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On shifting consumers from high-interest to low-interest debt

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Abstract

In the United States, many consumers are increasingly accumulating debt, much of which is harmful and expensive. Prior research has devoted a great deal of attention to understanding why consumers generally get into debt and the strategies they can use to repay existing debts. While this work has furthered the agenda of helping consumers reduce or eliminate their overall debt balances, it has failed to emphasize the fact that for many consumers, debt may be unavoidable. This article aims to promote research that addresses not only overall debt reduction but also the need for consumers to shift from more to less costly types of debt. By shedding light on the psychological reasons why consumers may naturally gravitate toward more costly forms of debt when less costly ones may be available, we offer a novel perspective on why consumers get into and stay in debt longer than they should. This new angle has the potential to spur on further research into the ways consumers can use debt more effectively and less expensively in service of the overarching goal of debt reduction.

KEYWORDS
behavioral economics, debt, financial decision making, planning, well-being

1 | INTRODUCTION

Household consumer debt is on the rise for Americans. At the end of the fourth quarter of 2018, for example, households in the United States owed a total of $13.54 trillion in debt (Federal Reserve Bank of New York, 2019), and a recent study showed that 80% of Americans currently hold some kind of debt (Pew Charitable Trusts, 2015). As a function of income, this level of debt is quite burdensome: While the median household income is about $50,000 per year, the average household owes approximately $30,000 in non-housing debt (Board of Governors of the Federal Reserve System, 2019). These trends have gotten worse over time and seem to be continuing down this path. Between 1980 and 2007, household debt grew from 48 to 99% of gross domestic product (Greenwood & Scharfstein, 2013), and in recent years, debt-to-income ratios have risen from 80.1% in 2001 to 104.6% in 2013 (Bricker et al., 2014). Finally, in the fourth quarter of 2018, household indebtedness increased by $32 billion, resulting in a record-high level of debt, topping the previous quarter's balance (Federal Reserve Bank of New York, 2019).

Compounding the problem of the rise in overall indebtedness, the high-interest types of debt that many consumers hold may be unsustainable in the long term. At the extreme, even though payday loans have interest rates averaging 391% and are not available in 14 states, 5.5% of adults in the United States reported having taken one out in the past five years (Federal Reserve Bank of St. Louis, 2014; Pew Charitable Trusts, 2016). Similar patterns can be found for other types of costly debt: Auto title loans are held by roughly 2.5 million Americans who pay $3 billion in loan fees each year (Pew Charitable Trusts, 2016), and as of 2013, 10.1% of U.S. consumers held installment loans (e.g., store layaway plans; Bricker et al., 2014). Moreover, large amounts of high-interest debt are accrued on credit cards. Unfortunately, credit card debt can be particularly costly: In addition to charging high interest rates, companies earn significant revenues on annual fees, over-limit fees, and late fees, which make credit card debt especially expensive and difficult to manage (Stango & Zinman, 2009). Collectively, the three-quarters of Americans who use credit cards have accrued debt totaling $870 billion (Federal Reserve Bank of New York, 2019; Schuh & Stavins, 2014). In addition, just like the broad-level trends in debt discussed earlier, the percentage of households with credit card balances grew from 39.7 to 46.1% between 1989 and 2007, and the mean balances for those households more than doubled over that period of time (Board of Governors of the Federal Reserve System, 2017). The most recent data indicate that U.S. consumers with credit card debt carry an average of approximately $16,000 (Board of Governors of the Federal Reserve System, 2019).

