Post-recession, poor decision making continues to haunt consumers

By Aldo Svaldi The Denver Post The Denver Post
Posted:Tue May 20 18:24:23 MDT 2014

DenverPost.com

Academicians continue to comb through the rubble fields of the Great Recession, trying to understand why consumers and businesses made the decisions — many self-destructive — that they did, in the hopes of improving financial behavior.

The Boulder Summer Conference on Consumer Financial Decision Making, hosted by the University of Colorado Leeds School of Business, has become an important forum for that research.

The conference, in its fifth year, brought together researchers across multiple disciplines, including management, marketing, finance, public policy, psychology and economics.

Nearly five years since the recession officially ended, the topic of getting by with less remains important for researchers.

"For many Americans, the recession is still not over," said Mark Cole, chief strategy officer at Baltimore-based Hope LoanPort.

Philip Fernbach, an assistant professor of marketing at CU, presented a study Tuesday morning on how people cope psychologically when resources get tight.

Two key strategies are efficiency planning and strategy planning. The first might involve clipping a coupon for a favorite restaurant and drinking water, while the second approach would skip the meal.

Efficiency planning carries less pain but often delays the inevitable. Fernbach's research showed that people fail to prioritize quickly enough.

When push came to shove, subjects in game simulations who delayed setting priorities became erratic and impulsive.

"They run around like a chicken with its head cut off," Fernbach said.

University of California-Los Angeles researcher Carsten Erner presented a paper showing that consumers of different credit status cope with financial shocks differently.

Consumers with a top credit score were much more likely to tap savings to deal with an emergency. Those with a subprime credit score were more likely to hit up family and friends or use alternative lending sources like pawn shops and payday lenders.

Other research by Umit Gurun, an associate management professor from the University of Texas, found that low-rate mortgages advertised in newspapers ended up costing consumers much more than loans provided by lenders who didn't advertise.

Of 40,000 adjustable-rate mortgage ads between 2000 and 2007 from 600 lenders studied, only a small percentage referenced important terms like "interest-rate reset" and "higher payments."

Despite the low-rate tease, the advertised mortgages cost a typical borrower thousands more per year. "These ads were not informative," Gurun said.

Consumer Financial Protection Bureau mortgage market specialist Jessica Russell noted that half of borrowers obtain only one mortgage quote — the one they go with.

Cole, who has a 25-year career in financial counseling, said what lessons consumers learned from the downturn remains an unanswered question for him.

Student and auto loans have come to replace credit cards and home equity loans as areas where borrowers are going overboard, he said.

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