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Who are the credit invisibles?

How to help people with limited credit histories

Consumer Financial Protection Bureau

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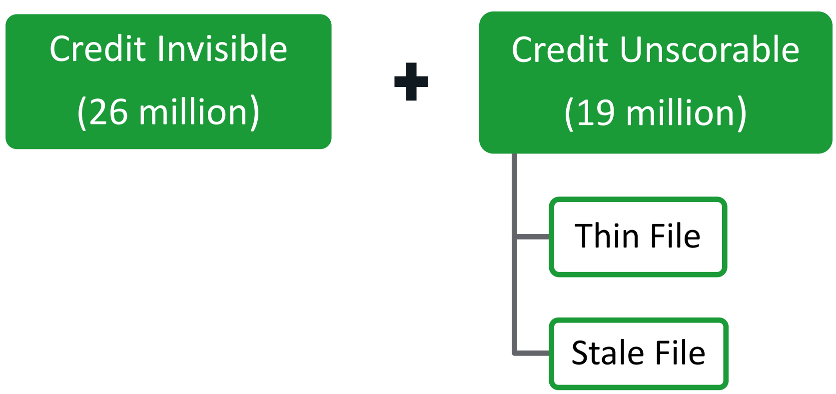
Who are the credit invisibles?

In 2015, the Consumer Financial Protection Bureau (CFPB) released a Data Point that found one in ten adults in the U.S., or about 26 million people, are “credit invisible.” This means that 26 million consumers do not have a credit history with one of the nationwide credit reporting companies. An additional 19 million consumers have “unscorable” credit files, which means that their file is thin and has an insufficient credit history (9.9 million) or they have stale files and lack any recent credit history (9.6 million). In sum, there are 45 million consumers who may be denied access to credit because they do not have credit records that can be scored.

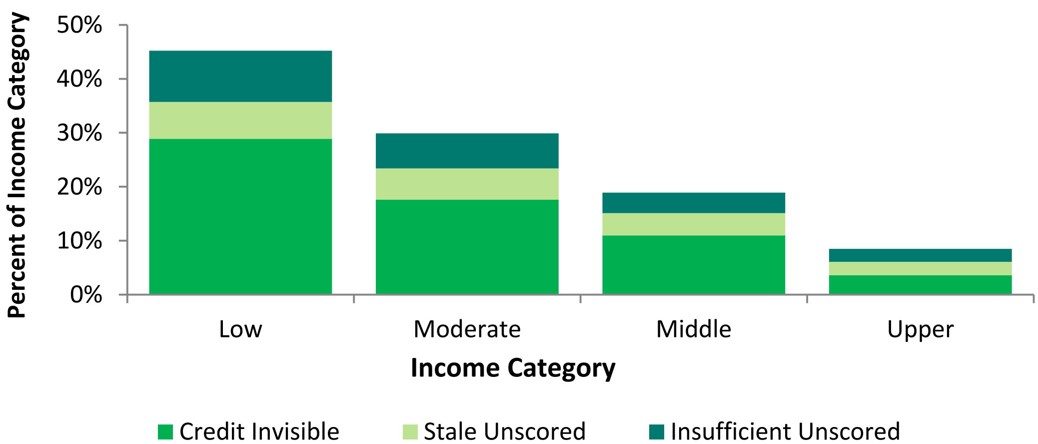
Together, the unscorable and credit invisible consumers make up almost 20 percent of the entire U.S. adult population. Consumers who are credit invisible or unscorable generally do not have access to quality credit and may face a range of issues, from trying to obtain credit to leasing an apartment.



Consumers in low-income neighborhoods are more likely to be credit invisible

Consumers in low-income neighborhoods are disproportionately credit invisible and are more likely to have unscorable credit files. Of the consumers who live in low-income neighborhoods, almost 30 percent are credit invisible and an additional 15 percent have records that are unscorable. These percentages are notably lower in upper-income[1] neighborhoods. For example, in upper-income neighborhoods, only 4 percent of the population is credit invisible and another 5 percent is unscorable. Taken from the Data Point, Figure 1 (below) shows that credit invisibility is largely a problem affecting low and moderate income households.