Indebted consumers thus face two key challenges. First, on average, their overall debt balances have grown substantially over time. Second, many of these liabilities are in the form of debts that have high interest rates, which exacerbates overall debt burdens. Much of the existing research on consumer debt (for a more thorough review, see Greenberg & Hershfield, 2019) has concentrated on examining the determinants of people's general aversion to debt (Brown, Taylor, & Price, 2005; Gourville & Soman, 1998; Greenberg & Hershfield, 2016; Patrick & Park, 2006; Prelec & Loewenstein, 1998); understanding how people get into debt, such as overspending with credit (Bernthal, Crockett, & Rose, 2005; Feinberg, 1986; Hirschman, 1979; Morewedge, Holtzman, & Epley, 2007; Prelec & Simester, 2001; Raghubir & Srivastava, 2008; Soman, 2001; Soman & Cheema, 2002); what interventions or prescriptions may help consumers repay their existing debts, such as paying off the smallest balance first versus paying off the highest interest debt first (Amar, Ariely, Ayal, Cryder, & Rick, 2011; Besharat, Carrillat, & Ladik, 2014; Besharat, Varki, & Craig, 2015; Brown & Lahey, 2015; Gal & McShane, 2012; Kettle, Trudel, Blanchard, & Häubl, 2016); or how information and framing affect repayment decisions (Hershfield & Roese, 2015; Jones, Loibl, & Tennyson, 2015; Keys & Wang, 2019; McHugh & Ranyard, 2012; Navarro-Martinez et al., 2011; Salisbury, 2014; Stewart, 2009). These foci have advanced the agenda of aiding consumers in reducing their overall debt balances. Yet, the emphasis on avoiding and eliminating excessive consumer debt—while helpful—has at the same time obscured the fact that some debt may be inevitable for many consumers.

Accordingly, in the present article, we take a new approach, and call for the need to not only reduce debt overall, but importantly, to study ways that can help move consumers away from high-interest forms of debt (e.g., high-interest credit cards, payday loans) and toward low-interest forms of debt (e.g., personal loans from reputable banks). As a result, the goals of this article are twofold. First, we intend to offer a new perspective on why consumers get into and stay in debt. In particular, we spotlight the psychological reasons why high-interest forms of debt may often appear more attractive than low-interest ones. Second, we hope to promote research that studies the ways consumers use debt more effectively (and less expensively) *in conjunction with* strategies for overall debt reduction. Here, we suggest that studying reasons why consumers may elect to take on high-interest debts even when less expensive options are available can help consumers avoid unnecessary financial burdens and at the same time, hasten overall debt repayment. In what follows, we discuss several structural and psychological reasons why consumers may shy away from low-interest types of debt and settle into high-interest ones. We close with a proposal for moving the field in the direction of studying interventions that leverage these insights by getting consumers to consider less costly debt options.

2 | DIFFERENTIATING DEBTS: THE PREVALENCE OF HIGH-INTEREST DEBT WHEN LESS COSTLY OPTIONS ARE AVAILABLE

Despite the fact that researchers have extensively studied how consumers view and repay debt, the field has largely been mute on how they weigh various types of debt against one another. To our knowledge, past work on consumers' decisions to take on high-interest versus low-interest forms of debt is limited. The most closely related work has examined tradeoffs in the choice of credit cards, demonstrating that people disproportionately use high-interest over low-interest cards (Ponce, Seira, & Zamarripa, 2017). Tangentially, other work has examined how the way debt consolidation loans (e.g., loans used to pay off credit card debt) are advertised influences consumers' financial decisions (Bolton, Bloom, & Cohen, 2011; Bolton, Cohen, & Bloom, 2006). Additionally, there is qualitative evidence that consumers do not view all types of debt as interchangeable; in fact, they distinguish between "good" and "bad" debts based on whether the debt has the potential to generate returns over time (Peñaloza & Barnhart, 2011). This account is supported by the fact that consumers who are sensitive to differences between financial products exhibit greater financial health (Greenberg, Sussman, & Hershfield, 2019) and that some debt types are more likely to affect life satisfaction than others (Greenberg & Mogilner, 2019). Even though this prior work indirectly speaks to the idea that consumers distinguish between different types of debt, much of it does not seem to address how consumers differentially consider such debt types in the first place.

In what follows, we review the factors that could influence the take-up of different types of debt by focusing on five broad areas. In particular, we discuss (a) the limited information about and upfront costs associated with less costly types of debt, (b) perceptions that high-interest debt types are the default, (c) the intertemporal challenges linked to many less expensive debt alternatives, (d) the mental accounting of low-interest debt types, and (e) the role of negative attitudes toward the banking sector in the take-up of high-interest forms of debt.

2.1 | Information and costs

The factors that draw consumers toward high-interest debt types and away from low-interest alternatives are not purely psychological; they may be structural as well. While the focus of the present article is to outline the ways consumer research can help people move away from high-interest forms of debt, we also acknowledge that multiple structural forces have likely produced a status quo in which high-interest debt balances are growing and alternative low-interest debts are relatively scarce. Here, we outline three sources of friction that may result in consumers' tendency toward high-interest debts: a lack of knowledge about some low-interest debts, the relative difficulty of understanding low-interest debt types, and the upfront costs associated with assuming low-interest debt alternatives. In the subsequent sections about the psychological forces that may have caused the status quo, certain aspects of these frictions are revisited.

