

Building a Bridge to Credit Visibility

A Report on the CFPB's September 2018 *Building a Bridge to Credit Visibility* Symposium



Consumer Financial
Protection Bureau

Message from Kathleen L. Kraninger

Director



Ensuring “fair, equitable, and nondiscriminatory access to credit” is a core mandate for the Consumer Financial Protection Bureau.

Under my leadership, the Bureau remains committed to expanding access to credit for creditworthy borrowers and knocking down the barriers that too often stand between consumers and financial opportunity. The *Building a Bridge to Credit Visibility* Symposium was a critical step toward addressing one of those barriers.

The Symposium was also a model for the thoughtful examination of issues and thorough exchange of ideas I intend to build upon as Director. My decisions will be informed by the best information and full range of perspectives available. Therefore, I remain dedicated to efforts like this one that expand the conversation around how the Bureau can best pursue this and every aspect of its responsibilities.

While the work represented here was performed before my arrival to the Bureau, I am proud to preside over the release of this Report.

Sincerely,

A handwritten signature in blue ink that reads "Kathleen L. Kraninger". The signature is fluid and cursive.

Kathleen L. Kraninger

Message from Patrice Alexander Ficklin

Fair Lending Director, CFPB

As part of the CFPB’s mission to ensure “fair, equitable, and nondiscriminatory access to credit,” on September 17, 2018, the Bureau hosted its first Symposium on credit invisibility and access to credit.



The CFPB’s research found that one-in-ten adults in the U.S., or 26 million people, are “credit invisible,” and that another 19 million adults in the U.S. have “unscorable” credit records. Together, this accounts for almost 20 percent of the entire U.S. adult population. Of course, our work is not limited to research. The CFPB also uses its supervisory and enforcement authority to root out redlining, which is an illegal practice where people living in a certain area or neighborhood are not given the same access to credit as people in other areas or neighborhoods on the basis of race, color, or for some other prohibited reason. Though the practice has been illegal for decades, it still goes on today.

This research inspired the theme of the Symposium, *Building a Bridge to Credit Visibility*, focusing on innovative ways that lenders and other stakeholders are providing affordable and sustainable credit to that “invisible” population. The September 2018 Symposium was the first in a planned series of events aimed at fostering productive conversations about expanding access to responsible credit for underserved consumers and small businesses. In an effort to better understand credit invisibility, in conjunction with the Symposium, the Bureau published a new data point, *The Geography of Credit Invisibility*, which takes a closer look at the relationship between geography and access to credit.

The Report provides an overview of the Symposium’s content and key takeaways from the many industry, consumer, civil rights, academic, and regulatory agency experts that served as speakers, panelists, and participants.

The CFPB is committed to continue convening conversations about fair, equitable, and nondiscriminatory access to credit, and to using what we learn from these events to inform our work. We, along with the Bureau's Office of Innovation and other colleagues, will call attention to innovative products and services being offered all across the country, particularly those that endeavor to expand access to credit for consumers, small business owners, and entrepreneurs. We also intend to continue to seek input from a diverse spectrum of stakeholders who work to expand credit access, and share what we learn with the public. To that end, I am excited to share this Report on the Bureau's September 2018 *Building a Bridge to Credit Visibility* Symposium.

Sincerely,

A handwritten signature in dark ink, reading "Patrice Alexander Ficklin". The signature is written in a cursive, flowing style.

Patrice Alexander Ficklin

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1. Introduction¹

The Consumer Financial Protection Bureau (CFPB or Bureau) is the Nation’s Federal agency whose sole mission is focused on consumer financial protection and making consumer financial markets work for all Americans. The Bureau is responsible for fair lending, by providing oversight and enforcement of Federal laws intended to ensure “fair, equitable, and nondiscriminatory access to credit for both individuals and communities.”²

The CFPB reported, in a series of publications,³ that roughly 20 percent of the adult population have no credit records or very limited credit records with the three Nationwide Credit Reporting Agencies (NCRAs). As a result, these “credit invisible” and “unscorable” consumers are unable to fully participate in the credit marketplace.⁴ This can limit their ability to withstand financial shocks and achieve financial stability.⁵

In September 2018, the Bureau convened its first fair lending Symposium to address the issue of access to credit, entitled *Building a Bridge to Credit Visibility*. The Symposium was attended, both in-person and via web-based livestream video, by hundreds of stakeholders from industry, government, think tanks, academia, and consumer advocacy and civil rights organizations, representing a diverse range of experiences and perspectives. Panelists discussed strategies and innovations that could help credit invisible and unscorable consumers overcome barriers to, and expand, credit access. The Symposium was held at CFPB headquarters in Washington, D.C.

The Bureau’s *Building a Bridge to Credit Visibility* Symposium added to the growing body of knowledge on the credit invisible population. The Symposium, and the *Geography of Credit*

¹ This Report includes references to third-party resources or entities that consumers may find helpful. By referencing these third-parties, the Bureau is not endorsing and has not vetted them, the views they express, or the products or services they offer.

² 12 U.S.C. § 5493(c)(2)(A).

³ See CFPB Data Point: *Becoming Credit Visible* (June 2017), s3.amazonaws.com/files.consumerfinance.gov/f/documents/BecomingCreditVisible_Data_Point_Final.pdf; CFPB, *Who Are the Credit Invisibles? How to Help People with Limited Credit Histories* (Dec. 2016), s3.amazonaws.com/files.consumerfinance.gov/f/documents/201612_cfpb_credit_invisible_policy_report.pdf; CFPB, *Data Point: Credit Invisibles* (May 2015), files.consumerfinance.gov/f/201505_cfpb_data-point-credit-invisibles.pdf.

⁴ See *Who Are the Credit Invisibles? How to Help People with Limited Credit Histories* (Dec. 2016), at 7, s3.amazonaws.com/files.consumerfinance.gov/f/documents/201612_cfpb_credit_invisible_policy_report.pdf

⁵ See *id.*

Invisibility data point⁶ released in conjunction with the Symposium, provided a platform where industry, consumer and civil rights advocates, regulators, researchers, and other stakeholders could raise awareness of the issues that credit invisible and unscorable consumers may face, learn more about innovation that is happening in these spaces, and shape plans for how to continue to increase access to credit going forward.⁷ Major topic areas included:

- Exploring entry products that may address credit invisibility while preparing the consumer for financial success.
- Identifying potential barriers and solutions to accessing credit in microenterprise and small business lending.
- Considering the role that alternative data and modeling techniques may play in expanding access to traditional credit.

This Report summarizes each portion of the Symposium and identifies key themes that may be of interest to stakeholders, including policy-makers. The summaries contained herein reflect the remarks and views of the various panelists, and not the official viewpoint or endorsement of the Bureau. A [video recording](#) of the Symposium, with closed captions, is available on the Bureau's website.⁸

⁶ See CFPB, *Data Point: The Geography of Credit Invisibility* (Sept. 2018), s3.amazonaws.com/files.consumerfinance.gov/f/documents/bcfp_data-point_the-geography-of-credit-invisibility.pdf.

⁷ The agenda for the Symposium is appended to this Report. See Appx. A, p. 25.

⁸ See www.consumerfinance.gov/about-us/events/archive-past-events/building-bridge-credit-visibility/.

2. Panel Discussions

At the Symposium, a number of stakeholders took part in substantive panel discussions. Those panel discussions are summarized below.

2.1 CRED Talks

During this panel each speaker delivered a short talk on issues such as credit invisibility, lending deserts, and innovation to expand access to credit (CRED Talks). Speakers included Samantha Vargas Poppe, Director of the Policy Analysis Center, UnidosUS; Marla Blow, Founder and CEO, FS Card, Inc.; Ken Brevoort, Section Chief, Credit Information Policy Section, Office of Research, CFPB; and Ida Rademacher, Vice President, Aspen Institute and Executive Director, Aspen Financial Security Program.

The ability to access credit is a critical component for families and individuals nationwide to have the opportunity to climb the economic ladder, exercise informed consumer choice, build wealth, and achieve economic stability. During this panel, a panelist representing UnidosUS, a Latino nonprofit organization, explained that access to credit can affect consumers' daily lives in many ways, and often means the difference between economic opportunity and fragility. According to this panelist, access to credit affects where consumers reside, work, and go to school; it may also have lasting generational effects.

As reported by the Bureau, however, the inability to access the traditional credit system remains a challenge. Consumers with limited credit histories fall into two main groups. "Credit invisibles" are consumers who do not have a credit record with the NCRAs.⁹ As of 2010, 11 percent of the adult population, or 26 million people, were credit invisible.¹⁰ Another group consists of consumers who have limited credit records with the NCRAs, but the records are deemed "unscorable" because they (i) consist of stale accounts (*i.e.*, no recently reported activity) or (ii) contain too few accounts or accounts that are too new to be reliably scored.¹¹ As

⁹ See CFPB, *Data Point: Credit Invisibles* (May 2015), at 4, files.consumerfinance.gov/f/201505_cfpb_data-point-credit-invisibles.pdf.

¹⁰ See *id.* at 6.

¹¹ See *id.* at 4.

of 2010, approximately 19 million people, or 8.3 percent of the adult population, had “unscorable” credit records.¹²

Credit invisibility and unscorable¹³ credit records affect some segments of the population more than others. About fifteen percent of Blacks and Hispanics are credit invisible compared to roughly 10 percent of Whites and Asians.¹⁴ Thirteen percent of Blacks and 12 percent of Hispanics have unscorable credit records compared to about 7 percent of Whites and close to 8 percent of Asians.¹⁵ In addition, young consumers are more likely to be credit invisible.¹⁶

The panelist representing UnidosUS shared how specific obstacles may prevent some Hispanic consumers, in particular, from transitioning to credit visibility. According to this panelist, some Hispanic consumers may be caught in a “Catch-22” situation where they cannot access credit without a credit record, but they cannot establish a credit record without access to credit. In addition, a lack of bank branches in some Hispanic neighborhoods may be a factor; this panelist observed a correlation between the number of bank branches in a neighborhood and the racial or ethnic makeup of that neighborhood. Finally, this panelist noted that new immigrants start as credit invisible when they come to this country. She explained that alternative forms of identification that immigrants might have access to—such as Individual Taxpayer Identification Numbers (ITINs)—may not be readily accepted by some financial services providers, limiting their ability to obtain credit from the financial institution.

