How Consumers of Varying Credit Status Cope with Financial Shocks

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One manifestation of financial distress is difficulty coping with unplanned financial shocks. Previous studies have provided an initial description of the coping methods available to consumers and imply that a “pecking order” might exist across financial options. In two studies, we examine coping behavior determinants and identify the attributes that influence coping decisions. We describe different pecking orders between prime and subprime populations, and within a more granular credit classification scheme. Our results indicate that, as credit status declines, individuals move from immediately available sources (such as savings and credit cards) towards alternative sources (such as family and friends or payday lenders and pawn shops). Additionally, we examine the roles of demographic factors, social and economic networks, and personality characteristics, and find that certain traits (e.g., impulsivity) are significantly related to coping behavior. In addition to an option’s availability, perceived costs and effort involved, as well as past experience with a method, significantly predict coping decisions. Our results contribute to both a better understanding of financial coping behavior, particularly for subprime consumers, and the development of policy interventions aimed at improving consumer choices and mediating financial constraints.