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Measuring Personality Traits and Predicting Loan Default with Experiments and Surveys[§]

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Abstract: We use two natural field experiments and surveys to identify character elements, and test whether these traits can be used to predict the likelihood of loan default. In the first experiment we identify subjects with high psychosomatic moral costs by observing their reactions when a bank error is made in their favor. In the second experiment we identify subjects that were less naïve about their own ability to meet future commitments. We found that both individuals with higher moral costs and individuals who were the least naïve displayed lower default rates than other groups. We also explore the relationship between qualitative survey-based social capital measures and loan default. We find that survey-based social capital measures are not predictive of loan default for these individual loans, contrary to the results from a prior study -with group loans. Lastly, we examine whether more general personality index measures predict default, and we find that they do not. Overall, the lessons present evidence of moral hazard in microentrepreneurial credit markets to the extent that they reflect choice by the borrower about whether to repay. They also show the potential for adverse selection insofar as these personality measures are typically unobservable to the lender.
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