A panelist representing the Aspen Institute discussed how the first experience a consumer has with credit may have lasting ramifications. She explained that a consumer whose first reported activity is her credit card repayment activity, for instance, may be in a better position to access credit in the future than a consumer whose first reported activity is a debt-collection-related activity—*e.g.*, for health-care-related credit. This panelist highlighted the fact that, as also borne out by the CFPB’s research,¹⁷ consumers in low-income households are much more likely than

¹² See *id.* at 6.

¹³ For purposes of this Report, references to “credit invisible” consumers hereinafter refers to both credit invisible consumers and unscored/unscorable consumers.

¹⁴ See CFPB, *Who Are the Credit Invisibles? How to Help People with Limited Credit Histories* (Dec. 2016), at 4, s3.amazonaws.com/files.consumerfinance.gov/f/documents/201612_cfpb_credit_invisible_policy_report.pdf.

¹⁵ See *id.*

¹⁶ See *id.* at 5.

¹⁷ See CFPB Data Point: *Becoming Credit Visible* (June 2017), at 18, s3.amazonaws.com/files.consumerfinance.gov/f/documents/BecomingCreditVisible_Data_Point_Final.pdf.

consumers in high-income households to enter credit visibility as a result of a third-party debt collector reporting information about unpaid debts to consumer reporting agencies.

Another panelist, the Section Chief in the Bureau's Office of Research, discussed what researchers currently understand about credit invisibility, while acknowledging that further research into the area may be needed. For instance, according to this panelist, the prevalence of credit invisibility varies by geography. This panelist observed how (as also reported by the Bureau at the Symposium in a data point¹⁸ released on the same day as the event) in urban parts of the country, for instance, residents of low-to-moderate income (LMI) neighborhoods have higher rates of credit invisibility than residents of middle- or upper-income neighborhoods.¹⁹ He further explained that the highest rates of credit invisibility are observed among residents of rural areas of the U.S., but they do not vary much by income; residents of high-income rural areas have credit invisibility rates that are similar to those found among residents of LMI or middle-income rural areas.²⁰

"22 percent of individuals from low-income households enter credit visibility via debt and collections."²¹

The panelist representing UnidosUS also addressed potential strategies for successfully lending to consumers who may otherwise be shut out of the credit system. According to this panelist, this may include establishing partnerships between financial services providers and mission-oriented groups, and furthering innovation in expanding access to credit. This panelist also emphasized the importance of providing financial coaching to members of the credit invisible population; consumers who are new to the system or who have had limited experience with credit may be better positioned to succeed when they have the information and tools to understand how credit products work and can best help them achieve their goals. There was agreement among the panelists, including the panelist representing FS Card, Inc., that further efforts to understand the unique experiences of the credit invisible population may be needed, with one panelist noting that direct engagement and dialogue with members of this population may be key.

¹⁸ See CFPB, *Data Point: The Geography of Credit Invisibility* (Sept. 2018), s3.amazonaws.com/files.consumerfinance.gov/f/documents/bcfp_data-point_the-geography-of-credit-invisibility.pdf; see also Ken Brevoort and Patrice Ficklin, *New Research Report on the Geography of Credit Invisibility* (Sept. 19, 2018), www.consumerfinance.gov/about-us/blog/new-research-report-geography-credit-invisibility/.

¹⁹ See *id.* at 11–12.

²⁰ See *id.* at 12. The charts accompanying this portion of the panel discussion are reproduced at the end of this Report. See Appx. B, p. 29.

²¹ Ida Rademacher, Aspen Inst., *Building a Bridge to Credit Visibility* Symposium (Sept. 17, 2018).

And finally, the panelist representing the Aspen Institute, in providing context for the experience of credit invisibles, raised the need to tackle the role of debt in the lives of consumers. This panelist analogized credit to water, noting that during natural disasters like hurricanes and floods, although water itself may be extremely prevalent, clean and safe water is often a scarcity. She suggested that a similar dynamic may exist within the credit marketplace—that is, some consumers might find themselves awash in risky credit but unable to access safe—or “potable”—credit. And she urged Symposium participants to work toward increasing the supply of potable credit.

2.2 Bridging to Credit Visibility Using Innovative Products

During this panel, panelists explored questions related to entry products that may bridge consumers to credit visibility while also preparing them for financial success. Speakers included James Garvey, CEO and Co-Founder, Self Lender; Dara Duguay, Executive Director, Credit Builders Alliance; Matt Hull, Executive Director, Texas Association of Community Development Corporations; and Larry Santucci, Senior Research Fellow, Philadelphia Federal Reserve Consumer Finance Institute.

As previously reported by the Bureau, a credit record is created for a consumer when a tradeline, collection account, or public record is reported to or obtained by an NCRA.²² NCRA records are often used by lenders when making credit decisions.²³ If a consumer does not have a record with an NCRA or if they have only a limited credit history, a lender is less likely to extend credit to that consumer.²⁴ Sometimes these consumers turn to less traditional, higher-cost credit products with less favorable terms.²⁵ Credit invisible consumers may also face difficulties in other areas of their lives.²⁶ Though initially developed as a method for helping lenders make credit decisions, the use of credit records has expanded beyond lending; for example, credit

²² See CFPB Data Point: *Becoming Credit Visible* (June 2017), at 11, s3.amazonaws.com/files.consumerfinance.gov/f/documents/BecomingCreditVisible_Data_Point_Final.pdf.

²³ See CFPB, *Data Point: Credit Invisibles* (May 2015), at 4, files.consumerfinance.gov/f/201505_cfpb_data-point-credit-invisibles.pdf.

²⁴ See *id.*

²⁵ See CFPB, *Who Are the Credit Invisibles? How to Help People with Limited Credit Histories* (Dec. 2016), at 7, s3.amazonaws.com/files.consumerfinance.gov/f/documents/201612_cfpb_credit_invisible_policy_report.pdf.

²⁶ See *id.*

histories can be used as a factor in leasing an apartment, determining car insurance premiums, and obtaining a cellphone.²⁷

As one panelist explained during an earlier discussion, for many credit invisible consumers, lack of a credit record means they cannot access credit—but without credit they are unable to establish a credit record. Still, data show that some credit invisible consumers do make the transition to credit visibility.²⁸ “Entry products” may be a key component to helping consumers establish a positive credit record and successfully transition to credit visibility.

As the Bureau’s research shows, across all age groups and income levels, credit cards are the most common entry product used by consumers who successfully transition out of credit invisibility to become credit visible.²⁹ The CFPB’s research reports that this is somewhat less true for consumers who become credit visible in rural areas of the country.³⁰ The Bureau’s research also shows that proximity to a bank increases the likelihood that consumers will use a credit card as an entry product; however, this does not hold true in rural areas.³¹ After credit cards, the most common entry products appear to be auto loans and student loans.³²

Most consumers are credit invisible at age 18, but many transition to visibility by age 25—often through the use of credit cards.³³ Some consumers, however, remain credit invisible past the age of 25.³⁴ During this panel, panelists discussed some specific products or methods that have successfully been used by these “older” credit invisible consumers as entry products for transitioning to credit visibility.

²⁷ See *id.*

²⁸ See, e.g., CFPB Data Point: *Becoming Credit Visible* (June 2017), at 4, s3.amazonaws.com/files.consumerfinance.gov/f/documents/BecomingCreditVisible_Data_Point_Final.pdf.

²⁹ See *id.* at 14.

³⁰ See CFPB, *Data Point: The Geography of Credit Invisibility* (Sept. 2018), at 13–14, s3.amazonaws.com/files.consumerfinance.gov/f/documents/bcfp_data-point_the-geography-of-credit-invisibility.pdf.

³¹ See *id.* at 17–18.

³² See, e.g., CFPB Data Point: *Becoming Credit Visible* (June 2017), at 14, s3.amazonaws.com/files.consumerfinance.gov/f/documents/BecomingCreditVisible_Data_Point_Final.pdf.

³³ See *id.* at 4–5.

³⁴ See CFPB, *Who Are the Credit Invisibles? How to Help People with Limited Credit Histories* (Dec. 2016), at 5, s3.amazonaws.com/files.consumerfinance.gov/f/documents/201612_cfpb_credit_invisible_policy_report.pdf.

Some panelists observed that secured credit cards may be one such product. One panelist noted, however, that secured credit cards may be under-utilized, perhaps because the requirement to put down a security deposit is an obstacle for low-income consumers. Another panelist observed that some financial services providers do not actively market prime secured credit cards. Other products or methods that consumers have historically used to enter credit visibility, according to panelists, include student credit cards, student loans, and “piggybacking”—that is, becoming a joint account holder or an authorized user on another individual’s account.³⁵

Some panelists also noted that some currently available products may not be appropriate vehicles for transitioning to credit visibility. For example, because data concerning pre-paid cards is not reported to the NCRAs, users do not build up a credit profile by using these cards; one panelist, representing the Philadelphia Federal Reserve Consumer Finance Institute, noted that this may be a source of confusion for consumers as they try to make informed choices. This panelist also observed that marketplace lenders often require consumers to have a minimum FICO score, making their product offerings potentially ill-suited for use as an entry product.

The panelists discussed strategies that may help some consumers make the transition to credit visibility. For example, one panelist, representing the Credit Builders Alliance, described how rent payment data has successfully been used to bring some consumers into credit visibility by supplementing information available on their credit reports, as it provides an additional perspective on financial behavior. Another effort described by the panelist from the Philadelphia Federal Reserve Consumer Finance Institute involves converting consumers’ credit bureau data from other countries into a credit score that is comparable to scores that are widely used in the U.S., which may be helpful for immigrants. Credit-builder loans³⁶ and topical-specific loans, such as re-entry loans, bail loans, immigration loans, housing stability loans, and assistive technology loans, were also discussed by some panelists as successful products that may increase credit visibility among underserved populations. Finally, the panelist representing the Credit Builders Alliance noted that at least one lender offers a secured credit card where the consumer can pay the security deposit securing the credit card in installments.

³⁵ Piggybacking tends to be observed mainly among higher-income new-to-credit consumers.

³⁶ “A credit builder loan holds the amount borrowed in a bank account while you make payments, building credit. When the loan is paid off, the money is released to you.” www.nerdwallet.com/blog/finance/what-is-credit-builder-loan/.