First, in order to consider low-interest types of debt, consumers must be aware of them. Yet, compared to some common high-interest forms of debt, consumers may have limited information about low-interest alternatives. Credit cards, which can often lead to large high-interest debt burdens, are well-known and widely advertised. Indeed, credit card companies market their products quite aggressively: Most consumers receive mailing offers for credit cards on a regular basis. In the first 10 months of 2015, credit card companies sent out 3.2 billion pieces of mail, including pre-approved offers for new credit card products (Bryan, 2015). These advertisements serve not only to influence demand, but also to familiarize consumers with the financial products and brands for which they receive offers. Because people are routinely exposed to such advertisements for such products, they are likely more familiar with the brands from which they receive offers compared to those from which they do not (Nelson, 1974; Stigler, 1961). Prior knowledge and awareness of a brand are often used as heuristics for making choices, so knowledge about high-interest debt products may lead consumers to gravitate toward them (Hoyer & Brown, 1990).

Second, even if consumers are aware of less costly alternatives, they may not fully understand how they function. When preparing to take out a personal loan, for example, consumers must consider the terms (e.g., interest rates, fees) in advance, which typically require difficult mental calculations. Because consumers often avoid cognitively effortful choices (Garbarino & Edell, 1997), they may be less likely to choose products (such as fixed-term loans) that require them to undergo these challenging mental tasks. Indeed, consistent with this explanation, people with relatively low levels of debt literacy are more inclined to take on high-interest debts (Lusardi & Tufano, 2015). Relatedly, given consumers' limited attention and the inherent difficulty in understanding terms, it is possible that suboptimal choices of which debt to use and which to repay reflect more basic errors of information processing (Agarwal, Chomsisengphet, Liu, & Souleles, 2015; Agarwal, Skiba, & Tobacman, 2009; Gross & Souleles, 2002; Ponce et al., 2017). These errors could also cause what began as low-interest debt (e.g., credit cards with introductory 0% APR) to evolve into high-interest debt over time.

Finally, compared to passively accruing credit card debt, choosing to take on personal loans usually involves upfront costs that may deter consumers. While accruing credit card debt is often easier than spending money (e.g., Feinberg, 1986), taking out a personal loan forces consumers to overcome a number of financial obstacles prior to receiving the borrowed funds. For example, when taking out a personal loan, consumers must compare prices among different loans and go through onerous application processes in addition to paying application and origination fees. In addition, loan applications require consumers to disclose a great deal of information that credit card applications do not. In general, transaction costs—such as those related to having to disclose detailed financial information, engage in telephone calls with bank representatives, or justify the reasons for taking out a loan—could serve as strong disincentives (Burnham, Frels, & Mahajan, 2003; Gourville, 2006). Thus, if the transaction costs embedded in the loan application process are sufficiently high, they may make lower-cost loans particularly aversive and dissuade individuals from considering these alternatives. Similarly, high switching costs could discourage those who have already accrued credit card debt who could benefit from switching to less costly alternatives (Klemperer, 1987).

2.2 | The status quo

The relative prevalence of high-interest debt types over less costly debt types may be driven by inertia. Numerous psychological forces can reinforce the status quo, potentially leading to the perception that continuing to use high-interest debt is the default option, and thus, resulting in negative behaviors. First, because consumers are likely more comfortable with high-interest credit cards, they may be more inclined to continue using them and give limited consideration to lower-interest personal loans. The mere familiarity consumers have with various debt products might influence their valuations of them, and because familiarity with a brand or a product tends to lead to more positive evaluations, the fact that credit cards are so familiar might make consumers judge them as better (Lee & Labroo, 2004). On a related note, since lower-cost options like personal loans are relatively uncommon and unfamiliar, taking out such loans may be perceived as a deviation from a norm (Cialdini & Trost, 1998), which would be unattractive to many consumers. For similar reasons, if taking out personal loans represents a departure from the status quo (Samuelson & Zeckhauser, 1988), the continued use of high-interest credit cards will typically be preferable.

