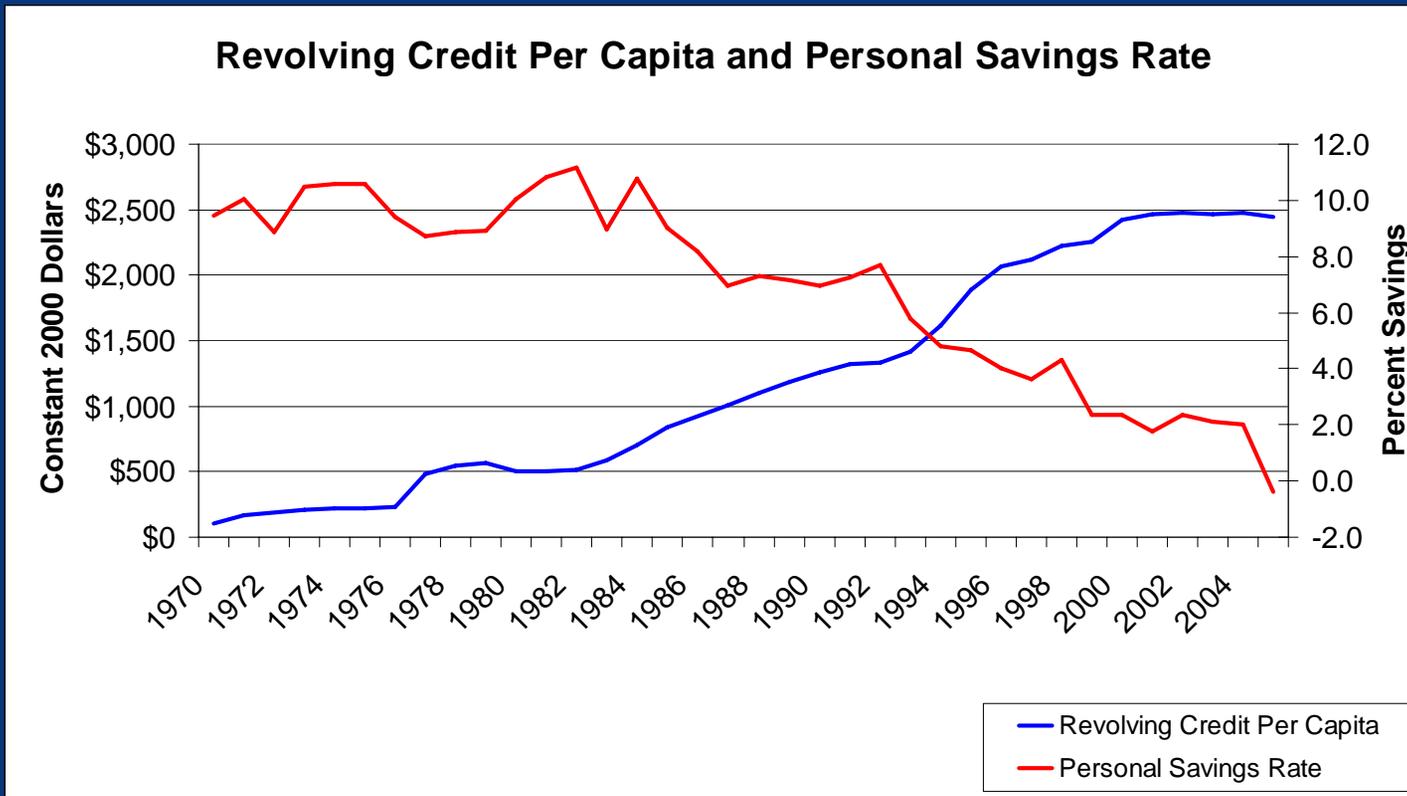


# Lessons from Behavioral Economics and a Credit Repair Program in Boston

Stephan Meier

(Based on joint work with P&CA  
Department and City of Boston)

# Savings and Borrowing: The Issue



Source: Haver Analytics

Department of Commerce, Bureau of Economic Analysis. Personal Income and Outlays. Tables 1 & 7.

Department of Labor, Bureau of Labor Statistics. Consumer Price Index.

Board of Governors of the Federal Reserve System. "Consumer Credit." G.19 (421)

# The Credit Repair Program

- Credit repair program
  - Offer counseling ‘light’: credit report (including FICO) and how to read it
  - Referral to professional counselors
- In 2006 in 1 VITA site with 155 clients
- In 2007 in 2 VITA sites with ~700 clients
- To be continued in 2008 with ??? clients

## Two questions for credit repair:

- Why do people get into debt? Behavioral economics explanation
- Who selects into counseling programs?