Panelists noted that viable entry products share a few common characteristics:

- understandable terms;
- fair pricing and no unnecessary features;
- reported to the NCRAs;
- easy and convenient repayment options; and
- access to information and services to increase consumer choice by helping consumers make informed decisions, such as through financial education, financial counseling, or coaching.

“As soon as you make a fairly priced alternative inconvenient, our borrowers will typically go to a higher cost lender because it’s more convenient for them.”³⁷

During the panel, panelists discussed the “business case” for offering entry products. Expanding access to credit may benefit both consumers and financial services providers; consumers may benefit by having access to credit that best meets their needs or situation, and by offering credit products that can serve as an “on-ramp” to consumers seeking to transition to credit visibility, financial services providers establish relationships with borrowers that may lead to subsequent and more profitable future transactions. One panelist, representing Self Lender, acknowledged, however, that many large financial services providers want to offer entry products, such as small-dollar loans, but may find that the expenses associated with these activities, such as servicing costs, can make such offerings unprofitable given their relatively small size.

The panelist from the Credit Builders Alliance described how non-profit groups have provided entry small dollar loan products, leveraging partnerships with larger lenders or local Community Development Financial Institutions (CDFIs) to provide small-dollar loans to consumers that are often coupled with financial education. Panelists further described how non-profits serving the credit needs of borrowers who may be underserved by larger financial institutions have lowered the costs associated with making and servicing loans by, for example, building their own infrastructure (*e.g.*, loan servicing software) and seeking access to subsidized capital from banks and social investors.

Panelists described some providers that are active in this area, such as non-profit lenders and CDFIs. For example, one panelist representing the Community Loan Center of America discussed his program, which is an online, employer-based, small-dollar lending platform available to employees of participating employers through 20 franchised, mission-driven local lenders. Another panelist, from Credit Builders Alliance, offered her view that non-profit groups

³⁷ Matt Hull, Tex. Ass’n of of Cmty. Dev. Corps., *Building a Bridge to Credit Visibility* Symposium (Sept. 17, 2018).

began making small-dollar loans because the community members they serve were unable to get credit elsewhere. This panelist addressed the fact that consumers who might benefit from having access to these non-profit lenders may not be aware they exist, given that non-profit organizations often lack advertising budgets. Therefore, she called for raising awareness among potential users about these types of lenders and unique partnerships.

2.3 Credit Products and Services for Microenterprise

During this panel, panelists focused on identifying barriers and solutions to accessing credit in the small business lending space, and discussed the roles played by different stakeholders in this space. Speakers included Daniel Upham, Acting Director, Office of Economic Opportunity, U.S. Small Business Administration (SBA); Tiq Chapa, Director for External Relations, Latino Business Action Network; Galen Gondolfi, Senior Loan Counselor and Chief Communications Officer, Justine PETERSEN; and Rajitha Swaminathan, Director of Programs, Grameen America, Inc.

According to the SBA, fifty percent of people employed in the U.S. are employed by small businesses, and small businesses create roughly two-third of new jobs in the U.S. economy.³⁸ The ability of small business owners and entrepreneurs to access credit in order to start and grow their businesses is, therefore, important to the strength of the U.S. economy.³⁹ For a consumer who is (or hopes to become) a small business owner or entrepreneur, their *personal* creditworthiness may be critical to the ability of their business to access credit.⁴⁰ For these consumers, then, credit invisibility in particular may present a challenge to achieving their dreams as small business owners and entrepreneurs.

A representative from the SBA's Office of Economic Opportunity described the SBA's Microloan Program.⁴¹ According to the panelist, this small-dollar lending program works with mission-based lenders and non-profit lenders to provide capital, as well as counseling, training, and

³⁸ See Office of Advocacy, Small Bus. Admin., Frequently Asked Questions (Sept. 2012), www.sba.gov/sites/default/files/FAQ_Sept_2012.pdf.

³⁹ See JAMES J. ANGEL, CTR. FOR CAPITAL MARKETS COMPETITIVENESS, IMPACT OF BANK REGULATION ON BUSINESS LENDING: RESTORING SMALL BUSINESS LENDING 5 (Fall 2018), www.centerforcapitalmarkets.com/wp-content/uploads/2018/09/CCMC_RestoringSmallbizLendingReport_9.10.18-1.pdf

⁴⁰ See *id.* at 7 (“[O]btaining credit as a business is so difficult that the majority (87%) of small business employers rely on their owner’s credit score in order to obtain credit.”).

⁴¹ See Microloan Program, U.S. Small Bus. Admin., www.sba.gov/loans-grants/see-what-sba-offers/sba-loan-programs/microloan-program%20 (last visited Dec. 31, 2018).

technical assistance, to small business owners and entrepreneurs. This panelist explained how, in addition to the capital offered through the program, counseling, training, and technical assistance are also made available to small business owners and entrepreneurs, in order to increase the likelihood of success as small businesses are started and grown. The panelist clarified that SBA does not set credit standards itself; rather, intermediary lenders working with the agency, such as fellow panelists from Grameen America, Inc. and Justine PETERSEN, set credit standards, allowing for flexibility in extending credit to small businesses whose owners and entrepreneurs may themselves be credit invisible.

Panelists also discussed two examples of mission-based lenders or non-profit lenders that participate in SBA's Microloan Program. First, a representative from Grameen America, Inc. described her organization, which makes microloans to female entrepreneurs seeking to start or maintain a small business.⁴² A key theme touched upon by panelists during this segment of the panel discussion was "social capital." Rather than relying on traditional indicia of creditworthiness, such as a credit record, Grameen America, Inc. considers, for example, whether a group of individuals will vouch for a potential borrower and her business; a borrower's behavior and level of engagement is also critical to Grameen America, Inc.'s decision-making process. The Grameen America, Inc. representative described how borrowers participating in Grameen America, Inc.'s program establish credit records with the NCRAs. She noted that after only six months participating in the Grameen America, Inc. program, the average personal credit score for a borrower/entrepreneur is around 640. As a result, borrowers may be able to successfully establish a relationship with mainstream financial services providers, be approved for rental housing, or obtain financing for a vehicle.

A representative from another participant in SBA's Microloan Program, Justine PETERSEN, described his organization. A key theme touched upon by panelists during this segment of the discussion was the importance of dialogue and high-level engagement with borrower/entrepreneurs, and trust. Justine PETERSEN takes what it describes as a "clinical" approach to evaluating and understanding borrower/entrepreneurs, and through conversations develops a thorough understanding of the business' needs. According to the panelist, clients of the organization report referring friends,

"Most of our clients have told us that, you lent us money, you trust us, and that's why they referred a friend, neighbor, or relative."⁴³

⁴² According to Grameen America, Inc.'s website, "Grameen America, Inc. offers loans as a 'special purpose credit program' under the Federal Equal Credit Opportunity Act for the benefit of economically disadvantaged women who are interested in funding a small business and who agree to maintain the discipline that our lending model requires." Grameen America, FAQ, www.grameenamerica.org/faq (last accessed Feb. 20, 2019).

⁴³ Galen Gondolfi, Justine PETERSEN, *Building a Bridge to Credit Visibility* Symposium (Sept. 17, 2018).

neighbors, or relatives to the organization based on the trust Justine PETERSEN has established with those clients. Lastly, he observed that the importance of the small-dollar loans that small business owners and entrepreneurs receive by working with Justine PETERSEN may be less important than the credit enhancement they obtain as a result of the reporting of their repayment history to the NCRAs and resulting establishment of or improvement to their personal credit record.

A representative from the Latino Business Action League, which is a partnership of hundreds of Latino small businesses, discussed the work that the Latino Business Action League conducts, including research and executive education. This panelist discussed challenges Latino small business owners and entrepreneurs may face, including those presented by language barriers or immigration status. The panelist noted that lenders seeking to form relationships with small business owners and entrepreneurs with limited English proficiency may more easily establish trust with these groups by employing staff who speak the language with which small business owners and entrepreneurs are most proficient.

The panelist representing the Latino Business Action League also noted the lack of available research in the area of small business capital needs, particularly among minority small business owners and entrepreneurs, and called for additional research to be undertaken in this area. Additional themes touched upon by panelists during this discussion included the need to foster digital inclusion and address specific challenges that borrowers with limited English proficiency or immigrant status may face. These panelists stressed that “high-touch” relationships between lenders and small business owners and entrepreneurs may be key to successful lending relationships.

2.4 Alternative Data: Innovative Products and Solutions

During this panel, participants discussed the role alternative data and modeling techniques may play in expanding access to traditional credit. Speakers included Jason Gross, Co-Founder and CEO, Petal; Eric Kaplan, Director, Housing Finance Program, Center for Financial Markets, Milken Institute; Melissa Koide, CEO, FinRegLab; and Andrea V. Arias, Attorney, Division of Privacy and Identity Protection, Bureau of Consumer Protection, Federal Trade Commission (FTC).

For some credit invisible consumers, the use of unconventional sources of information, or “alternative data,” may be a way to become credit visible.⁴⁴ As recognized by the Bureau, but also discussed by a panelist representing FinRegLab, alternative data draws from sources such as bill payments for mobile phones, utilities and rent, and electronic transactions such as deposits, withdrawals, or transfers.⁴⁵ Alternative data might also draw from “big data”—which one governmental report referred to as “the nearly ubiquitous collection of consumer data from a variety of sources.”⁴⁶

For credit invisible consumers, this information could evince a history of meeting financial obligations that may not be documented in a standard credit record.⁴⁷ As a result, some consumers who cannot today get reasonably priced credit may see greater access to credit or lower borrowing costs when these additional data are considered. Alternative data may also present risks to consumers, however, including the risk that the data is, among other things, inconsistent, incomplete, or inaccurate.⁴⁸ Such flaws may adversely affect credit access for low-income and underserved populations.

One panelist represented a financial services provider that uses alternative data: Petal. According to this panelist, Petal utilizes “cash-flow data” for underwriting purposes. The panelist explained that cash-flow data is information that is contained in a consumer’s checking or savings account statements; Petal uses a consumer-permissioned, digital form of this type of data through a third party data aggregator. This panelist felt that the data used by Petal is reliably accurate, given that it comes from a source with a vested interest in ensuring the

⁴⁴ See Brian Kreiswirth *et al.*, CFPB, *Using Alternative Data to Evaluate Creditworthiness* (Feb. 16, 2017), www.consumerfinance.gov/about-us/blog/using-alternative-data-evaluate-creditworthiness/ (“Using alternative data has the potential to help expand responsible access to credit among the estimated 45 million people who lack a traditional credit score.”).