Second, the fact that people already use and are familiar with credit cards not only makes them more attractive, but also makes less costly alternatives like personal loans more challenging to take on. Similar to what we mentioned above, the transaction and switching costs embedded in the loan application process will drive people away from taking out loans that would otherwise be less costly alternatives to high-interest credit cards. Yet, certain psychological forces can also compound these perceived costs. For instance, because people tend to feel more positively about the choices they make compared to the choices they forgo, those who already have high-interest credit card debt may have more positive feelings about their choices than they do about the less costly options they have not opted for (Bem, 1967; Brehm, 1956; Festinger, 1957; Greenberg & Spiller, 2016). But consumers who already have high-interest credit card debt need not feel positive about the experience to continue along the same path, especially if the debt is perceived as a sunk cost (Arkes & Blumer, 1985). In fact, people may double down on accruing these expensive debts even if they know less costly personal loans could make them better off (Garland, 1990; Staw, 1976).

Third, because some high-interest debt types roll over automatically, are passively accrued, or are otherwise relatively unplanned, consumers do not necessarily face the same negative emotions when the debt is accumulated. For example, the act of swiping a credit card is psychologically different from that of taking out a less expensive loan: In most cases, swiping a credit card is perceived as less painful than simply paying with cash (e.g., Soman, 2001). In contrast, actively choosing a loan involves an admission to the self that one is, in fact, taking on debt. As a consequence of this admission, taking out a loan might pose a sufficiently large shift in one's self-perception as someone who is free from debts to someone who is a debtor (Bryan, Walton, Rogers, & Dweck, 2011; Major & O'Brien, 2005). Similarly, while taking out a payday loan requires some initial pain, allowing the loans to roll over may be less difficult. Theoretically, the active nature of taking out loans could result in feelings of stigmatization while the passive role of accruing credit card debt or additional fees from payday loan rollovers may not.[1] Therefore, consumers who want to avoid the negative feelings from stigmatization as debtors might choose to avoid taking out lower-interest loans that cause them to experience these negative emotions. Even more, people might believe that the debt from such loans will bring about stronger and more long-lasting negative emotions. Indebtedness has been correlated with lower measures of physical and mental health, among other negative outcomes (e.g., Sweet, Nandi, Adam, & McDade, 2013). By taking out a loan, consumers must immediately accept indebtedness and the potential negative feelings most people wish to avoid. And because the length of a loan is fixed and well-defined, consumers might forecast negative emotions over time that exceed the actual negative emotions they might endure from taking on low-interest forms of debt (Wilson & Gilbert, 2003). In contrast, because high-interest debts that roll over or are passively accrued tend to have unfixed terms and payment can be more freely postponed, consumers may not go through the process of mentally forecasting feeling negative emotions for an extended or defined period of time.

2.3 | Intertemporal considerations

It is difficult for individuals to imagine or form beliefs about what future versions of the self might want, need, or value. Along these lines, Parfit (1987) and others have suggested that with increasing time, emotional connections between one's present and future selves decrease. In fact, with enough time, the future self might be thought of as a different person altogether (Bryan & Hershfield, 2012; Hershfield, 2011; Pronin, Olivola, & Kennedy, 2008). These emotional connections that individuals feel with their future selves have important implications for intertemporal decisions: People who feel more connected to their future selves are more patient with financial rewards in laboratory tasks (Bartels & Urminsky, 2011) and have also accrued more assets over time (Ersner-Hershfield, Garton, Ballard, Samanez-Larkin, & Knutson, 2009). While both high-interest and low-interest forms of debt must eventually be repaid, many low-interest alternatives—such as personal loans—require an active choice for the future self to commit to a repayment plan. Debts that roll over, such as credit cards and payday loans, however, allow for the present self to consume without necessarily devising strategies for repayment in the future. The lack of emotional connection between present and future selves might subsequently drive some consumers deeper into high-interest debt and deter many consumers from considering less costly alternatives in the first place.

