facing impending default tend to spread their loans on different financial intermediaries. This is consistent with an attempt of the borrower to withhold information about their financial difficulties from their credit suppliers and thus maintain access to credit.