⁴⁵ See *generally* CFPB, Request for Information Regarding Use of Alternative Data and Modeling Techniques in the Credit Process, 82 Fed. Reg. 11,183 (Feb. 21, 2017).

⁴⁶ Fed. Trade Comm’n, *Big Data: A Tool for Inclusion or Exclusion?* (Jan. 2016), at 1, www.ftc.gov/system/files/documents/reports/big-data-tool-inclusion-or-exclusion-understanding-issues/160106big-data-rpt.pdf; see also Exec. Office of the Pres., *Big Data: Seizing Opportunities, Preserving Values* (May 2014), at 2–3, obamawhitehouse.archives.gov/sites/default/files/docs/big_data_privacy_report_may_1_2014.pdf (“[B]ig datasets are large, diverse, complex, longitudinal, and/or distributed datasets generated from instruments, sensors, Internet transaction, email, video, click streams, and/or all other digital sources available today and in the future.”) (internal quotation marks omitted).

⁴⁷ See Brian Kreiswirth *et al.*, CFPB, *Using Alternative Data to Evaluate Creditworthiness* (Feb. 16, 2017), www.consumerfinance.gov/about-us/blog/using-alternative-data-evaluate-creditworthiness/ (“For example, someone without a loan repayment history on their credit report might pay other bills or recurring charges on a regular basis. These bill payment histories might demonstrate to some lenders that the person will repay a debt as agreed.”).

⁴⁸ See Request for Information Regarding Use of Alternative Data and Modeling Techniques in the Credit Process, 82 Fed. Reg. at 11,187.

accuracy of its data—namely, bank account providers. He noted that this type of data is available to many consumers, including some consumers who are otherwise credit invisible—and therefore may potentially expand access to credit.

Panelists also discussed the general benefits and risks that may arise from the use of alternative data. First, outside the credit context, one panelist representing the FTC noted that the potential benefits associated with the use of alternative data may include even the enhanced tailoring of healthcare to specific populations, particularly in rural and low-income areas. The panelist next discussed the potential benefits associated with the use of alternative data as it pertains specifically to access to credit. Alternative data may expand access to credit for the credit invisible population while potentially lowering the cost of credit for other consumers. Another panelist, representing the Milken Institute, seconded the potential for alternative data to benefit credit invisible consumers.

Some of the panelists acknowledged that the use of alternative data is not without risk. Specifically, the panelist from the FTC noted that some consumers may be denied opportunities based on activities that lack a logical nexus to creditworthiness or based on common actions by groups of other consumers. According to a report from the FTC, for instance, “one credit card company settled FTC allegations that it failed to disclose its practice of rating consumers as having a greater credit risk because they used their cards to pay for marriage counseling, therapy, or tire-repair services, based on its experiences with other consumers and their repayment histories.”⁵⁰ In addition, alternative data may be used to target vulnerable consumers. According to the FTC’s report, “unscrupulous companies can obtain lists of people who reply to sweepstakes offers and thus are more likely to respond to enticements, as well as lists of ‘suffering seniors’ who are identified as having Alzheimer’s or similar maladies.”⁵¹ Lastly, alternative data may create or reinforce existing disparities. At least one panelist, from Petal, questioned whether it is appropriate for financial services providers to make decisions based on, for example, a consumer’s Internet search history or social media usage.

“We have to understand that alternative credit data may also remove a creditworthy stamp from certain borrowers as well.”⁴⁹

At least one panelist, representing the FTC, also discussed the fact that consumers may find it very challenging to dispute inaccuracies in alternative data. According to the panelist, this may

⁴⁹ Eric Kaplan, Milken Inst., *Building a Bridge to Credit Visibility* Symposium (Sept. 17, 2018).

⁵⁰ Fed. Trade Comm’n, *Big Data: A Tool for Inclusion or Exclusion?* (Jan. 2016), at 9, www.ftc.gov/system/files/documents/reports/big-data-tool-inclusion-or-exclusion-understanding-issues/160106big-data-rpt.pdf.

⁵¹ *Id.* at 10.

be due to the fact that it can be difficult to identify the source of any inaccuracies in alternative data, much less dispute it. This panelist emphasized that while alternative data can be used to expand credit access to credit invisible consumers, it can also function in the reverse—namely, alternative data may result in a consumer being deemed not creditworthy even though under a traditional scoring model the consumer would be considered creditworthy.

Lastly, a panelist from the FTC discussed the FTC’s report on “big data.”⁵² Again, alternative data may include the use of big data, which draws from large datasets built upon information about many forms of consumer behavior and activity, including sources that traditionally are not reported to the NCRAs.⁵³ The FTC’s report highlighted risks that may be associated with the use of big data, and provided guidance to market actors considering using such data. According to the report, the use of big data might lead to more individuals mistakenly being denied opportunities based on information related to the actions of others, and may create or reinforce existing disparities if the information contained in the datasets itself reflects discrimination or bias. Finally, it reported that the use of big data could result in higher-priced goods and services for lower-income communities and may weaken the effectiveness of consumer choice.

⁵² *See id.*

⁵³ *See supra* note 46 and accompanying text.

3. Keynote Addresses and “Fireside Chat”

At the Symposium, Jacqueline Reses from Square, Inc. and Square Capital (“Square”) gave the keynote address. Later in the day, Paul Watkins, Assistant Director of the Bureau’s Office of Innovation, shared his vision for the new office. Finally, Bureau leaders ended the Symposium with a “fireside chat,” highlighting key themes from the day and exploring the ways the CFPB’s mission provides the Bureau with tools to engage on these issues.

Following her introduction by the Bureau’s Acting Deputy Director, Brian Johnson, Jacqueline Reses, Square Capital Lead, delivered the lunchtime keynote address. Her description of Square’s work highlighted for participants the importance of innovation in expanding access to credit. Through the innovative use of payment data, she reported that Square has been able to serve the capital needs of small business owners and entrepreneurs who might otherwise be unable to access credit, including businesses located in rural areas as well as small, women-owned, and minority-owned businesses. She stated that Square’s reported success shows that making small-dollar loans to underserved businesses can be a profitable and sustainable business model.

Paul Watkins, the Assistant Director of the Bureau’s Office of Innovation, in his first public address as Innovation chief, described for participants his vision for the Bureau’s newly created office. He emphasized the importance of access, choice, and competition. He discussed ongoing innovations in the space, including the use of alternative data and marketplace lending.

Finally, a few officials from the Bureau ended the day with a “fireside chat.” These Bureau leaders discussed unique ways in which the offices they oversee can support innovation to expand access to credit. Patrice Ficklin, the Bureau’s Fair Lending Director, reminded industry about existing opportunities for furthering responsible, consumer-friendly innovation, through the use of tools such as No-Action Letters and Special Purpose Credit Programs. Will Wade-Gery, Director of the Bureau’s Card, Payment, & Deposit Markets Office, explained that his office holds frequent conversations with market participants, outside of the enforcement or supervisory context, and this dialogue can serve as a sounding board for exploring innovative developments. Grady Hedgespeth, who leads the Bureau’s Small Business Lending Markets

Office, underscored the importance of relationships between the Bureau and the private sector for, among other things, lowering compliance costs for regulated entities. Paul Watkins, the Director of the Bureau's Office of Innovation, talked about the need for leveraging interagency dialogue and collaboration, and how this can benefit industry by ensuring that regulators speak with one consistent voice. Daniel Dodd-Ramirez, Director of the Bureau's Community Affairs Office, discussed how his office partners with consumer-facing organizations, and supports innovation at the local level through the development of consumer education content and other tools. And finally, Frank Vespa-Papaleo, Principal Deputy Director of Fair Lending and moderator of the fireside chat, highlighted the collaboration between various Bureau offices in exploring access to credit.

4. Key themes

A few key themes were evident across panel discussions at the Symposium. These themes may inform action planning for private and public sector stakeholders from industry, consumer and civil rights advocacy organizations, academia, and government. Some of these key themes were:

- **Strengthen the business case for expanding access to credit.** A common theme expressed by some of the panelists is the need to “make the business case” for offering entry products to the credit invisible population more attractive to large financial services providers. A few panelists stated that work needs to be done on making this business model profitable and sustainable for large financial services providers. In addition, at least one panelist expressed the need to increase consumer awareness of the non-profit and mission-based lenders that have found a way to sustainably make small-dollar loans available to consumers.
- **Explore innovation that expands credit access without sacrificing consumer protections.** A few panelists expressed the need for furthering consumer-friendly, responsible innovation in this area. At least one panelist observed that innovation happens in both the private sector and the public sector, and often occurs through partnerships. The CFPB’s Office of Innovation, for instance, is in the process of revising its Trial Disclosure Program Policy, as well as revising its No-Action Letter Policy and creating a Product Sandbox, in order to increase participation by companies seeking to advance innovative products and services.⁵⁴ At least one panelist emphasized the need to ensure that as innovative developments are brought to market, consumer protections are not overlooked or ignored and that innovation is accompanied by meaningful guardrails.
- **Understand the experience of the credit invisible population.** Some panelists called for better understanding of the experience of the credit invisible population to more effectively develop innovations to meet their needs for more consumer choice. Understanding how credit invisibility manifests itself in different populations and finding solutions that address their unique circumstances (*e.g.*, immigrant communities, consumers with limited English proficiency, and rural vs. urban consumers) may be key.
- **Recognize that “high-touch” relationships are important.** Some of the panelists participating in the Symposium highlighted the need for “high-touch” lender and

⁵⁴ See Policy to Encourage Trial Disclosure Programs, 78 Fed. Reg. 64,389 (Sept. 10, 2018), www.govinfo.gov/content/pkg/FR-2013-10-29/pdf/2013-25580.pdf; Policy on No-Action Letters and the BCFP Product Sandbox, 83 Fed. Reg. 64,036 (Dec. 13, 2018), www.govinfo.gov/content/pkg/FR-2016-02-22/pdf/2016-02390.pdf.

servicer relationships between the providers of credit products and borrowers. “High-touch” relationships, as described by those panelists, are those in which lenders dialogue and engage frequently in ways that are accessible to consumers. These panelists explained how lenders that have successfully provided credit to credit invisible consumers report that dialogue and engagement with consumers who are transitioning to credit visibility are key. Providing financial education, coaching, and counseling were frequently mentioned by some panelists as successful components of high-touch relationships between borrowers and lenders or servicers as they contribute to better outcomes.