Furthermore, low-interest forms of debt often require explicit planning for repayment, which could be problematic for individuals with self-control problems (Frederick, Loewenstein, & O'Donoghue, 2002; O'Donoghue & Rabin, 1999). Indeed, high levels of discounting and low self-control have been associated with excessive credit card borrowing (Achtziger, Hubert, Kenning, Raab, & Reisch, 2015; Meier & Sprenger, 2010). The act of taking out a loan might require knowledge about one's tendency to excessively discount the future since it necessitates a commitment to future repayment (Ariely & Wertenbroch, 2002; Thaler & Benartzi, 2004). Consumers who have high-interest credit card debt must also eventually pay back their debts, but the terms of repayment are abstract, flexible, and can be postponed almost indefinitely. Indeed, Prelec and Loewenstein (1998) theorize that consumers can be debt averse while simultaneously accruing debt because time discounting permits the postponement of repayment to a future date.

Compounding these issues is a struggle to weigh uncertain prospects. The future is abstract and uncertain, and people tend to be averse to uncertainty (Fox & Tversky, 1995; Simonsohn, 2009). Although those with high-interest credit cards or payday loans that roll over have flexibility over how much and when to repay their debts, personal loan holders must abide by the fixed terms upon which they agreed. Since consumers are generally averse to uncertainty, the inherent rigidity in the terms associated with lower-cost options could deter their take-up. Moreover, consumers may view lower-cost personal loans as risky prospects, which could dissuade the take-up of loans for those who do not believe they will have much wealth in the future (Greenberg, 2013).

2.4 | Mental accounting

Consumers likely do not consider all debt to be interchangeable: Gains and debt (losses) are processed within different mental accounts (Prelec & Loewenstein, 1998; Thaler, 1985). In fact, different *types* of debt might be handled within separate accounts. Thaler (1999) argues that one reason consumers are attracted to credit cards is because the monthly bill combines many purchases made over time rather than one large purchase. Thus, since the payment of these purchases financed by credit card debt is postponed, consumers do not perceive the many small losses they incur over time when taking out the debt. In contrast, consumers might feel the need to earmark loans to justify taking them out (even when such loans are not attached to specific assets), which are often for expensive purchases, so losses incurred are more salient. If loans occupy their own mental accounts that are coded as losses while credit card debt does not (or does, to a lesser extent), we would expect consumers to be more likely to accrue credit card debt than take on lower-cost alternatives.

A key difference between taking out a relatively low-interest personal loan and slowly accruing credit card debt is that incremental changes in debt are larger for low-interest personal loans. Consumers typically take out loans to finance larger (planned) expenditures rather than smaller expenditures. Over time, these smaller expenditures financed with credit card debt add up to large amounts of debt that could have warranted low-interest personal loan financing, yet each borrowing decision that led to the large debt likely felt small when it was accrued. Unfortunately, even though over time the total losses for credit card debts can grow to be quite large, the piecemeal losses for credit card debts are not felt as strongly as those for low-interest alternatives.

The fact that consumers consider low-interest types of debt only for large expenditures may influence the way they differentially account for low-interest and high-interest forms of debt. Past research suggests that low-interest debt forms like personal loans, which are earmarked for large purchases, are included in distinct, large (and thus, hard-to-close) mental accounts (Thaler, 1990). Yet, high-interest forms of debt like credit cards are typically used for smaller, everyday purchases, suggesting that associated debts are included in smaller (and thus, easier-to-close) mental accounts. When paying off credit card debt, consumers have a tendency to begin with smaller accounts that can be paid in full to “close” these debt accounts (Amar et al., 2011). If consumers are averse to the feeling of having accounts in the red rather than in the black, they may wish to circumvent opening large accounts—like loans, that will stay in the red for longer periods of time—altogether.

Similar to the way consumers may tend to experience losses less strongly for high-interest debts like credit cards, they also may experience smaller negative changes in perceived wealth. In particular, the incremental nature of credit card debt accumulation could also lead to only modest changes in individuals' levels of perceived wealth. Normatively, a consumer's wealth ought to follow a simple identity: assets minus liabilities. Yet there is evidence that consumers' wealth perceptions are quite sensitive to debt when they have positive net worth (Sussman & Shafir, 2011). For consumers in the black, a low-interest loan in which all debt is taken out simultaneously could have a profoundly negative impact on their wealth perceptions. However, credit card debt taken out in small portions over a longer period of time might have attenuated effects on personal wealth perceptions such that consumers who have accrued large sums of credit card debt feel richer than they actually are, leading to more—possibly suboptimal—high-interest debt accumulation. Since consumers perceive lump sums to be subjectively larger than their equivalent annuitized streams (Goldstein, Hershfield, & Benartzi, 2016), we might also expect that loans have larger negative effects overall on perceived wealth than credit card debt of similar magnitudes, making high-interest types of debts like credit cards more palatable.