FIGURE 1: UNSCORED CONSUMERS BY INCOME CATEGORY



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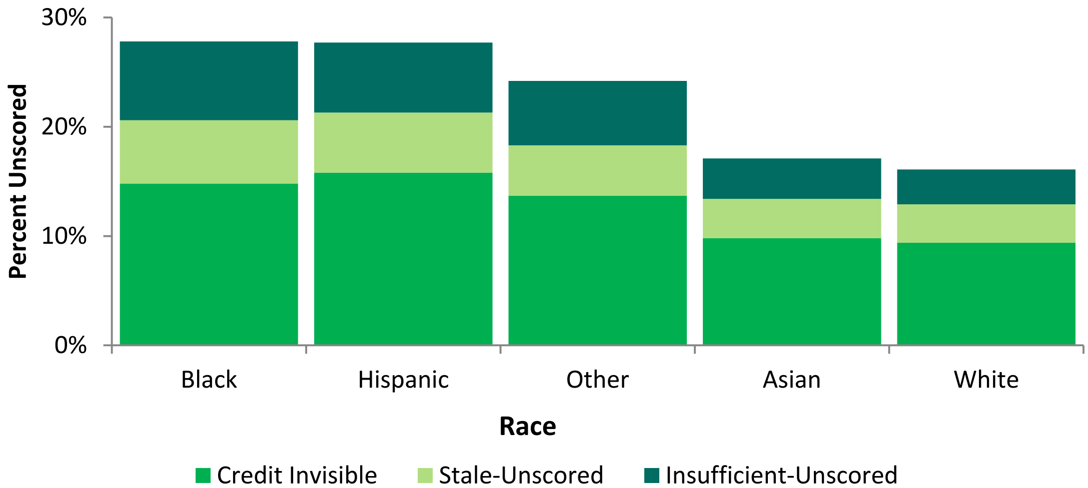
[1] The American Community Survey includes the median household income in each tract, county, and Metropolitan Statistical Area (MSA). We use this information to calculate the "relative income" of each tract. Relative income is defined as the ratio between the median household income of the tract and the median household income of the surrounding area, which is the MSA for urban tracts or the county for rural tracts. Following the definitions used in the Community Reinvestment Act, we then characterize each tract as low, moderate, middle, or upper-income, depending on whether the tract's relative income is below 50 percent, between 50 and 80 percent, between 80 and 120 percent, or above 120 percent. http://files.consumerfinance.gov/f/201505_cfpb_data-point-credit-invisibles.pdf (pgs. 8-9)

Black and Hispanic consumers are more likely to be credit invisible

Black and Hispanic consumers are considerably more likely to be credit invisible, as well as have unscored credit records than White or Asian consumers.[2] Figure 2 (below) shows that about 15 percent of Black and Hispanic consumers are credit invisible compared to 9 percent of White consumers. An additional 13 percent of Black consumers and 12 percent of Hispanic consumers have unscorable records compared to 7 percent of White consumers.