- **Conduct more research and data analysis.** A few panelists emphasized the need for further research and to improve the data available for analysts. While the existence of the credit invisible population is known, a number of open questions remain which can be addressed with more research. For example, at least one panelist noted the need for additional research into entry products and the capital needs of women and minority small business owners and entrepreneurs.
- **Be mindful that not all credit is equal.** Some of the panelists highlighted the need to ensure that as access to credit is expanded it is done in a way that is safe, affordable, and non-discriminatory, and that stakeholders continue to seek to better understand the role of debt in consumers’ everyday lives. One panelist referred to the need to increase access to “potable” credit: During natural disasters like hurricanes and floods, although water itself may be extremely prevalent, clean and safe water is often a scarcity. A similar dynamic may exist within the credit marketplace—that is, some consumers might find themselves inundated by risky credit but unable to access safe—or “potable”—credit.

5. Conclusion

The CFPB convened the *Building a Bridge to Credit Visibility* Symposium with the goal of injecting additional momentum into the many ongoing conversations about credit invisible consumers. The CFPB is committed to continue serving as a convener for these discussions, seeking the perspectives of diverse stakeholders, and facilitating innovative efforts that increase fair, equitable, and non-discriminatory access to credit.

APPENDIX A: SYMPOSIUM AGENDA⁵⁵

Building a Bridge to Credit Visibility Symposium

September 17, 2018

Hosted by the Consumer Financial Protection Bureau

1700 G Street, NW, Washington, DC

8:00–8:30 a.m. Registration & Coffee

8:30–8:45 a.m. **OPENING ANNOUNCEMENTS & INTRODUCTIONS**

- J. Frank Vespa-Papaleo, *Fair Lending Principal Deputy Director, CFPB*
- Eric Blankenstein, *Policy Associate Director, Supervision, Enforcement and Fair Lending, CFPB*

WELCOME AND OPENING REMARKS

- Patrice Alexander Ficklin, *Fair Lending Director, CFPB*

8:45–10:00 a.m. **CRED TALKS**

These speakers will each deliver a short talk on credit, titled CRED Talks, exploring issues such as credit invisibles, lending deserts, and innovation to expand access to credit.

Moderator:

- Patrice Alexander Ficklin, *CFPB*

Speakers:

- Michael Turner, *Policy and Economic Research Council*
- Samantha Vargas Poppe, *UnidosUS*
- Marla Blow, *FS Card, Inc.*
- Ken Brevoort, *Section Chief, Office of Research, BCFP*

⁵⁵ This is a revised agenda from the original version, to reflect unscheduled remarks from the Bureau's then-Acting Director, Mick Mulvaney.

- Ida Rademacher, *Aspen Institute*

10:00–10:15 a.m. Break

10:15–11:15 a.m. BRIDGING TO CREDIT VISIBILITY USING INNOVATIVE PRODUCTS

This panel will explore questions related to entry-level products that address credit invisibility while preparing the consumer for financial success.

Moderator:

- Daniel Dodd-Ramirez, Director, Community Affairs, *CFPB*

Panelists:

- James Garvey, *Self Lender*
- Dara Duguay, *Credit Builders Alliance*
- Matt Hull, *Texas Association of Community Development Corporations*
- Larry Santucci, *Philadelphia Federal Reserve Consumer Finance Institute*

□

11:15–12:15 p.m. CREDIT PRODUCTS & SERVICES FOR MICROENTERPRISE

This panel will focus on identifying barriers and solutions to accessing credit in the small business lending space.

Moderator:

- Grady Hedgespeth, Director, *Small Business Lending Markets, CFPB*

Panelists:

- Daniel Upham, *Small Business Administration*
- Tiq Chapa, *Latino Business Action Network*
- Galen Gondolfi, *Justine PETERSEN*
- Rajitha Swaminathan, *Grameen America, Inc.*

12:15–1:45 p.m. BOX LUNCH: BUILDING ECONOMIC OPPORTUNITY FOR ALL

During lunch, and following greetings by the Bureau's Acting Deputy Director, keynote speaker Jacqueline Reses will provide insight into

how innovation can create economic opportunity and build bridges to credit visibility, including rural communities.

Introduction:

- Patrice Alexander Ficklin, *CFPB*

Greetings:

- Brian Johnson, *Acting Deputy Director, CFPB*

Keynote:

- Jacqueline Reses, *Square & Square Capital*

1:45–2:45 p.m.

ALTERNATIVE DATA: INNOVATIVE PRODUCTS AND SOLUTIONS

This panel will discuss the role alternative data and modeling techniques can play in expanding access to traditional credit.

Moderator:

- Aaron Rieke, *Upturn*

Panelists:

- Jason Gross, *Petal*
- Eric Kaplan, *Milken Institute*
- Melissa Koide, *FinRegLab*
- Andrea V. Arias, *Federal Trade Commission*

□

2:45–3:00 p.m.

Break

3:00–3:15 p.m.

CFPB INNOVATION DIRECTOR KEYNOTE

Paul Watkins, the Director of the Bureau's new Office of Innovation, will share his vision for the Bureau's new focus on innovation to increase fair, equitable, and nondiscriminatory access to credit.

Introduction:

- J. Frank Vespa-Papaleo, *CFPB*

Keynote:

- Paul Watkins, *Director, Office of Innovation, CFPB*

3:15–3:30 p.m. ACTING DIRECTOR GREETINGS

- Mick Mulvaney, *Acting Director, CFPB*

3:30–4:30 p.m. FIRESIDE CHAT AND ATTENDEE FEEDBACK ON INNOVATION

This session will consist of a “fireside chat” with Bureau leaders on innovation and credit access and will provide attendees an opportunity to ask questions, provide feedback, and share strategies for the Bureau’s role in promoting increased fair, equitable, and nondiscriminatory access to credit through innovation.

Moderator:

- J. Frank Vespa-Papaleo, *CFPB*

Panelists:

- Paul Watkins, *CFPB*
- Patrice Alexander Ficklin, *CFPB*
- Will Wade-Gery, *Director, Card, Payment & Deposit Markets, CFPB*
- Grady Hedgespeth, *CFPB*
- Daniel Dodd-Ramirez, *CFPB*
-

4:30–4:45 p.m. FINAL CALL TO ACTION

- Patrice Alexander Ficklin, *CFPB*

September 2018

Data Point:

The Geography of Credit Invisibility

The Bureau of Consumer Financial Protection's Office of Research



This is another in an occasional series of publications from the Bureau of Consumer Financial Protection's Office of Research. These publications are intended to further the Bureau's objective of providing an evidence-based perspective on consumer financial markets, consumer behavior, and regulations to inform the public discourse. See 12 U.S.C. §5493(d).¹

¹ This report was prepared by Kenneth Brevoort, Jasper Clarkberg, Michelle Kambara, and Benjamin Litwin.

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1. Introduction

Creditworthy consumers can face difficulties accessing credit if they lack a credit record that is treated as “scorable” by widely used credit scoring models. These consumers include those who are “credit invisible,” meaning that they do not have a credit record maintained by one of the three nationwide consumer reporting agencies (NCRAs). They also include those that have a credit record that contains either too little information (“insufficient unscorable”) or information that is deemed too old to be reliable (“stale unscorable”), though the exact definition of what makes a record insufficient or stale unscorable varies from one credit scoring model to another.

The Bureau published two previous *Data Points* about consumers with limited credit histories. The first, *Credit Invisibles*, compared data on the U.S. population from the Bureau of the Census with a nationally representative sample of de-identified credit records from one of the three NCRAs to estimate the number and demographic characteristics of consumers who were credit invisible or had an unscorable credit record. The second, *Becoming Credit Visible*, explored the ways in which consumers first establish a credit record and thus transition out of credit invisibility to help better understand how many consumers are able to make this transition successfully while others have significant difficulty doing so.²

² The two *Data Points* referenced in this paragraph are Brevoort, Grimm, and Kambara (2015) and Brevoort and Kambara (2017). This report uses the same data used in the previous reports. For information about how the data were constructed, refer to the data sections of the previous reports.

This study builds on the Bureau’s earlier work and examines the relationship between geography and credit invisibility. The importance of geography in accessing credit has been a long-standing concern for policymakers, going at least as far back as early efforts to combat redlining. In recent years, additional interest has been paid to the problems faced by people in “credit deserts,” which generally are defined as areas with little access to traditional sources of credit. Because credit deserts have limited options for accessing credit, residing in those areas may inhibit the ability of consumers to establish an NCRA credit record. If so, the incidence of credit invisibility should be higher in credit deserts than in areas with better access to traditional credit.

This study examines geographic patterns in the incidence of credit invisibility to assess the extent to which where one resides is correlated with one’s likelihood of remaining credit invisible. While determining the underlying factors that cause sustained credit invisibility is difficult and beyond the scope of this study, highlighting geographic variation in credit invisibility can aid policymakers and advance the conversation around potential causes and solutions.

2. Credit Deserts

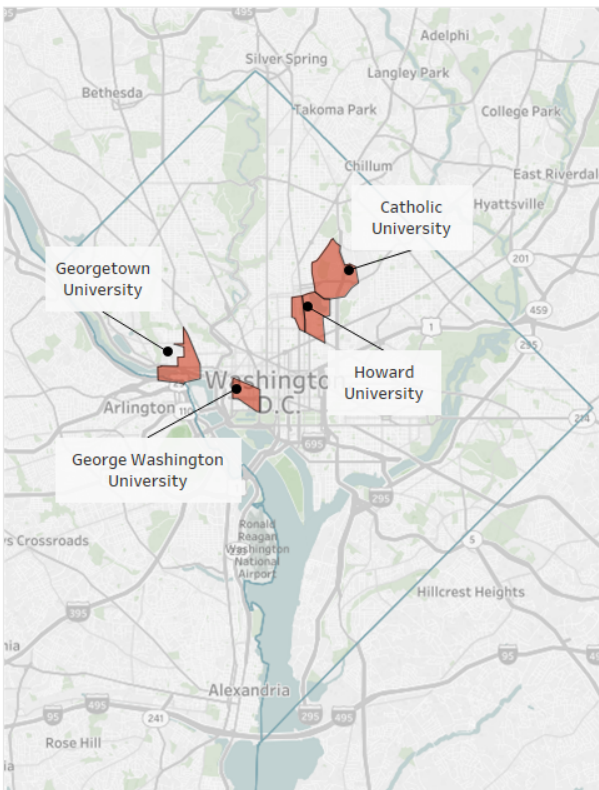
While the term “credit desert” is widely used, a consensus definition does not exist. Frequently, the term is used to describe geographic areas with limited access to traditional financial service providers and, often, with easy access to alternative financial service providers, such as payday lenders or pawnshops. Nevertheless, the few studies that have attempted to delineate credit deserts have generally focused on identifying those areas where credit usage is low or where limited credit history is relatively common.³ While low credit usage may be correlated with restricted credit access, the two concepts are not equivalent and using areas with a high incidence of credit invisibility to identify a credit desert can be problematic.

