

Smile boosts chances of getting a microloan, say psychologists

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Stanford psychologists have found that positive emotions seem to play a key role in microlending decisions.

Positive emotions seem to drive decision-making in the world of microlending, Stanford psychologists have found.

In other words, excitement rather than guilt is the emotion that is more often experienced by someone who gives a microloan to another person, according to a study by Brian Knutson, an associate professor of psychology, and Alexander Genevsky, a doctoral student in psychology.

Knutson and Genevsky found that the brain's emotional mechanisms – "affect," or the experience of feeling or emotion – seem to play a key role in microlending decisions. The research, published in the journal *Psychological Science*, is the first attempt to combine big data and neuroimaging on this topic.

Microfinance offers financial services to low-income people or those who do not have access to typical banking services. A loan can help those on the bottom of the economic ladder become upwardly mobile if, for example, the loan helps someone in a developing country to launch a new business, improve housing or fund education.

Effective loan appeals

Knutson and Genevsky examined more than 13,000 real-world microloan requests – both successful and unsuccessful – from Kiva, a large microfinancing company.

For the neuroimaging part of their study, they experimentally reviewed the [brain activity](#) of 28 people as they chose whether to lend money or not. In the experiment, the participants looked at photographs of potential borrowers and read their loan requests before deciding whether to give them a loan.

Genevsky said, "We demonstrated that [positive emotions](#) – like excitement – rather than [negative emotions](#) – like guilt – seem to drive lending decisions. The findings not only inform theories about why people make microloans but also the practice of constructing effective

loan appeals."

In particular, the photographs of loan applicants that prompted the highest positive emotional reaction resulted in the highest rate of lending. Applicants whose photos prompted the highest negative arousal were the least successful in garnering loans.

Knutson and Genevsky noted that the area of the brain that was studied – the nucleus accumbens, a region of the forebrain – is connected to motivation, pleasure and reward processing. Activity in these regions is also associated with charitable actions.

Knutson said, "Positive affect or emotions – such as excitement – surprisingly seem more powerful than negative emotions like sadness." The non-monetary aspects of a loan request – like photos – can powerfully trigger positive or negative emotions, and thus influence microlending decisions.

Prior scholarship has shown that people are more likely to give money to orphans if the donors are aroused in a positive way – but not if negative emotions are evoked, according to the researchers.

Based on their new research, Knutson and Genevsky believe it is possible that positive affect increases risk-taking – including giving to a needy stranger, as in the case of microfinance.

Societal contributions and choices

Genevsky said this research is important to society because it offers a "best practices" approach to creating effective requests for financial aid.

"Changing the affective elements of aid requests has a negligible cost, but can lead to significant increases in funding," he said, noting the

importance of photographs and the relative lesser influence of the text or even the amount being requested.

Knutson said the study helps to explain the rapid rise and popularity of Internet microlending platforms. He suggests that there may be a latent demand for lending and giving that can be unleashed by better understanding how to engage people in microfinance – what works well and what does not.

For example, the research highlights how the design of loan requests may critically influence success in unintended ways that are not predicted by traditional economic theory, according to Knutson.

For those making loan requests, he said, the study showed that relatively minor changes to the requests, such as presenting a clear and smiling photo, can greatly determine success or failure. Major changes – like carefully crafting an English-language narrative or asking for less money – do not appear to be that important.

One of the most surprising aspects of the findings was that "neuroforecasting" is possible, Knutson said. Brain activity in a group of lab participants as they looked at a loan application seemed to be more accurate in predicting whether the loan would actually be approved in the real world than the conscious choices they made after viewing the application, he said.

"This vindicates the neuroeconomic scientific strategy of breaking down choice into its components, and suggests that some of those components may provide more information about aggregate behavior than others," said Knutson, noting that the research was partially supported by the Stanford NeuroChoice initiative.

As Genevsky described it, the research found that the neural activity of

the lab participants was a better predictor of real-world loan funding outcomes than their actual decisions on whether or not to fund.

"In other words, the considered preferences of our participants were less informative about real-world outcomes than their most basic neural responses," he said.

More information: "Neural Affective Mechanisms Predict Market-Level Microlending." *Psychological Science* 0956797615588467, first published on July 17, 2015 [DOI: 10.1177/0956797615588467](https://doi.org/10.1177/0956797615588467)

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