FIGURE 2: UNSCORED CONSUMERS BY RACE

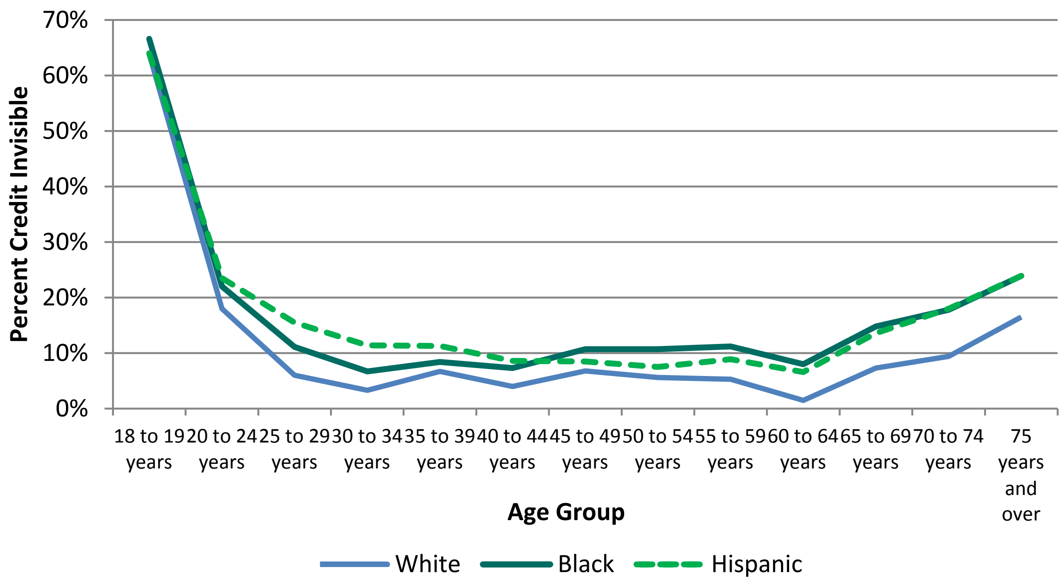


[2] For each tract, we estimate the number of consumers in each of the thirteen age groups who are credit invisible. We then use the racial mix of the tract in each age group from the 2010 Decennial Census to estimate the racial or ethnic mix of credit invisibles, assuming for these purposes that the distribution of credit invisibles in any given tract is proportionate to the racial and ethnic composition of the tract (i.e., that members of each racial or ethnic group in a given tract have an equal chance of being credit invisible). For example, if we find that a tract has 100 credit invisibles in a given age group, and that tract's population in that age group is 15 percent Black, 10 percent Hispanic, 5 percent Asian, and 70 percent White, then we would assume that 15 of these credit invisibles were Black, 10 were Hispanic, 5 were Asian, and the remaining 70 were White.

Young consumers are more likely to be credit invisible

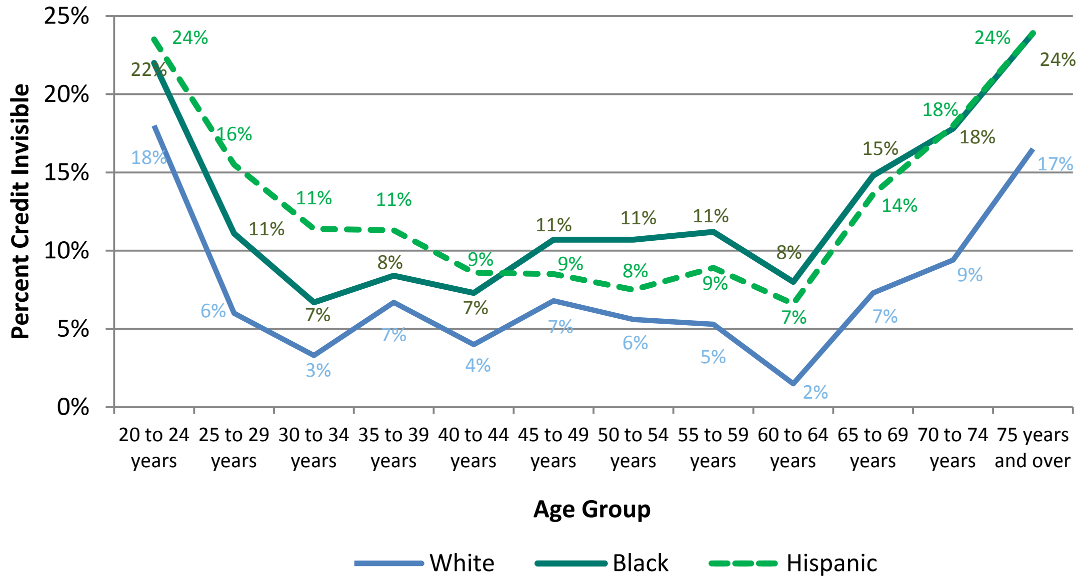
Our analysis shows that young consumers are more likely to be credit invisible. This trend is mostly due to this segment of consumers just starting out in their credit journey. With few exceptions, children under the age of 18 generally do not have credit reports. Figure 3 below shows about 64 to 67 percent of all consumers 18 to 19 years old are credit invisible – with minimal variation across race.