For example, consider Panel (a) of Figure 1, which shows the five Census tracts in Washington, DC that have the highest incidence of credit invisibility. If one were to attribute high incidences of credit invisibility to the presence of a credit desert, one would conclude that credit deserts are mainly found on or near college campuses (at least in Washington, DC) as all five of these tracts either contain one of Washington’s universities or is adjacent to a tract containing a university. This is not a

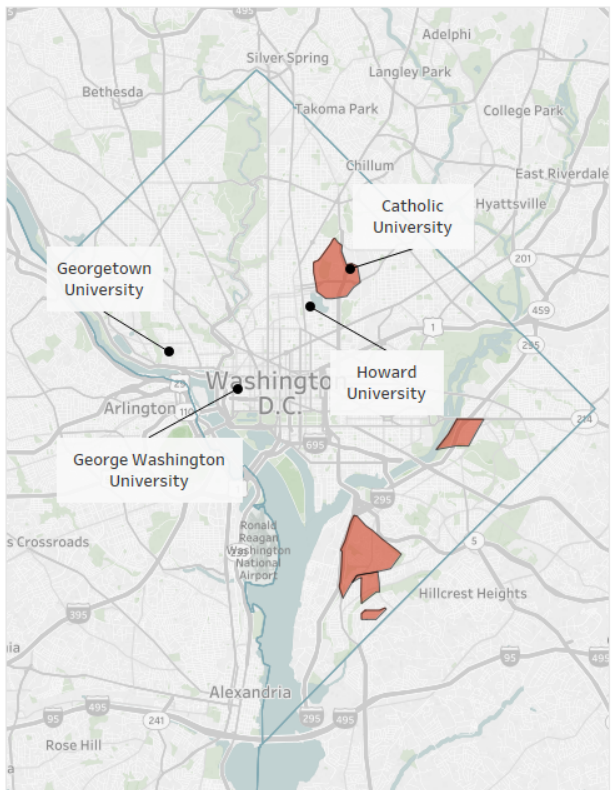
³ For example, Lukongo and Miller (2017) reports the existence of a credit desert covering all of central Arkansas based on the number of personal loans per capita calculated from a survey conducted by the American Financial Services Association. Turner, Walker, and Wiermanski (2017) defines a “credit data desert” as Census tracts where more than 25 percent of credit records are unscorable; “credit deserts” are defined as areas with high concentrations of unscorable credit records, below-average credit scores, and alternative financial service providers, though a more specific definition is not provided. And Morgan, Pinkovskiy, and Perlman (2018) defines a related concept, a “banking desert,” as any Census tract that does not have a bank branch within 10 miles of its center.

FIGURE 1: FIVE TRACTS WITH THE HIGHEST INCIDENCE OF CREDIT INVISIBILITY IN WASHINGTON, DC

(a) All adults



(b) Adults 25 and older



coincidence. As shown in the Bureau's *Credit Invisibles Data Point*, almost 40 percent of credit invisible consumers are younger than 25. Therefore tracts near universities, or containing other forms of group quarters (such as on-base military housing) that cause large concentrations of young adults to live in close proximity, will tend to have high rates of credit invisibility as a result.

While consumers younger than 25 make up a disproportionate share of credit invisibles, credit invisibility appears to be less of a barrier to credit access for these consumers. The vast majority of consumers do not have a credit record when they turn 18 and yet the incidence of credit invisibility among 25-29 year olds is less than 9 percent. This suggests that over 90 percent of consumers transition out of credit invisibility by their mid-to-late 20s. In *Becoming Credit Visible*, the Bureau showed that about one in three consumers who made the transition before turning 25 did so by opening a credit card⁴ and another 20 percent did so using a student loan. In most cases, these loans were taken out without the help of a coborrower, indicating that these consumers made the transition by themselves. For most young people, credit invisibility appears to be a condition that they overcome and not an insurmountable barrier to credit access.

To focus on the population that appears to experience more difficulty establishing a credit history, those for whom credit invisibility seems to be a persistent problem, this study focuses on the incidence of credit invisibility among people aged 25 and older. By excluding the young, for whom credit invisibility appears to be predominantly transitory, this metric should better identify those geographic areas where credit access might be more limited. This is demonstrated in Panel (b) of Figure 1, which shows the location of the five tracts with the highest incidence of credit invisibility based on the adult population 25 and older. This method identifies tracts that are mostly in the southeast of Washington, DC, where incomes tend to be lower than they are in the northwest.⁵ Additionally, using bank branch location information from the Federal Deposit Insurance Corporation's Summary of Deposits

⁴ About 98 percent of which were unsecured credit cards.

⁵ The one Census tract that is highlighted in both maps is tract number 23.02. The high incidence of credit invisibility in this tract is driven by a large number of consumers aged 75 or older, a segment of the population for whom the incidence of credit invisibility is also high. This likely reflects the presence of the Armed Forces Retirement Home. For a more complete discussion of the role of group quarters in credit invisibility, see Brevoort, Grimm, and Kambara (2016).

data, the tracts identified with the highest incidence of credit invisibles for the entire adult population had an average of 11.6 bank branches located within 1-mile of the center of the tract. The tracts identified with the highest incidence of credit invisibles for the adult population 25 and older (as shown in Panel (b) of Figure 1) had an average of 3.4 branches located within 1-mile of the center of the tracts. This suggests that the incidence of credit invisibility among adults 25 and older may be higher for tracts where access to traditional sources of credit is more limited.

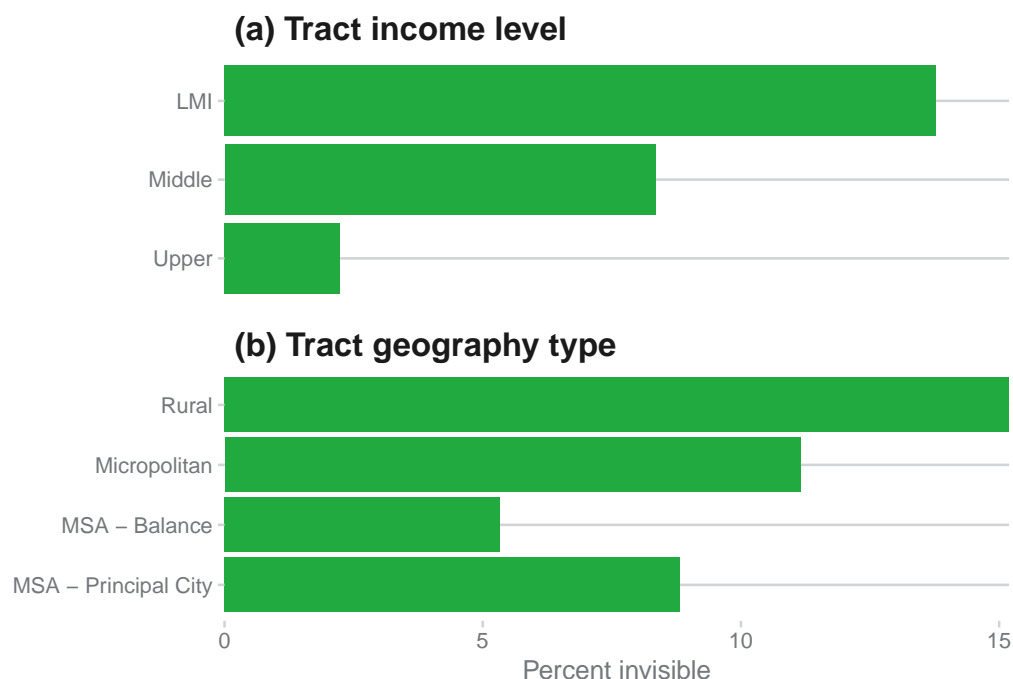
3. Credit Invisibility in Rural and Urban Areas

The Bureau's *Credit Invisibles Data Point* showed that the incidence of credit invisibility was significantly higher in lower-income neighborhoods.⁶ In particular, almost 30 percent of adults in low-income Census tracts were credit invisible, a rate about 8 times higher than that in upper-income Census tracts. While the overall incidences of credit invisibility are lower when restricted to the adults 25 and older, a similar pattern across income levels emerges as shown in Panel (a) of Figure 2.

While the Bureau's previous study found that neighborhood income level is closely related to the incidence of credit invisibility, other geographic characteristics appear related as well. One of these factors is the extent to which the neighborhood is in a more urban area. To highlight the differences across these areas, each tract was assigned to a geographic category based upon whether it was within a Core Based Statistical Area (CBSA) as defined by the Office of Management and Budget. Tracts located within Metropolitan Statistical Areas (MSAs) were categorized based on

⁶ Consistent with the earlier *Data Point*: 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 Metropolitan Statistical Area (MSA) for urban tracts or the county for rural tracts. Following the definitions used in the Community Reinvestment Act, this study characterizes 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. Because of the relatively low number of low income tracts (particularly within rural areas), the analysis combines all tracts with relative incomes of below 80 percent into a low-to-moderate income (LMI) category.

