Can reframing large debt burdens into smaller goals help individuals reduce debt?

Researchers:

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Sector(s): Finance

Fieldwork: Innovations for Poverty Action (IPA)

Location: United States of America

Sample: 4200 clients of a debt management provider

Partner organization(s): Ford Foundation

Many Americans have accumulated staggering debt loads, limiting their ability to achieve financial stability. While some nonprofit and financial institutions have programs designed to help borrowers repay and reduce debt with personalized debt management plans, many people drop out of these programs in the first year. Researchers have partnered with a non-profit debt management provider and IPA to evaluate whether reframing difficult, long-lasting tasks, such as paying off large debts, into more easily-attainable "sub-goals" can help borrowers accomplish their goals of debt repayment and increase client retention in a debt management program.

Policy issue

In December 2018, Americans held over 1 trillion dollars in outstanding consumer credit.[1], High levels of debt can be financially challenging for consumers, especially given that unpaid balances compound over time. Debt management plans (DMPs) are a tool designed to help people struggling with large, high-interest debt burdens. When a borrower initiates a DMP, the DMP provider negotiates a repayment plan with creditors on the borrower's behalf based on their monthly budget. However, even with a DMP, borrowers may face repayment obstacles including unexpected financial setbacks. Moreover, common behavioral tendencies can make it challenging to complete difficult tasks like paying down debts, even when in one's own long-term best interest. Additionally, because DMPs spread borrowers' monthly payments across all of their debts, borrowers tend to have few concrete successes (in terms of debt accounts closed) until the end of the DMP, when most debts are paid off in quick succession. This creates an environment where clients may not get the psychological benefits of fully paying down a source of debt until the end of the plan.[2]

Given these obstacles, many clients drop out of DMP programs before they are completely out of debt. The majority of drop-out happens within the first year, as clients must adjust their behavior and spending patterns to this new monthly expense. Can reframing debt repayment into smaller, more manageable "sub-goals" improve debt repayment behavior and increase client retention rates for DMP providers?

Context of the evaluation

The partner in this project is a non-profit debt management provider that serves clients with outstanding debt in all 50 US states. The DMP consolidates non-mortgage, non-student, and non-auto debt. Their average client is approximately 40 years old, earns

$30,000 per year and owes approximately $8,250 in outstanding debt on their DMP. A typical DMP lasts three to five years, but only approximately one-third of clients successfully complete the program.

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Details of the intervention

Innovations for Poverty Action is working with researchers to test whether messages that reframe large debt burdens into smaller goals and provide encouragement to borrowers can improve repayment behavior. The research team is creating a series of repayment goals, most of which are designed to be accomplished within the first 12 to 18 months of the DMP. These sub-goals will be communicated through text messages, emails, and images on borrowers' personal pages on the partner's website.

Researchers will randomly assign 4,200 DMP enrollees to one of three groups:

1. *Encouragement:* Clients will receive additional communications (alongside normal communications from the DMP provider) that congratulate the clients on their progress and encourage them to continue to make payments.
2. *Debt Reframing:* Clients will receive additional communications (alongside normal communications from the DMP provider) that frame each payment as part of the discrete payment goals created by the research team and DMP provider. These messages will also congratulate the clients on their progress and encourage them to continue to make payments.
3. *Comparison group:* Clients will not receive any of the above interventions during the study period.

The researchers will use administrative data from the DMP provider to measure the effects of the encouragement and debt reframing messages on debt reduction, timely DMP repayment, program completion, and time spent paying down debt in the program.

Results and policy lessons

Study ongoing; results forthcoming.

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1. Board of Governors of the Federal Reserve System. 2015. “Federal Reserve Statistical Release: Consumer Credit.” https://www.federalreserve.gov/releases/g19/current/

2. Tversky, Amos and Daniel Kahneman. 1986. "Rational choice and the framing of decisions." *Journal of Business* 59 (4): S251-S278. Kettle, Keri L., Remi Trudel, Simon J. Blanchard, and Gerald Häubl. 2016. "Repayment concentration and consumer motivation to get out of debt." *Journal of Consumer Research* 43(3): 460-477.