

# Impatient people have lower credit scores: study

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Is there a psychological reason why people default on their mortgages? A new study, which will be published in an upcoming issue of *Psychological Science*, a journal of the Association for Psychological Science, finds that people with bad credit scores are more impatient – more likely to choose immediate rewards rather than wait for a larger reward later.

The new paper is by two economists who were working at the Federal Reserve's Center for Behavioral Economics and Decisionmaking in Boston at the time they did the research. People at the Fed are very interested in understanding how the default crisis came about. "Most often, the reasons economists put forward are, maybe there was not enough screening for mortgage applicants, or securitization, or other institutional reasons," says Stephan Meier, who is now at Columbia University. His coauthor, Charles Sprenger, is at Stanford University. "That's definitely important, but in the end humans make those repayment decisions. So there must be more psychological factors that explain how people make those decisions to default or not?"

During tax season, Meier and Sprenger recruited 437 low-to-moderate income people at a community center in Boston that was offering tax preparation help. Each person was given a questionnaire in which they made choices between a smaller, immediate reward and a larger reward later. This is a common test for seeing if people are willing to delay gratification. The questions offer different time periods and different amounts. The participants also agreed to let the researchers access their

## [credit scores.](#)

Impatient people had lower credit scores. A low credit score can indicate some problems with credit in the past, like failing to pay bills or defaulting on a mortgage. “Conceptually, it does make sense that how people discount the future, i.e. how impatient they are, affects their decision to default on their loans,” Meier says. “Individuals accumulate debt and then have to decide whether to repay the money or use the money for something else?” If they don’t pay off their debt, they will have short-term benefits – any cash on hand is available for something else – but the costs/problems come much later, when a landlord, mortgage lender, or someone else sees their bad credit report.

Meier acknowledges that defaulting on a loan isn’t always a deliberate choice. People may default because they lose their job, for example. “But there is a little bit of strategic defaulting going on, where some people make this cost-benefit analysis” – those individuals rather have more money now and deal with the repercussions later.

Provided by Association for Psychological Science

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