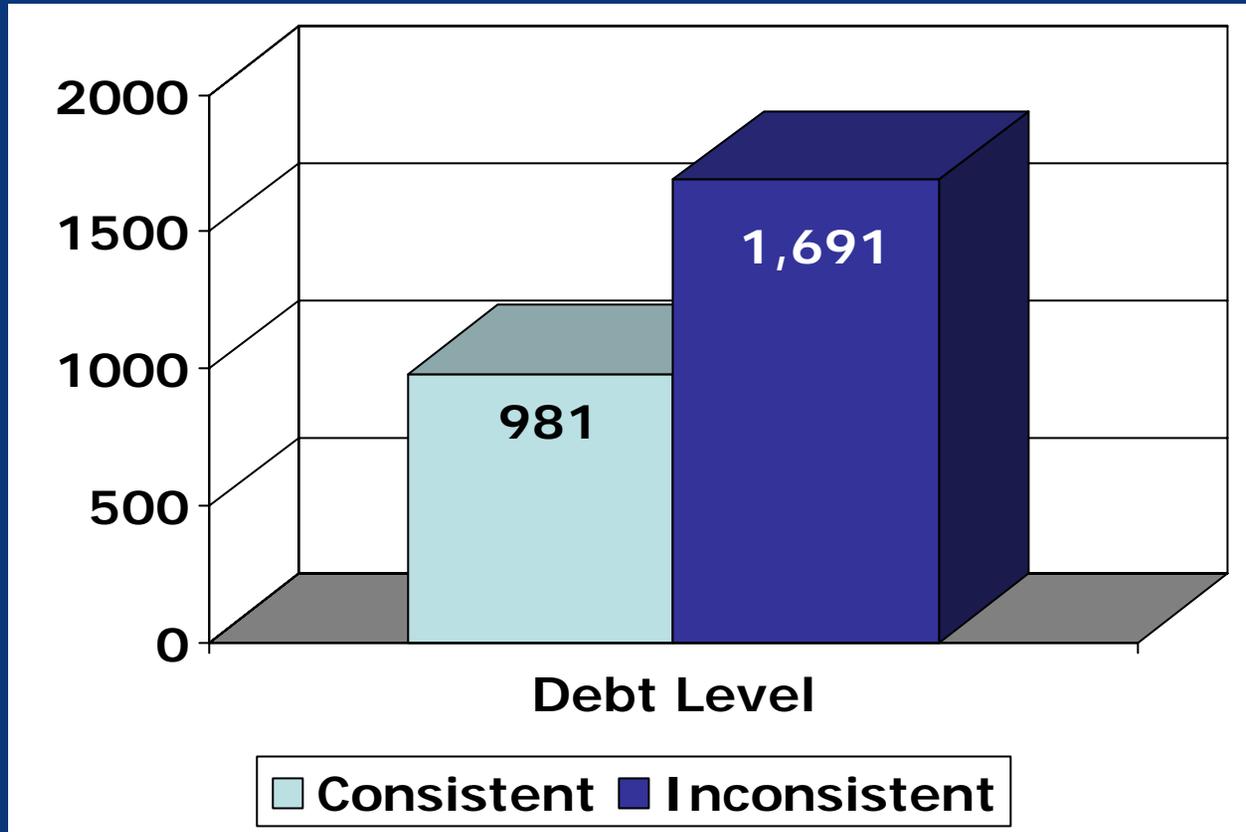
# Behavioral Economics of Asset Building

- Saving and borrowing is an *intertemporal* decision
  - How do people think about the future?
  - How do they delay instantaneous gratification?
- As some of us know from introspection, delaying instantaneous gratification is not that easy (e.g. planning vs. eating of unhealthy food)
- This is human – and not conditional on income!

# Research Project in VITA sites

- Asset building of LMI individuals
  - Why do people get into credit problems?
  - How should public policies be tailored?
- Measuring who appears time inconsistent (i.e. violates plan when future becomes present) and whether it affects asset building

# Self-Control and Debt



Notes: Debt Level = Outstanding Balance on Revolving Accounts on Credit Report (in Dollars). N = 556. Difference is statistically significant on the 1 percent level.