FIGURE 2: INCIDENCE OF CREDIT INVISIBILITY BY TRACT INCOME AND GEOGRAPHY (ADULTS 25 AND OLDER)

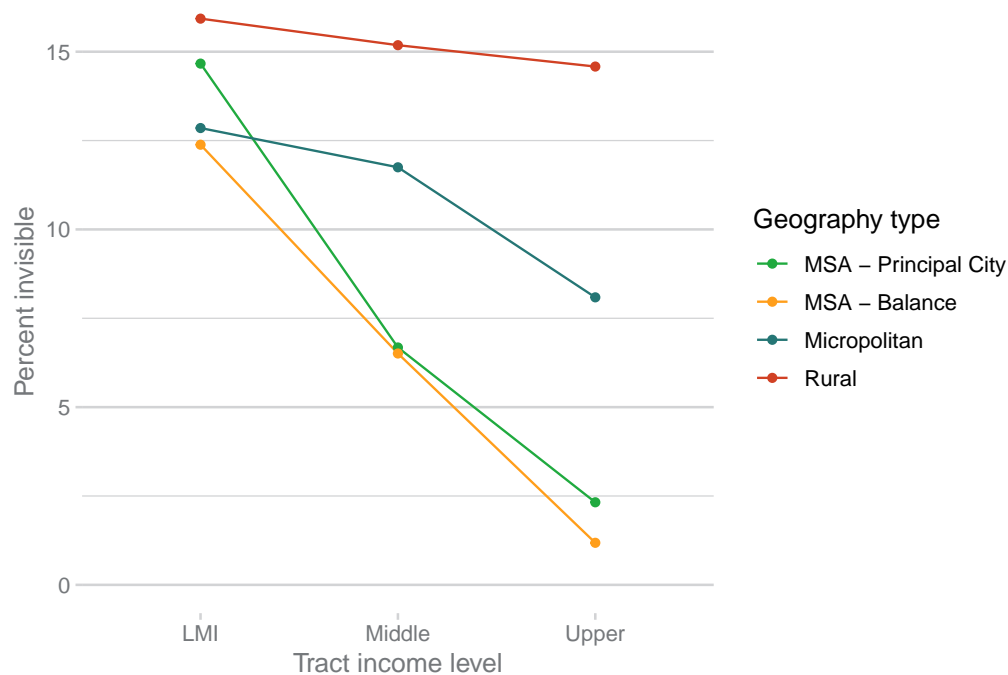


whether the tract was part of the MSA’s principal city (MSA - Principal City) or was outside of the principal city, which we refer to as the balance area (MSA - Balance). The remaining tracts were categorized as “Micropolitan” if they are within a Micropolitan Statistical Area or “Rural” otherwise. The incidence of credit invisibility in each of these four areas is shown in Panel (b) of Figure 2.

Rural areas have the highest incidence of credit invisibility among the four geographic areas. The next highest incidence is in Micropolitan Statistical Areas. Credit invisibility does not invariably decrease with urbanization, however. Within MSAs, the more urban principal cities have a higher percentage of adults 25 and older who are credit invisible than the more suburban balance areas of the MSAs. As such, credit invisibility appears to be more common in rural areas; however, because of the higher populations within MSAs, over two-thirds of adults 25 and older who are credit invisible reside in MSAs.

Within each of these geographic areas, there are significant differences in the incidence of credit invisibility. Figure 3 shows the incidence of credit invisibility in each of the four geographic areas, broken down by the relative income level of the

FIGURE 3: INCIDENCE OF CREDIT INVISIBILITY BY TRACT INCOME LEVEL AND GEOGRAPHY (ADULTS 25 AND OLDER)



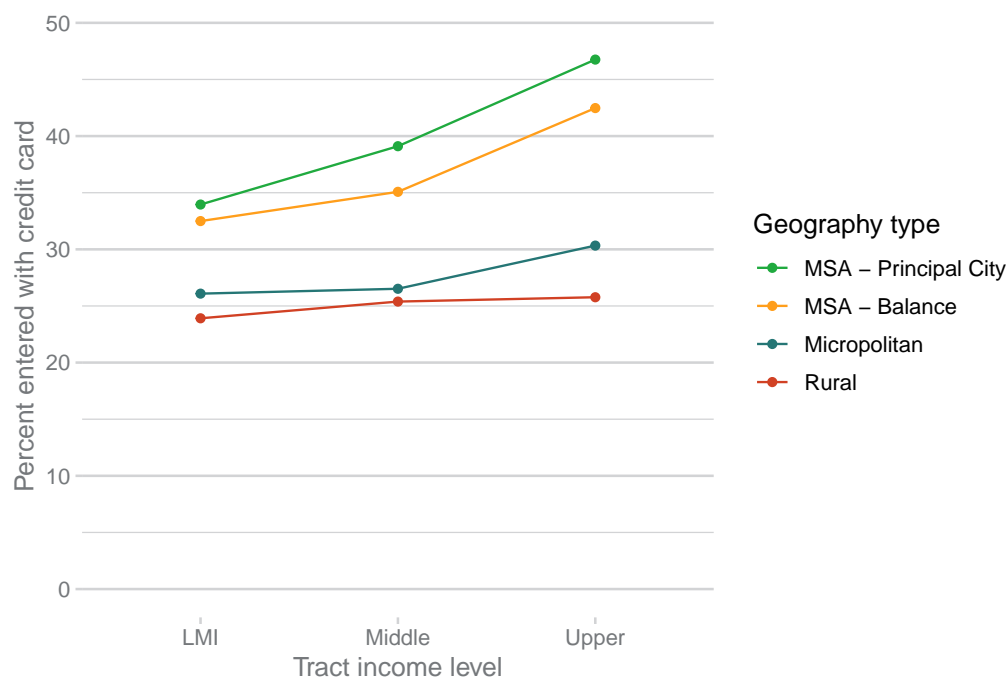
tract. Within MSAs, there is a strong relationship between neighborhood income and the incidence of credit invisibility. Low-to-moderate income (LMI) neighborhoods have higher concentrations of credit-invisible adults 25 and older. In contrast, the relationship between income and credit invisibility is much weaker in rural areas, where credit invisibility is higher even if the tract's relative income level is higher. Specifically, upper-income tracts in rural areas have concentrations of credit invisibility that are comparable to those of LMI tracts in the principal cities of MSAs and higher than those of all tracts in micropolitan areas or suburban areas of MSAs.

4. Entry Products by Geography

One way of shedding light on the underlying reasons why credit invisibility is more persistent in rural and lower-income urban areas is to look at differences in the means by which consumers in these locations first establish their credit histories. In *Becoming Credit Visible*, a credit card was the predominant “entry product” (that is, the first reported item that established their credit record) consumers used to transition out of credit invisibility. This section explores how the propensity to use credit cards as entry products varies among geographic areas. Because this study focuses on the incidence of credit invisibility among adults 25 and older, this section analyzes the behavior of consumers who were able to make the transition prior to turning 25 and thus avoided becoming a credit-invisible older adult.

Figure 4 shows the share of consumers younger than 25 whose entry product was a credit card. These percentages represent shares of consumers who *successfully transitioned out of credit invisibility* and not the share of the adult population. As a result, the lower rate outside of MSAs is not attributable to fewer consumers able to transition out of credit invisibility in those areas. Instead, these patterns are consistent with consumers in rural and LMI areas using credit cards as an entry product less often than consumers within MSAs. There are two notable patterns shown in the graph. First, the upward-sloping relationship between neighborhood income and the likelihood of establishing a credit card is much stronger in MSAs than it is in Micropolitan or rural areas. In contrast, outside of MSAs, the relationship is flatter, much like the overall relationship between the incidence of

FIGURE 4: SHARE OF PEOPLE UNDER 25 WHO TRANSITIONED OUT OF CREDIT INVISIBILITY VIA A CREDIT CARD, BY TRACT INCOME LEVEL AND GEOGRAPHY



credit invisibility and neighborhood income in these areas. Second, the overall rate of using a credit card as an entry product is much lower (about 10 percentage points) outside of MSAs than compared to within MSAs.

The significant variation in credit card use as an entry product across geographic areas might be surprising. Credit cards are often marketed directly to consumers through the mail, television, or online and do not have to be applied for in person. This suggests that credit cards should be as accessible to people in rural areas as they are in MSAs. Nevertheless, the *2015 National Survey of Unbanked and Underbanked Households* from the Federal Deposit Insurance Corporation (FDIC) suggests that consumer credit card use may be closely tied to other services that banks provide locally. According to those data, only 7 percent of unbanked consumers, defined as those without a checking or savings account, report having had a credit card in the past 12 months. This is significantly lower than the 58 percent of banked consumers with credit cards.⁷

⁷ Similar rates are observed when the sample is restricted to respondents younger than 25.

There are many potential reasons why people who do not use banking services are less likely to hold credit cards, such as lower income or comfort with using financial services.⁸ Nevertheless, it is possible that when credit card lenders make decisions about credit-invisible applicants, they may be more willing to extend credit to those with whom they have an existing deposit account relationship. If so, the problem of credit invisibility may be closely related to a lack of access to traditional banking services. This report proceeds to examine the relationship between credit invisibility and bank proximity in the next section.

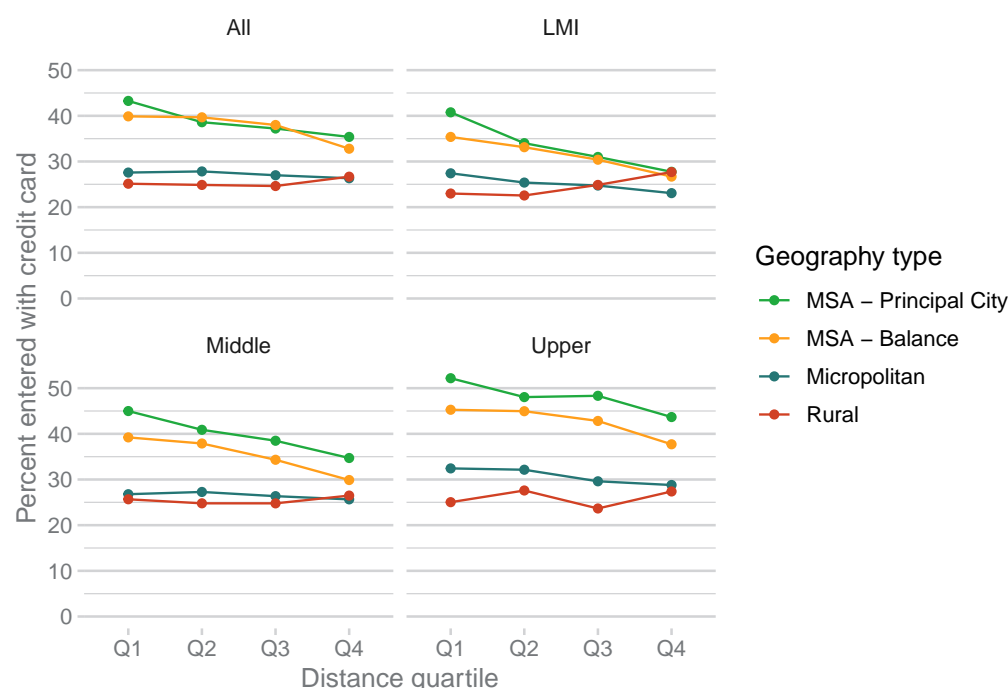
⁸ Figure 3.8 in Burhouse et al. (2016) shows the top three reasons consumers do not have a bank account are “do not have enough money to keep in account”, “avoiding bank gives more privacy”, and “don’t trust banks”.