FIGURE 3: PREVALENCE OF CREDIT INVISIBLES BY AGE GROUP



In Figure 4, we focus on where the difference of credit invisibility incidence between Whites and other consumers becomes more pronounced. The percentages quickly deviate as consumers enter their early 20s, suggesting that differences begin early in consumers' lives and could persist throughout. While only 6 percent of young White consumers ages 25 to 29 do not have a credit report, Hispanics in that same age group are more than twice as likely to be credit invisible at 15.5 percent, and Blacks are almost twice as likely to be credit invisible at 11.1 percent. Hispanic and Black consumers are also more likely than Whites to be credit invisible at age 60 and older.

FIGURE 4: A CLOSER LOOK – PREVALENCE OF CREDIT INVISIBLES BY AGE GROUP



Where do the credit invisible live?

Credit invisible consumers are concentrated in certain areas across the county. Geographic analysis on credit invisibles data was compiled at both the state and the Core Base Statistical Area level.[3] Our state-level data shows the percentage of residents within each state who are credit invisible, have thin files, or have stale files. By state, Mississippi has the highest portion of adults (22.3 percent) who are either credit invisible or unscorable, while Utah has the lowest (15.8 percent). States in the South generally have a larger percentage of credit invisibles than states in other regions. Of the top 25 Micropolitan Statistical Areas, 21 are located in the South.

[3] Core Base Statistical Areas (CBSA) are made up of Metropolitan Statistical Areas and Micropolitan Areas. These are areas defined by the U.S. Census Bureau made up of clusters of at least 50,000 and 10,000 people, respectively.

In Appendix B, the Metropolitan Statistical Areas, there are also more Southern areas represented than any other region.

Credit invisible consumers are concentrated in areas of high poverty. Of the top 25 Micropolitan Statistical Areas with the highest percentage of credit invisibles, all 25 have poverty rates higher than the 2015 national rate of 13.5 percent. Fourteen of those areas have poverty rates more than double the national rate.[4]

The impact of credit invisibility

Credit invisibility can exclude consumers from accessing financial opportunities and full participation in mainstream financial services. Consumers could also face difficulty in other aspects of life, depending on how credit history is used in decisions related to employment, renting an apartment, obtaining a cell phone, and accessing utilities without a deposit. Many people and businesses use reports and/or scores to make decisions about consumers. Banks and credit card companies can use credit reports to decide whether to give a person a loan and what price to charge. A landlord may use credit reports to evaluate apartment applications.

A limited credit history can also impair consumers' abilities to withstand financial shocks and achieve financial stability. When they encounter emergency situations that require them to borrow money, and traditional credit products are not available to them, they may find it necessary to use higher cost alternatives to bridge the financial gap.

[4] See Appendix A for the top 25 Micropolitan Statistical Areas with the highest percentage of credit invisible and unscorable consumers, and Appendix B for the top 25 Metropolitan Statistical Areas with the largest total number of credit invisible and unscorable consumers.

How are credit reports and credit scores created?

Credit reporting companies collect information about consumers from many sources, some of which are called information furnishers. The companies organize this information into reports and sell them to businesses so they can make decisions about consumers. The biggest nationwide credit reporting companies are Equifax, Experian, and TransUnion.

While some pieces of information in consumers' credit reports may be more important or less important, the key is to understand the information in the credit reports. Fair Isaac Corporation (FICO scores) and VantageScore Solutions (Vantage scores) are two of the companies that generate many of the most commonly used credit scores. The actual way that FICO and Vantage scores (and other credit scores) are calculated is not public. These scores typically range from 300 to 850. A FICO score above 680 is considered good by most businesses, and the scores considered the best are 760 and higher.

