

# Loan applications processed around midday more likely to be rejected

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Bank credit officers are more likely to approve loan applications earlier and later in the day, while 'decision fatigue' around midday is associated with defaulting to the safer option of saying no.

These are the findings of a study by researchers in Cambridge's Department of Psychology, published today in the journal *Royal Society Open Science*.

Decision fatigue is the tiredness caused by having to make [difficult decisions](#) over a long period. Previous studies have shown that people suffering from decision fatigue tend to fall back on the 'default decision': choosing whatever option is easier or seems safer.

The researchers looked at the decisions made on 26,501 credit loan applications by 30 credit officers of a major bank over a month. The officers were making decisions on 'restructuring requests': where the customer already has a loan but is having difficulties paying it back, so asks the bank to adjust the repayments.

By studying decisions made at a bank, the researchers could calculate the economic cost of decision fatigue in a specific context—the first time this has been done. They found the bank could have collected around an extra \$500,000 in [loan repayments](#) if all decisions had been made in the [early morning](#).

"Credit officers were more willing to make the difficult [decision](#) of granting a customer more lenient loan repayment terms in the morning, but by midday they showed [decision fatigue](#) and were less likely to agree to a loan restructuring request. After lunchtime they probably felt more refreshed and were able to make better decisions again," said Professor Simone Schnall in the University of Cambridge's Department of Psychology, senior author of the report.

Decisions on loan restructuring requests are cognitively demanding: [credit](#) officers have to weigh up the financial strength of the customer against risk factors that reduce the likelihood of repayment. Errors can be costly to the bank. Approving the request results in a loss relative to

the original payment plan, but if the restructuring succeeds, the loss is significantly smaller than if the loan is not repaid at all.

The study found that customers whose restructuring requests were approved were more likely to repay their loan than if they were instructed to stick to the original repayment terms. Credit officers' tendency to decline more requests around lunchtime was associated with a financial loss for the bank.

"Even decisions we might assume are very objective and driven by specific financial considerations are influenced by psychological factors. This is clear evidence that regular breaks during working hours are important for maintaining high levels of performance," said Tobias Baer, a researcher in the University of Cambridge's Department of Psychology and first author of the report.

Modern work patterns have been characterized by extended hours and higher work volume. The results suggest that cutting down on prolonged periods of intensive mental exertion may make workers more productive.

**More information:** Quantifying the Cost of Decision Fatigue: Suboptimal Risk Decisions in Finance, *Royal Society Open Science*, [royalsocietypublishing.org/doi/10.1098/rsos.201059](https://royalsocietypublishing.org/doi/10.1098/rsos.201059)

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