## Source:

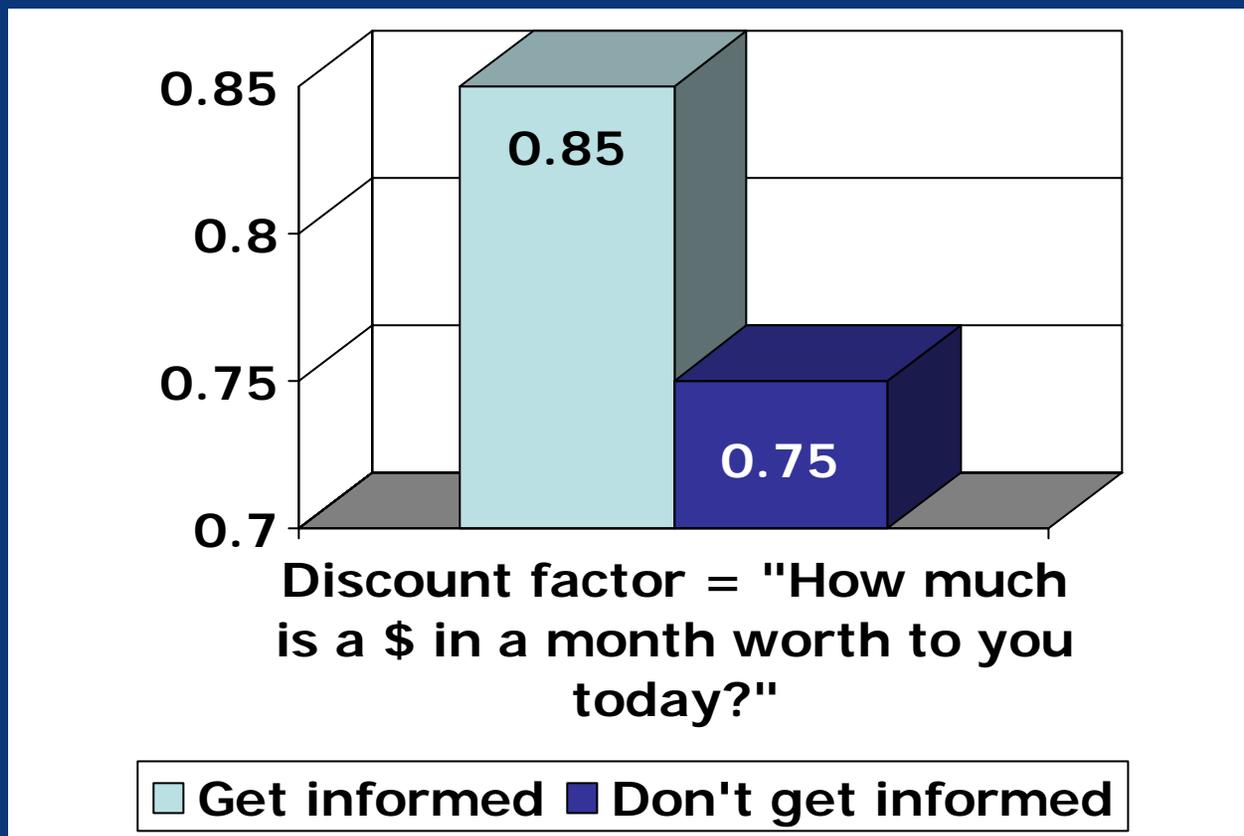
Meier, Stephan and Charles Sprenger (2007). Impatience and Credit Behavior: Evidence from a Field Experiment. *Federal Reserve Bank of Boston Working Paper 07-3*.

Benton, Marques, Stephan Meier and Charles Sprenger (2007). Overborrowing and Undersavings: Lessons and Policy Implications from Research in Behavioral Economics. *Federal Reserve Bank of Boston Community Affairs Discussion Paper 07-4*.

# Self-selection into programs

- Who is getting help OR who is becoming financially literate?
- Remember, we offer free credit scores to individuals
- Only 55% take the offer!
- Do they differ?

# Selection of More Patient People into Educational Programs



**Notes:** Discount factors measured in choice experiments. N = 778. Difference is statistically significant on the 1 percent level.

# Selection is an big issue!

- In particular, people who get scores are much more patient
- Implications:
  - Evaluation studies are biased
  - We do reach only fraction of people
  - We might miss those who need it most!

# Conclusions

- Successful credit repair program in Boston
- Key learning from research to improve program:
  - Take behavioral factors more seriously
  - Minimize selection effects
  - Maximize impact on behavior