

People more likely to overestimate their credit quality

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A new study published in the *Journal of Consumer Affairs* examined consumers' self-assessments of their credit rating and found that respondents were more likely to believe they had average or above average credit and those who overestimated their credit quality were less likely to budget, save, and invest regularly.

The study's author, Vanessa Gail Perry, Assistant Professor at the George Washington University School of Business, concludes that "Overestimating credit ratings is partly a function of a lack of financial sophistication. In addition, it appears that people who have overestimated their credit rating take less care in managing their finances."

Professor Perry analyzed data from the Freddie Mac Consumer Credit Survey. The survey collected data on attitudes, behaviors, knowledge and experiences with credit and financial management from around 23,000 people. Results indicate that approximately 32 percent of respondents overestimated their credit ratings, while only four percent underestimated their credit ratings. The findings support previous studies in judgment and decision-making that show that individuals are more likely to be overconfident about their knowledge or abilities.

Those who overestimated their credit ratings had lower incomes, less formal education, and were less likely to own their homes. They were also more likely to be African-American, Hispanic, or female. One possible explanation for these results is that minority consumers in

general have less experience with financial markets which in turn affects their tendency to overestimate their credit rating.

Source: Wiley

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