



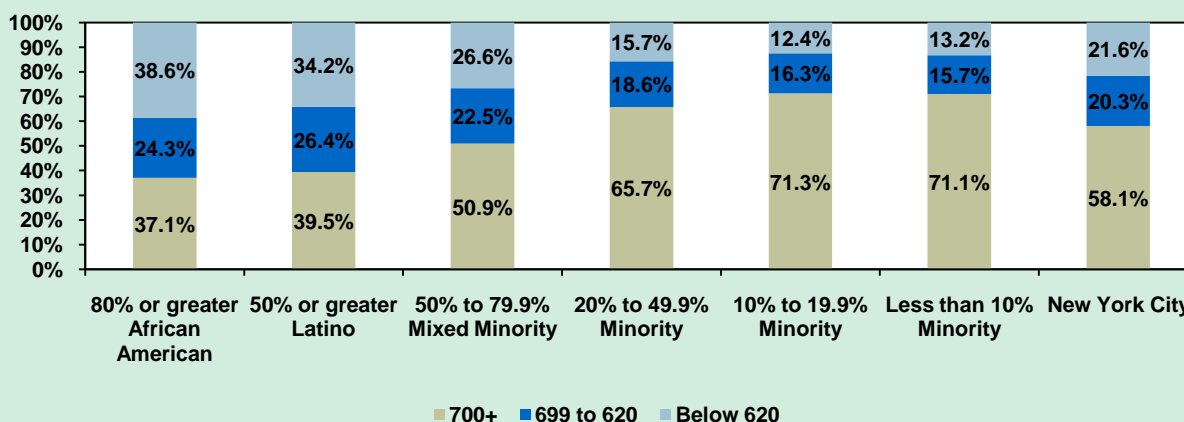
Fact Sheet: Understanding Credit Score Patterns in New York City

In recent years, credit scores have assumed an increasingly prominent role in the lives of American consumers. A credit score attempts to quantify the likelihood that an individual will default on a credit obligation. Lenders 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 Increasingly, credit scores and credit data have been 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. This has prompted concerns that credit-underserved populations could experience increased barriers to accessing housing, insurance, or employment.

The following analysis looks at zip code level credit score data for the five boroughs of New York City and examines geographic differences in credit scores by the zip code’s predominant race or ethnicity.² Findings show:

- **There are clear disparities in credit characteristics between communities of color and white communities in New York City.** 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. Table 1 shows that in New York City, 21.6 percent of people had credit scores below 620, a common boundary for consideration for prime credit. In contrast, 38.6 percent of the people in highly African-American neighborhoods had scores below 620. In majority Latino communities, 34.2 percent of individuals had credit scores below 620. In majority Latino communities, 34.2 percent of individuals had credit scores below 620. In predominantly white communities, only 13.2 percent had credit scores below 620. The geographic concentration of individuals with lower credit scores in communities of color is illustrated in Map 1.

Table 1. Distribution of individuals within credit score ranges by zip code racial composition, June 30, 2009

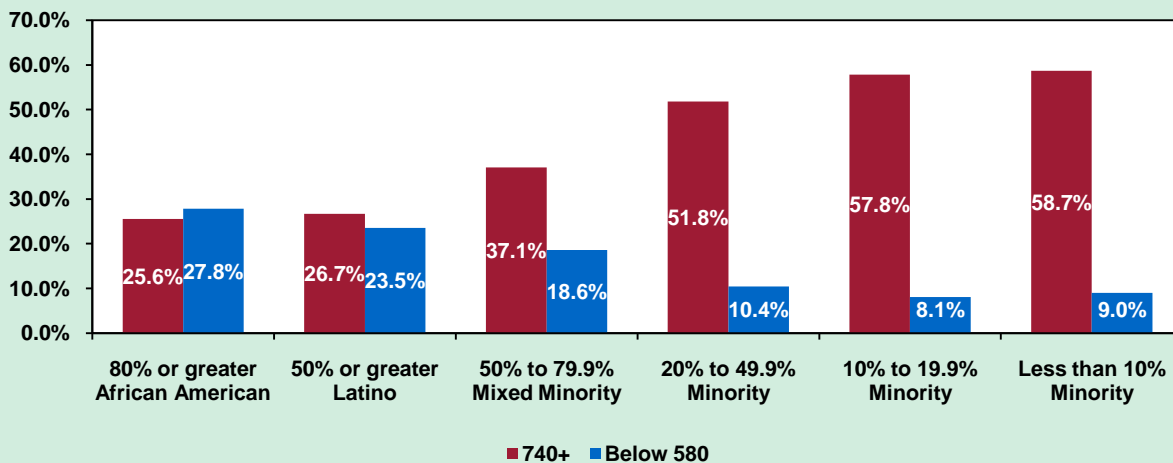


¹ Fishelson-Holstine, Hollis. “The Role of Credit Scoring in Increasing Homeownership for Underserved Populations.” Joint Center for Housing Studies (2004): 3. Web.

² This analysis uses zip code-level data from a large national credit bureau. The report analyzes the credit bureau’s general-purpose model that is designed to predict the likelihood of a consumer becoming seriously delinquent or worse. Scores range from 280 to 850 with the lowest scores being individuals at the highest risk of delinquency and the highest scores being individuals with the lowest risk of delinquency. The bureau’s model is based on the payment behavior of a representative national sample of consumers and considers a comprehensive set of over 400 consumer credit attributes covering key information relevant to risk-related behaviors. Demographic data on the estimated racial and ethnic composition of each zip code in 2009 was linked to each zip code.

- **There is tremendous polarization in credit score distributions.** Table 2 shows that in New York City, nearly 28 percent of individuals in highly African American communities had a credit score below 580, the lowest range. This was over three times the percentage of individuals in predominantly white communities in the same credit score range. However, nearly 59 percent of individuals in predominantly white communities had credit scores 740 or greater. This is a percentage more than twice as large as that found in predominantly African American communities.

Table 2. Percent of individuals in highest and lowest credit score ranges by zip code racial/ethnic composition, 2009



- **Low credit scores can negatively impact an individual’s access to low-cost credit, as well as job prospects, housing opportunities, affordable utilities, and insurance.** As lenders increasingly tighten underwriting criteria for home mortgage and small business loans, policymakers, neighborhood planners, and financial institutions focused on community development may have to take different approaches in communities with high concentrations of individuals with low credit scores. Additionally, policy makers should review the effect that low credit scores have on access to affordable utilities, insurance, rental housing, and employment. Some solutions to overcome barriers posed by low credit scores include:
 - **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. Additionally, financial institutions should consider more active promotion of credit builder loan products.
 - **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**— Many community banks, credit unions, and community development financial institutions use credit data, but not necessarily credit scores, to underwrite loans. These institutions work closely with their customers to make sure that borrowers who are good credit risks, but possibly have low credit scores, can still obtain responsible loans. From the experiences of these institutions, other lenders may be able to learn how to responsibly underwrite loans by using credit data beyond the credit score.

Map 1. Percent of Individuals in New York City Zip Codes with a Credit Score Below 620, June 30, 2009

