

Study reveals an association between impatience and lower credit scores

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A study conducted by Columbia Business School's Prof. Stephan Meier, Regina Pitaro Associate Professor of Business, Management, and Charles Sprenger, Assistant Professor, Stanford University Department of Economics, determines that there may be a psychological reason for why people default on their mortgages. The research, which will be featured in an upcoming issue of *Psychological Science*, a journal of the Association for Psychological Science, finds that the participants in the study with poor credit scores were more impatient and were more likely to choose immediate rewards rather than wait for a larger reward in the future.

While working at the Federal Reserve's Center for [Behavioral Economics](#) and Decisionmaking in Boston, Massachusetts, the researchers created a study that would help determine if there are factors beyond the screening for mortgage applicants or other institutional reasons that leads to people to make the decision to default. Meier and Sprenger recruited 437 low-to-moderate income people at a community center in Boston that offered tax preparation help. Each person was given a questionnaire that featured choices between a smaller, immediate reward and a larger reward they would receive in the future. The participants also agreed to let the researchers access their FICO credit scores.

The study shows that time discounting and FICO scores were significantly correlated, and that this correlation was comparable to previously found [correlations](#) between time discounting and [health](#)

behavior. Participants who were the most willing to delay rewards and exhibited more patience had FICO scores that were approximately 30 points higher than those of participants who were the least willing to delay. Also, the impatient participants fell below the subprime lending cutoff of 620. At this score, individuals generally face substantially elevated borrowing rates.

"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."

The researchers acknowledge that defaulting on a loan isn't always a deliberate choice. People may default for a variety of reasons, such as when they lose their job. However, as Meier explains, "There is a little bit of strategic defaulting going on, where some people make a cost-benefit analysis and choose to have more money now and deal with the repercussions later."

Provided by Columbia Business School

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