Credit scores provide an easy and efficient way to evaluate risk and assess consumers' ability to repay a loan. These scores sum up key pieces of a consumer's credit history in a number at a moment in time—like a photograph. Companies that create credit scores each use their own complicated mathematical formulas. Some lenders create their own scores using different scoring formulas, so the score can vary from lender to lender. The information that is input into these formulas can come from prior history with the lender or the application itself, as well as credit reports— such as information on how many loans a consumer has, the types of loans the consumer has, whether they've paid their loans on time, length of credit history and how much of their revolving credit limits they are using. Most decisions to grant credit and set interest rates for loans are made based on information contained in credit reports. As a result, those consumers who have a limited or nonexistent credit history face greater hurdles in getting credit.

Actions consumers can take

Fortunately, there are steps consumers can take to build credit for both the consumers looking to rebuild and those new to credit. Knowing what matters, such as having access and using products that help build credit –knowing how to obtain a free credit report, and knowing how to dispute errors are important steps that can contribute to a consumer's path toward financial capability and well-being.

Know what matters

Paying bills on time is one critical step in building a good credit score. Also, don't get too close to the credit limit. Credit scoring models look at how close a consumer is to being "maxed out," because the formulas predict that people who are using too much of their available credit may have future troubles with repayment. Using too much of the total credit lines can hurt consumers' credit scores. Experts advise keeping use at no more than 30% of total credit limits. Credit scores may also decline if consumers apply for and open too many credit accounts, such as credit cards, in a short time.

Finding and using products that will help you to build your credit history responsibly

There are a number of existing products considered helpful in establishing or rebuilding credit histories, and provide consumers with the opportunity to practice making on-time payments that are reported to the credit reporting companies. Below is a list of common credit-building products to explore:

SECURED CREDIT CARDS

Consumers apply for this card as they would a traditional credit card and after approval, the consumer deposits an amount of money – which can range from $50 to $300 depending on the credit card company – into a separate account. The bank holds onto this deposit and extends the consumer a credit line matching the deposit amount. Not all banks report to the credit reporting companies about card activity. Generally, consumers can build credit with a secured card, but be sure to ask the card issuer. Many secured cards also include a "graduation" component, so consumers are able to move from a secured card to a traditional credit card seamlessly after establishing a pattern of consistent payments.

CREDIT BUILDER LOANS

Financial institutions, typically credit unions, deposit a small "loan" (often $300-$1000) into a locked savings account and the consumer pays the institution back with small-dollar payments over 6 to 24 months. These payments are reported to the credit reporting companies. Once the end of the loan term is reached, the consumer receives the accumulated money back in total.

These loans are typically marketed as having the dual benefit of building credit and savings. The savings could be used for an emergency (in lieu of a more costly financial products) or as the deposit for a secured credit card. This can help consumers establish a credit history for the first time.

RETAIL STORE CREDIT CARDS

Many gas stations, department stores or retail chains offer credit cards. These cards tend to be easier to obtain and typically offer lower credit lines. This combination makes them an option for consumers looking to build up a thin or nonexistent credit record.

Report less traditional payment data to the credit reporting companies

There are a number of payments consumers make that credit reporting companies do not traditionally receive information about, but could be captured to record someone's on-time payment history. For example, monthly rent or cell phone payments.

There are new and emerging ways consumers can report the data from on-time payments so that it is positively reflected in their credit reports and scores. Organizations that work with consumers can also help with this effort. For example, an increasing number of public housing agencies have started to report tenant rental payments in an effort to build their tenants' credit history, giving tenants the choice to opt in to have this data reported. Some companies invite consumers to opt into self-reported payments, but the impact of self-reported rent has not been studied in the same manner that rental data provided by landlords providing subsidized housing has been studied, so the impact is not yet well-understood. Fees and conditions may apply for such services, so be sure to research before enrolling.