In addition to the fact that credit cards do not produce immediate negative shocks to perceived wealth when they are accrued, they often allow consumers to allocate less money toward repayment at any given time. Whereas loan payment plans are fixed, the size of payments for credit cards is often flexible. Prior research suggests that it is painful to make payments of any kind (Prelec & Loewenstein, 1998; Rick, Cryder, & Loewenstein, 2008; Soman, 2001). Unfortunately, low-interest personal loan holders must make frequent large payments while those with credit card debt and rolled-over payday loans can postpone large payments into the distant future, making personal loan repayment an inherently more painful process for those who experience high levels of pain of paying. As a result, the anticipated burden of repayment may be too large for people to consider taking out low-interest forms of debt, perversely leading to longer periods of indebtedness.

2.5 | Negative attitudes toward the banking sector

Consumers' attitudes toward particular traditional banks and the banking sector more broadly could lead them toward high-interest lenders and away from traditional banks that offer low-interest alternatives. Millions of households in the United States obtain small-dollar, high-interest debt financing from nonbank institutions (Theodos & Compton, 2010), and as of 2017, the proportions of households who were unbanked (i.e., had no bank account) or underbanked (i.e., used non-banking financial services) were 6.5 and 18.7%, respectively (Federal Deposit Insurance Corporation, 2017). Following the insufficiency of funds to sustain a bank account, the most-cited reason given for avoiding traditional banks is a lack of trust in banks (Federal Deposit Insurance Corporation, 2017). Moreover, the most recent Gallup polling data indicate that as many as 22% of Americans have very little or no confidence in the banking system (Saad, 2018).

To date, little is known about the underlying reasons for the lack of consumer trust in the banking system. While it is plausible that negative attitudes toward banks are driven by past banking crises (Osili & Paulson, 2014), concerns about privacy (Acquisti, John, & Loewenstein, 2013), or beliefs that financial companies do not have benign intentions (Bhattacharjee, Dana, & Baron, 2017), the determinants of consumer mistrust are not well-known. Nevertheless, given the importance of consumers' confidence and trust of brands in how consumers evaluate brands (Bennett & Harrell, 1975; Dodds, Monroe, & Grewal, 1991; Morgan & Hunt, 1994), a lack of trust in the banking sector could lead consumers to shy away from traditional banking—which offers more favorable debt financing—and toward more costly alternatives like payday loans.

3 | FUTURE DIRECTIONS AND CONCLUSION

Consumers in the United States are facing rising overall debt balances, and many of these debts are in forms that are costly, worsening the burden to consumers' financial health. To date, a large share of consumer research has concentrated on uncovering people's general propensities to get into debt as well as approaches that can be used to pay down existing debt balances. The present article represents the first step in promoting a research agenda that investigates ways for consumers to move from high-interest to less expensive forms of debt. We argue that while the long-term goal ought to be reducing and—eventually—eliminating overall debt balances, the short-term goal (that services this long-term goal) should be the more effective use of debt when debt is necessary to take out. Along these lines, it is our hope that this article paves the way for three main streams of work.

First, although this article proposes numerous psychological reasons underlying consumers' inclinations toward high-interest forms of debt even when less costly alternatives are available, empirical and experimental work should be conducted to uncover which of these factors do, in fact, bear on these tendencies. In particular, we proposed five main factors: (a) limited information and higher upfront costs associated with low-interest forms of debt; (b) perceptions that high-interest debt is often the default option; (c) intertemporal challenges linked to less costly types of debt; (d) the unattractive mental accounting of low-interest debt alternatives; and (e) the role of negative attitudes toward the banking sector in the take-up of high-interest types of debt. Yet, while these accounts are informed by existing research, the extent to which any individual factor is a meaningful driver remains an empirical question. Because debt cannot be randomly assigned, it can be difficult to conduct meaningful research in this area. Researchers may need to rely on converging evidence from a variety of methods, including archival data analysis, surveys, and hypothetical experiments. We, therefore, encourage researchers to examine the relationship between these factors and debt take-up as rigorously as possibly, but with an openness to overcoming the challenges inherent in studying consumer debt.

