

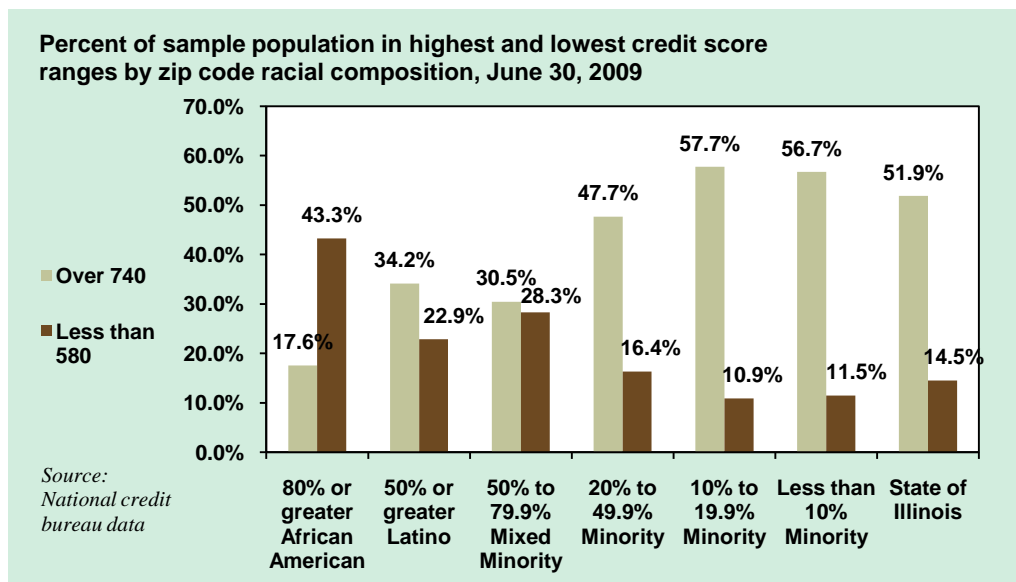


Bridging the Gap: Credit Scores and Economic Opportunity in Illinois Communities of Color

Key Points

- **In recent years, credit scores have assumed an increasingly prominent role in the lives of American consumers.** A credit score is a quantification of the likelihood that an individual will default on a credit obligation. Lenders will typically use credit scores to determine a consumer's creditworthiness as part of an automated underwriting process for a mortgage or a consumer loan.¹ Credit scores are also used to determine risk-based pricing premiums for credit, insurance, and utilities, and to predict behavior or character for screening potential tenants and employees. A low credit score, therefore, has increasingly far-reaching implications for individuals and their families beyond the ability to secure credit, and there are concerns that credit-underserved populations could experience increased barriers to accessing housing, insurance, or employment.
- **There are sharp disparities in credit characteristics between communities of color and white communities in Illinois.** Individuals living in communities of color were far more likely to have “non-prime” credit scores, while individuals in predominantly white communities were much more likely to have “prime” credit scores.
 - Statewide, 20.3 percent of people had credit scores below 620, a common boundary for consideration for prime credit. In contrast, 54.2 percent of the population in highly African-American neighborhoods had scores below 620 and only 16.5 percent of the population in predominantly white neighborhoods credit scores below 620.
- **There is tremendous polarization in credit score distributions.** In Illinois, highly African American communities were almost four times as likely to have individuals with credit scores in the lowest range as predominantly white communities, while predominantly white communities were more than three times as likely to have individuals with credit scores in the highest range as highly African American communities.

¹ Fishelson-Holstine, Hollis. “The Role of Credit Scoring in Increasing Homeownership for Underserved Populations.” Joint Center for Housing Studies (2004): 3. Web.



- **In Illinois' larger metropolitan areas, a large percentage of zip codes had high levels of individuals with low credit scores.** Almost twice as many zip codes in Chicago had more than a quarter of individuals with credit scores in the lowest range as zip codes in non-large-metro areas.
- **Low credit scores can negatively impact an individual's access to low-cost credit, as well as job prospects, housing opportunities, and affordable utilities and insurance.** Policymakers, neighborhood planners, and financial institutions may have to take different approaches in communities with high concentrations of individuals with low credit scores as lenders increasingly tighten underwriting criteria for home mortgage and small business loans:
 - **Support efforts to build credit for credit-underserved populations**—Resources and standard curriculum should be made available to credit counselors to help them reach individuals with low credit scores and help them build their credit.
 - **Use additional data to build credit**—In many cases, individuals have low credit scores not because of poor repayment history, but because of a lack of credit history in general. Reporting positive repayment histories as well as delinquencies would build credit more quickly and reward positive behaviors, while alternative data on repayment patterns can be utilized to capture the true default risk for individuals who have limited histories with traditional credit.
 - **Use manual, relationship-based underwriting for some transactions**—One way to ensure that borrowers with low credit scores have the opportunity to access to reasonably priced credit is to judiciously use manual underwriting in certain mortgage and small business lending transactions. Many community banks, credit unions, and community development financial institutions have, for years, worked closely with customers to make sure that borrowers who are good credit risks can still obtain responsible loans.