Know how to access credit reports

The first and most important step for consumers who want to build and maintain good credit is to know and understand what is in their credit report. This is true regardless of whether consumers have a good credit record or have a poor credit record from events in their past. Consumers are entitled to and can request their credit report from each of the three nationwide credit reporting companies once every twelve months free of charge at annualcreditreport.com. Consumers can get additional free reports in certain other circumstances. Having this information in-hand is the most important first step in building or rebuilding credit.

Take steps to correct errors

Consumers should actively take steps to correct any issues with their credit report. After accessing their report, they will have a better understanding of their current creditworthiness and be able to request an investigation of errors or inaccuracies that they find. Accuracy issues are the top cited issues in credit reporting complaints handled by the CFPB.[5] The CFPB offers guidance and sample letters to dispute errors provided by information furnishers (such as a financial institution or bank), as well as the credit reporting companies. Consumers can access those letters and corresponding instructions here.

Consumers have the legal right to dispute errors in the report with the credit reporting company and the company that furnished the information to the reporting company such as the lender. Companies are obligated to conduct – free of charge – a reasonable investigation of the dispute. The company that has provided the incorrect information must correct the error, and notify all of the credit reporting companies to whom it provided the inaccurate information.

CFPB Actions

In 2014, the CFPB launched an open credit score initiative, which called on more of the nation's largest credit card companies to make credit scores freely available to their customers – and other types of consumer lenders are increasingly joining them.[6] Today more than 180 million consumer accounts have free access to credit scores on a monthly basis. All three nationwide credit reporting companies are now allowing nonprofit counselors to share credit reports, as well as the scores, with the consumers they serve. Nonprofit organizations that offer credit

[5] http://files.consumerfinance.gov/f/documents/201605_cfpb_monthly-complaint-report-vol-11.pdf

[6] http://files.consumerfinance.gov/f/201402_cfpb_letters_credit-scores.pdf

counseling, housing counseling, and other financial counseling services are now able to share credit reports and scores for the consumers they serve.

The CFPB has many tools to aid consumers in getting the information and help they need. If consumers are facing issues with credit reporting, or other financial products or services, they can submit a complaint at consumerfinance.gov/complaint or by phone at 855-411-2372.

APPENDIX A: MICROPOLITAN STATISTICAL AREAS WITH THE HIGHEST PERCENTAGE OF CREDIT INVISIBLE & UNSCORABLE CONSUMERS

	CBSA title	CBSA adult population	Percent in poverty*	Credit invisibles	Thin file	Stale file	Percent of adult population
1	Helena-West Helena, AR	15,112	34.0%	2,198	759	684	24.1%
2	Indianola, MS	21,555	35.8%	3,135	1,093	955	24.0%
3	Clewiston, FL	27,648	26.8%	4,002	1,382	1,213	23.9%
4	Americus, GA	27,502	30.2%	3,969	1,333	1,228	23.7%
5	Summerville, GA	19,723	23.9%	2,855	917	897	23.7%
6	Bennettsville, SC	22,333	32.1%	3,202	1,115	970	23.7%
7	Logan, WV	28,696	19.6%	4,111	1,369	1,312	23.7%
8	Clarksdale, MS	18,227	37.4%	2,618	901	788	23.6%
9	Roanoke Rapids, NC	58,859	25.9%	8,418	2,861	2,623	23.6%
10	Greenwood, MS	31,433	36.3%	4,515	1,530	1,371	23.6%
11	Greenville, MS	36,404	37.5%	5,190	1,783	1,587	23.5%
12	Española, NM	30,334	22.5%	4,296	1,511	1,311	23.5%
13	Forrest City, AR	21,229	27.7%	2,983	1,047	950	23.5%