5. Credit Invisibility and the Proximity of Depository Institutions

If access to traditional banking services matters for credit invisibility, then the high levels of credit invisibility in rural areas and the lower-income areas of MSAs might reflect less ready access to banking services. Such a result would be consistent with the idea of credit deserts—geographic areas with little or no access to traditional lenders—being a cause of credit invisibility.

One measure of the availability of banking services is proximity to banking institutions. This study analyzes whether the proximity to banks is a factor in the frequency with which people use credit cards as their entry products or in the incidence of credit invisibility. To do so, this study determined the bank branch that was closest to the center of each Census tract using bank branch locations from the FDIC's Summary of Deposits data. The proximity to traditional financial institutions was calculated as the distance from the center of a given consumer's tract to the closest branch. Because there may be differences between urban and rural areas in terms of the time it takes to travel the same distance, distance

FIGURE 5: PERCENTAGE OF CONSUMERS UNDER 25 TRANSITIONING OUT OF CREDIT INVISIBILITY FOR WHOM CREDIT CARDS WERE THEIR ENTRY PRODUCT BY GEOGRAPHY, DISTANCE QUARTILE, AND INCOME



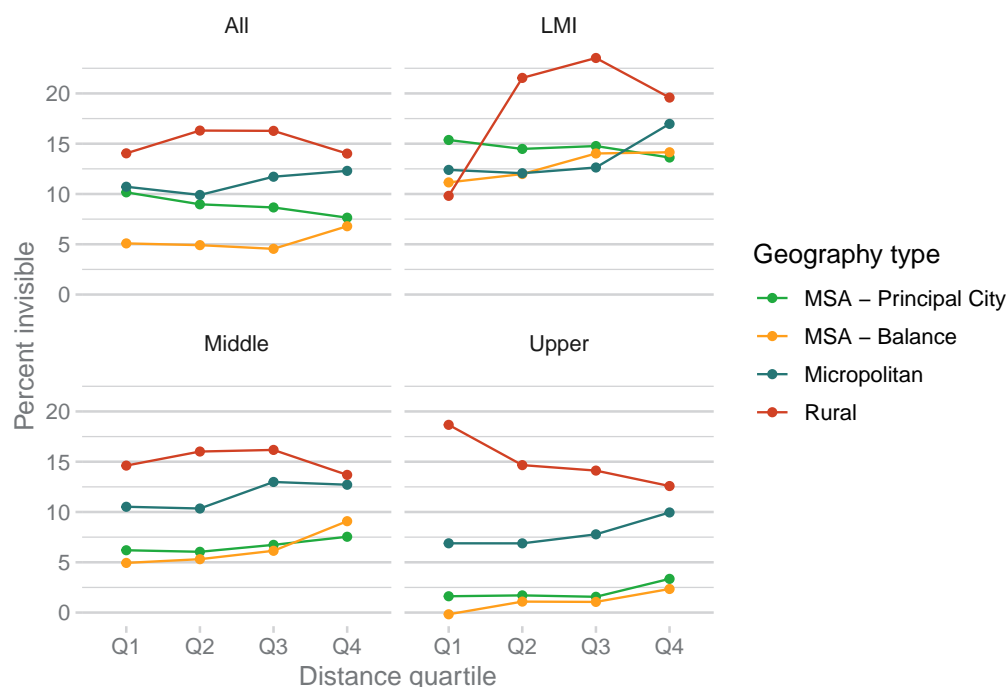
quartiles were used to make results more comparable across geographies. Distance quartiles were calculated separately for each type of geographic area.⁹

Figure 5 shows the share of consumers under 25 transitioning out of credit invisibility who used credit cards as their entry product in each distance quartile by geography and income. If proximity to a depository was an important factor in obtaining a credit card, then one might expect the use of credit cards as an entry product to be higher among consumers for whom the distance to the nearest branch is shorter.¹⁰ Among people in MSAs who transitioned out of credit invisibility before turning 25, the use of credit cards as an entry product does decline with distance.

⁹ For example, within the principal city of MSAs, distances between the center of the tract and the nearest branch were shorter than for other geographies. The 25th, 50th, and 75th percentiles of distance in principal cities were 0.3, 0.6, and 0.9 miles, respectively. For portions of MSAs outside of the principal cities, those percentiles were 0.5, 0.9, and 2 miles; in Micropolitan areas they were 0.9, 2.4, and 4.8 miles; and in rural areas they were 2, 4.2, and 6.9 miles.

¹⁰ The distance used to determine a consumer's quartile is based on the Census tract in which their residence is located. It is possible that a consumer may work farther than a mile from their home census tract, and the census tract of their workplace is closer to a bank branch than their house. This scenario cannot be accounted for with the given data.

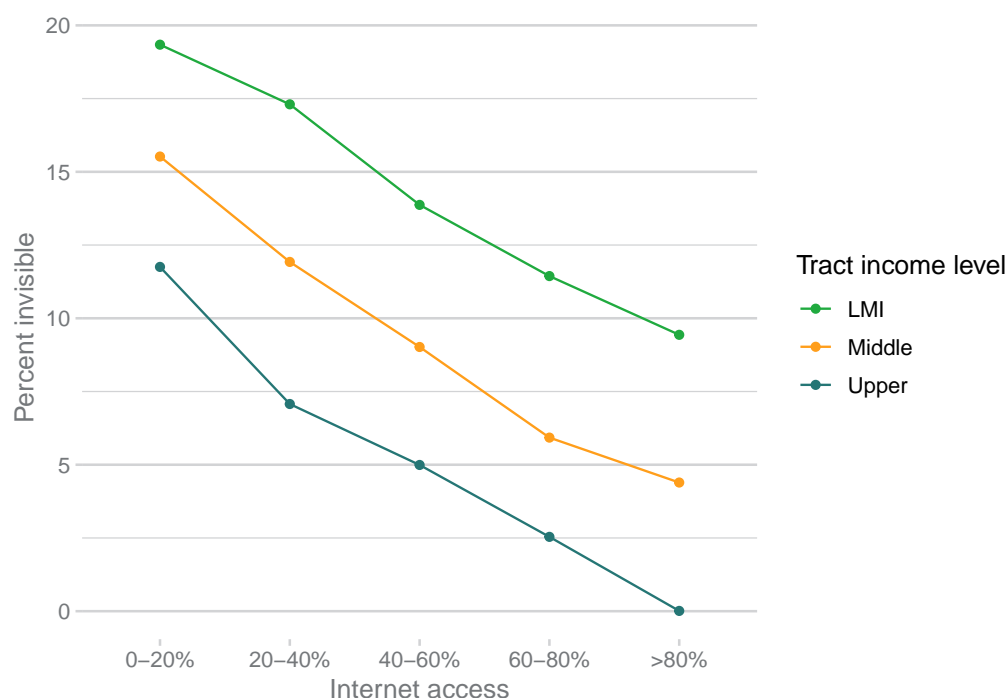
FIGURE 6: INCIDENCE OF CREDIT INVISIBILITY BY DISTANCE TO NEAREST BANK AND GEOGRAPHY (ADULTS 25 AND OLDER)



However, in Micropolitan and rural areas, there appears to be no such relationship. In the remaining three panels of Figure 5, graphs of the same relationship are shown based on the data for each tract's relative income level. These graphs confirm that—within MSAs—residing farther away from a bank branch is associated with less use of credit cards as an entry product.

Figure 6 shows the relationship between the incidence of credit invisibility and branch distance among adults 25 and older. Like the previous figure, the upper-left panel shows the pattern across all tract relative income levels and the other three panels show the pattern for each income level separately. If proximity to financial institutions was an important factor in access to credit, the lines should be upward sloping, reflecting a higher incidence of credit invisibility at greater distance. Instead, there appears to be little relationship between distance to the nearest

FIGURE 7: INCIDENCE OF CREDIT INVISIBILITY BY RELATIVE TRACT INCOME LEVEL AND INTERNET ACCESS RATE (ADULTS 25 AND OLDER)



branch and the incidence of credit invisibility.¹¹ Similar patterns are observed for each relative income level.

These results provide little evidence that bank branch proximity is an important factor in explaining why consumers are credit invisible. Nevertheless, they are consistent with data from the FDIC’s *2015 National Survey of Unbanked and Underbanked Households* finding that proximity to a bank is one of the less common reasons that consumers remain unbanked. When respondents without checking or savings accounts were asked why they did not have an account, only 9 percent cited “inconvenient locations” as a reason and only 2 percent identified it as the main reason for not having an account. Other factors were cited as being much more

¹¹ Linear regressions of distance on the incidence of credit invisibility were also conducted for each geographic area. *MSA - Balance* was the only geographic area where the regression produced a positive and statistically significant (at the 1 percent level) coefficient on distance. In contrast, the regression for *MSA - Principal City* produced a negative coefficient that was statistically significant at the 0.1 percent level. These results provide little evidence of a consistent relationship between distance and the incidence of credit invisibility.

important, such as “not having enough money to keep in an account” and “a distrust of banks.”¹²

One factor that might reduce the importance of a nearby bank branch is easy access to the Internet. This is particularly true for credit cards, where applications tend to be made online.¹³ The Federal Communication Commission’s *Internet Access Services Report* provides the percentage of households in each Census tract with high-speed internet. Using these data, Figure 7 shows that the incidence of credit invisibility is consistently higher in tracts where fewer households have high-speed internet, a pattern observed for all three tract income levels. While this relationship is not necessarily causal, credit invisibility is more prevalent in areas with less digital access to traditional financial service providers.

¹² Responses to this and other questions in the FDIC’s *2015 National Survey of Unbanked and Underbanked Households* are provided by Burhouse et al. (2016).

¹³ According to Mintel Comperemedia (2017), 70 percent of credit card applications are submitted online. The remaining applications are made via direct mail, in-person, or over the phone.

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