

Psychographic Field Study of Prime and Subprime Consumers

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RESEARCH QUESTION

- Total US consumer indebtedness is \$11.3 trillion and one in seven consumers has an account in collections (NY Fed, 4Q12)
- Very little psychological or mechanistic data exist concerning financially stressed consumers, despite growing interest by policy makers, business leaders, and researchers
- This study contrasts prime and subprime consumers across a broad range of individual difference measures

EXPERIMENTAL DESIGN

- Participants from the general public ($N = 460$)
- Computer-based surveys completed in a group setting, with incentive-compatible payment used for risk measures
- Sample balanced across gender, age, and objective credit risk (credit data provided by TransUnion)

RESULTS

Measure	Scale	Prime	Sub-prime	Uncontrolled	Controlled
Life Situation					
Life Satisfaction	1-5	3.6	3.5		
Personal Financial Wellness	1-10	6.0	5.0	★★★	★★★
Current Financial Situation	1-7	4.4	3.8	★★★	★★★
Attitudes					
Spendthrift-Tightwad	1-3	1.9	2.1	★★★	★★★
Self-Continuity – Similarity	1-7	4.6	4.4	★	
Propensity to Plan – Short Run	1-6	4.4	4.5	★	
Propensity to Plan – Long Run	1-6	4.3	4.2		
Cognitive Abilities					
General Numeracy	0-3	0.9	0.8	★★	
Expanded Numeracy	0-8	5.8	5.4	★★★	
Financial Literacy	0-3	1.7	1.7	★★	
Debt Literacy	0-3	0.6	0.7		
Personality					
RFQ – Promotion	1-5	2.7	2.8		
RFQ – Prevention	1-5	2.6	2.7		
Big Five – Extraversion	1-9	5.9	6.1		
Big Five – Agreeableness	1-9	7.2	7.2		
Big Five – Conscientiousness	1-9	7.0	6.8		
Big Five – Emotional Stability	1-9	5.8	5.8		
Big Five – Intellect	1-9	6.7	6.9		
UPPS-P – Negative Urgency	1-4	2.0	2.0		
UPPS-P – (Lack of) Premeditation	1-4	1.8	1.8		
UPPS-P – (Lack of) Perseverance	1-4	1.7	1.7		
UPPS-P – Sensation Seeking	1-4	2.4	2.6	★	
UPPS-P – Positive Urgency	1-4	1.7	1.7		
Risk Preferences					
DOSPRT	1-7	2.9	2.8		
Prospect Theory – Curvature	cont	0.52	0.50	★	
Prospect Theory – Loss Aversion	cont	1.33	1.44		
Time Preferences					
Exponential – Delta Gain	cont	0.72	0.67	★★	★
Exponential – Delta Loss	cont	0.98	0.94	★	★
Quasi-Hyperbolic – Beta Gain	cont	1.05	1.04		
Quasi-Hyperbolic – Delta Gain	cont	0.66	0.61	★★	★
Quasi-Hyperbolic – Beta Loss	cont	1.01	1.03		
Quasi-Hyperbolic – Delta Loss	cont	0.98	0.92		★

We report here the adjusted cell means from controlled analyses (GLM)

Significance levels: *** $p < .001$; ** $p < .01$; * $p < .05$

Control Variables

- Previous studies have treated control variables inconsistently, making it difficult to understand the differences between prime and subprime populations across studies
- Several statistically significant differences between subprime and prime groups erode once we control for demographic variables (gender, age, ethnicity, education, income)

Individual Difference Measures

- Although subprime participants perceive their current financial situation to be worse than prime participants, they show no difference in life satisfaction
- Subprime participants tend to be more spendthrift than prime participants
- There are no differences in cognitive abilities, personality traits, or risk preferences
- Subprime participants display higher discount rates than prime participants
- Segmenting credit quality into 5 groups reveals non-monotonic relationships (e.g., an inverse U-shape for short run planning)

CONCLUSIONS

- Demographic variables critically influence the differences between prime and subprime populations
- There are fewer individual differences between prime and subprime populations than expected
- The commonly used binary classification of “prime” and “subprime” does not capture all differences across credit quality
- Further research should examine (1) the impact of exogenous shocks (e.g., job loss) on financial situation and (2) the directionality of any causal relationships (e.g., time preferences)