14	Raymondville, TX	16,351	38.0%	2,295	812	727	23.4%
15	Kennett, MO	23,627	26.7%	3,381	1,100	1,054	23.4%
16	Rockingham, NC	35,117	23.8%	4,994	1,679	1,552	23.4%
17	Orangeburg, SC	70,460	24.7%	9,956	3,476	3,058	23.4%
18	Bainbridge, GA	20,603	29.6%	2,940	963	918	23.4%
19	Crescent City, CA	22,082	22.4%	3,128	1,053	979	23.4%
20	Grenada, MS	16,432	22.7%	2,339	783	718	23.4%
21	Selma, AL	31,717	35.9%	4,465	1,542	1,402	23.4%
22	Muskogee, OK	53,174	22.0%	7,552	2,520	2,340	23.3%
23	Las Vegas, NM	22,805	29.4%	3,211	1,135	977	23.3%
24	Cleveland, MS	25,333	34.8%	3,612	1,206	1,090	23.3%
25	Wauchula, FL	19,946	30.8%	2,833	956	859	23.3%

APPENDIX B: METROPOLITAN STATISTICAL AREAS WITH THE LARGEST NUMBER OF CREDIT INVISIBLE & UNSCORABLE CONSUMERS

	CBSA title	CBSA adult population	Credit invisibles	Thin files	Stale files	Total	Percent of adult population
1	New York-Newark-JERSEY City, NY-NJ-PA	15,411,733	1,680,808	605,723	632,055	2,918,586	18.9%
2	Los Angeles-Long Beach-Anaheim, CA	9,983,284	888,446	429,104	422,841	1,740,391	17.4%
3	Chicago-Naperville-Elgin, IL-IN-WI	7,195,979	846,408	268,001	293,401	1,407,809	19.6%
4	Houston-The Woodlands-Sugar Land, TX	4,503,576	511,193	175,503	181,574	868,271	19.3%
5	Dallas-Fort Worth-Arlington, TX	4,879,217	459,259	193,340	205,208	857,808	17.6%
6	Philadelphia-Camden-Wilmington, PA-NJ-DE-MD	4,646,738	501,121	162,562	189,372	853,055	18.4%
7	Miami-Fort Lauderdale-West Palm Beach, FL	4,556,644	443,659	194,771	186,182	824,612	18.1%
8	Atlanta-Sandy Springs-Roswell, GA	4,043,177	398,927	151,682	165,665	716,274	17.7%
9	Washington-Arlington-Alexandria, DC-VA-MD-WV	4,485,132	320,408	155,619	170,912	646,939	14.4%

10	San Francisco-Oakland-Hayward, CA	3,538,377	339,747	147,695	147,130	634,572	17.9%
11	Phoenix-Mesa-Scottsdale, AZ	3,226,355	357,680	129,249	129,732	616,661	19.1%
12	Boston-Cambridge-Newton, MA-NH	3,672,531	346,563	119,143	146,290	611,997	16.7%
13	Riverside-San Bernardino-Ontario, CA	3,144,324	283,464	133,325	131,190	547,978	17.4%
14	Seattle-Tacoma-Bellevue, WA	2,759,854	240,658	113,881	111,499	466,039	16.9%
15	Tampa-St. Petersburg-Clearwater, FL	2,259,194	254,272	91,708	94,494	440,474	19.5%
16	Minneapolis-St. Paul-Bloomington, MN-WI	2,585,801	250,397	83,128	101,581	435,106	16.8%
17	Detroit-Warren-Dearborn, MI	3,283,290	208,495	110,022	115,797	434,314	13.2%
18	St. Louis, MO-IL	2,147,644	234,241	82,436	90,767	407,444	19.0%
19	Baltimore-Columbia-Towson, MD	2,132,933	224,113	80,070	86,920	391,103	18.3%
20	San Diego-Carlsbad, CA	2,456,245	161,721	107,905	104,070	373,696	15.2%
21	Denver-Aurora-Lakewood, CO	2,007,140	199,434	78,776	81,512	359,722	17.9%
22	Charlotte-Concord-Gastonia, NC-SC	1,722,849	213,199	70,220	71,760	355,178	20.6%
23	Pittsburgh, PA	1,895,242	189,120	65,199	79,856	334,176	17.6%

24	Portland-Vancouver-Hillsboro, OR-WA	1,761,307	187,358	71,625	73,403	332,386	18.9%
25	Las Vegas-Henderson-Paradise, NV	1,515,899	188,203	71,449	64,013	323,664	21.4%