Second, even though we proposed many psychological influences on the tendency to get into high-interest debt while often forgoing low-interest alternatives, there are certainly other causes that were beyond the scope of this article to address. Consumer researchers who have different foci or disciplines from ours likely have distinct perspectives on the problem that afford them the opportunity to generate other sets of underlying psychological drivers. Moreover, financial planners who have helped their clients get out of debt likely have unique insights that can be leveraged to uncover other psychological reasons for the overuse of high-interest forms of debt. Just as the fields of psychology and economics inform one another, this policy issue would be better addressed if several disparate academic fields and practitioners tackled it simultaneously. Theorizing about the issue across a diversity of areas will generate new explanations that can be tested in service of helping consumers make decisions that are in line with their long-term interests.

Finally, and most importantly, this exploration is intended to be the foundation for interventions that aim to move consumers toward less expensive forms of debt. While understanding the determinants of people's tendencies toward high-interest debt and away from low-interest alternatives is important in its own right, the ultimate goal is to shift behavior in a direction that costs consumers less and grants them more financial freedom over time. From a policy perspective, the ideal method for determining which insights are consequential in consumer behavior is experimentation in the field. Indeed, field experimentation is not only a useful tool for understanding behavior, but also an essential method for determining which policies are effective at changing behavior and promoting better outcomes (Duflo & Kremer, 2005; Gneezy, 2017). Researchers should aim to collaborate with the financial planning community to examine the relative effectiveness of different behavioral interventions. The insights put forth in the present article can function as a roadmap for randomized controlled trials and field studies in the hope that the most promising interventions could be rolled out on a larger scale.

For example, one reason we propose for the relative prevalence of high-interest types of debt is that consumers may differentially mentally account for low-interest alternatives, thus only considering personal loans if the potential expenses are large enough to justify them. As we discussed earlier, consumers receive billions of pre-approved credit card offers from reputable, well-known financial institutions each year (Bryan, 2015). However, even though consumers receive marketing materials for loan offers as well, they may not be receiving them at times when they would otherwise accrue high-interest debt. In June 2015, Goldman Sachs entered the consumer finance industry for the first time to offer personal loans to middle-class consumers (Corkery & Popper, 2015), and other companies have followed suit. Reputable and established companies could offer personal loans during times of year (e.g., the holiday season) when consumers are most likely to accrue several small expenses that add up to large debt balances. Unfortunately, because some predatory lenders have adopted the practice of mailing out high-interest loans that look like bank checks during the holiday season, established financial institutions planning to offer just-in-time loans would need to market their loans with a high level of transparency to ensure consumers' trust. While it may be helpful for reputable firms to offer low-interest loans during this period, randomized controlled trials could tease apart which kinds of offers, institutions, and terms are both effective in promoting loan take-up and optimal for consumers' long-term financial health.

Similarly, another reason consumers find themselves saddled with high-interest debt rather than taking on low-interest alternatives is that they must undergo considerable effort and upfront costs to take out loans. In short, while the process for applying for loans is onerous and invasive, the act of spending on a credit card or allowing a payday loan to roll over is not. Eventually, financial institutions could offer their existing customers pre-approved loan offers whose applications would be less burdensome than existing ones. Recent changes to the Free Application for Federal Student Aid (FAFSA) were made to boost student loan take-up and ultimately bolster college attendance (Onink, 2015), and the applications for other types of low-interest debts could be similarly streamlined. But before this reform should happen on a large scale, experimental research should be conducted to determine which format, style, and framing attributes are most effective.

To our knowledge, this article represents one of the first steps in understanding the differences between how consumers think about high-interest and low-interest forms of debt. While we were informed by prior empirical work, we hope that our perspectives encourage future experimental research that not only examines some of the underlying mechanisms addressed, but also proposes novel ones. Many consumption decisions must be financed with debt. Ultimately, we hope that this article lays the foundation for research that will help consumers who need to take on debt make choices that better serve their long-term financial interests.

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ENDNOTE

[1] Analogously, prior research has pointed out that many who would benefit from bankruptcy laws often avoid declaring bankruptcy, in part due to stigma (Fay, Hurst, & White, 2002).

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