

The Brookings Institution

Metropolitan Policy Program
Matt Fellowes, Fellow

The Geography of Consumer Credit Scores

National Black Caucus of States Institute
East Coast Leadership Roundtable on Credit,
October 16, 2006

The Geography of Consumer Credit Scores

I

Why is Brookings interested in credit scores and reports?

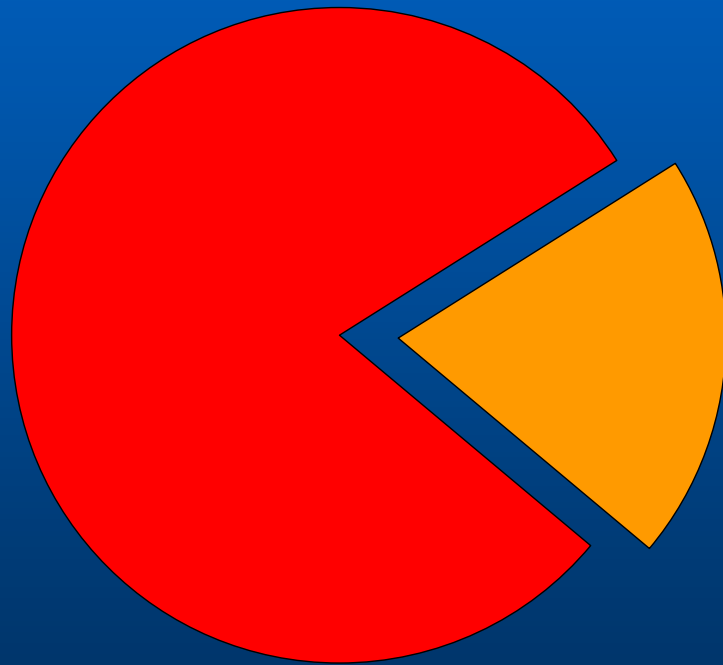
II

What are some of the initial findings?

III

What are the next steps?

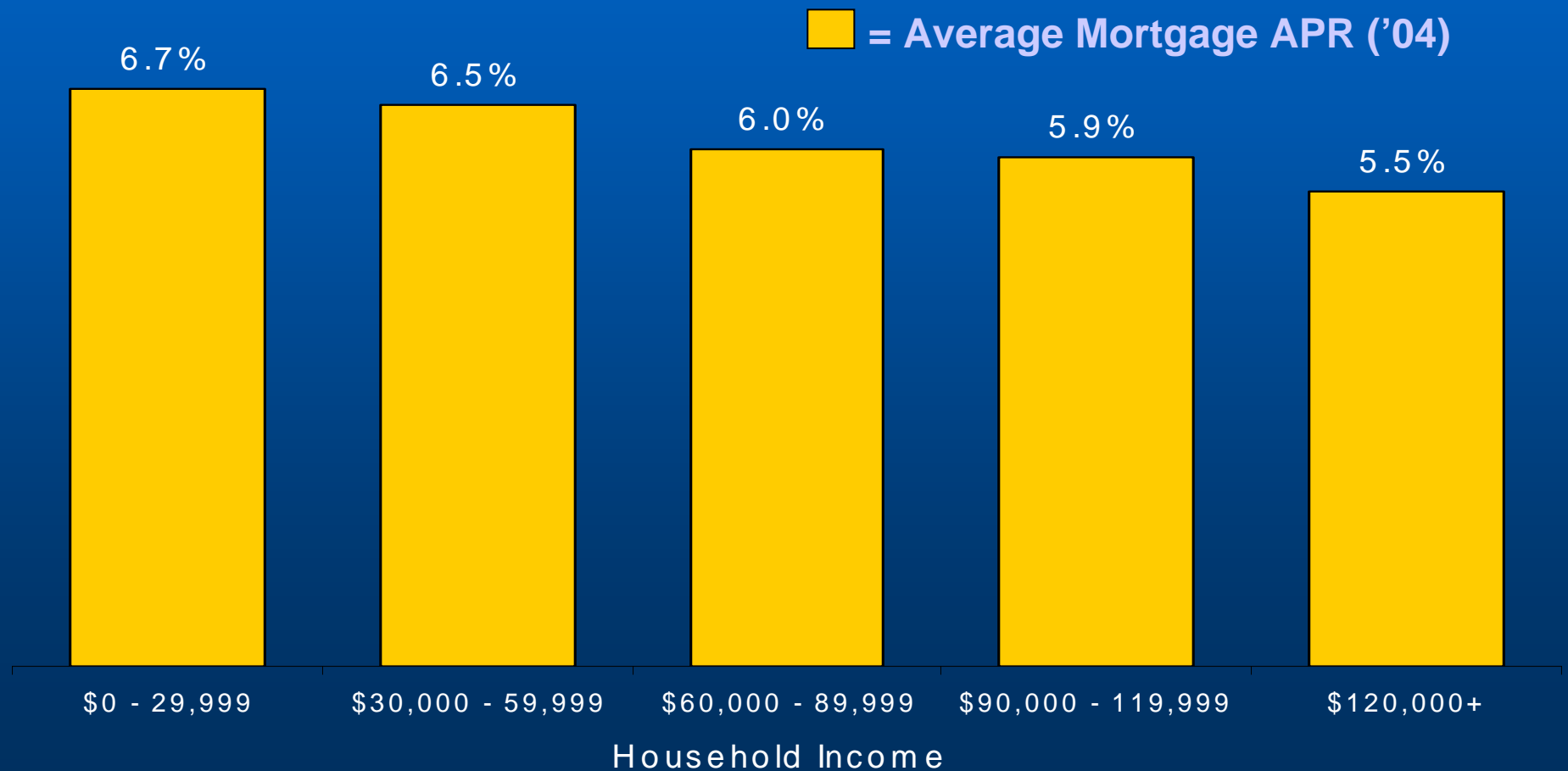
For some time now, we've know that lower income families tend to pay higher prices for credit



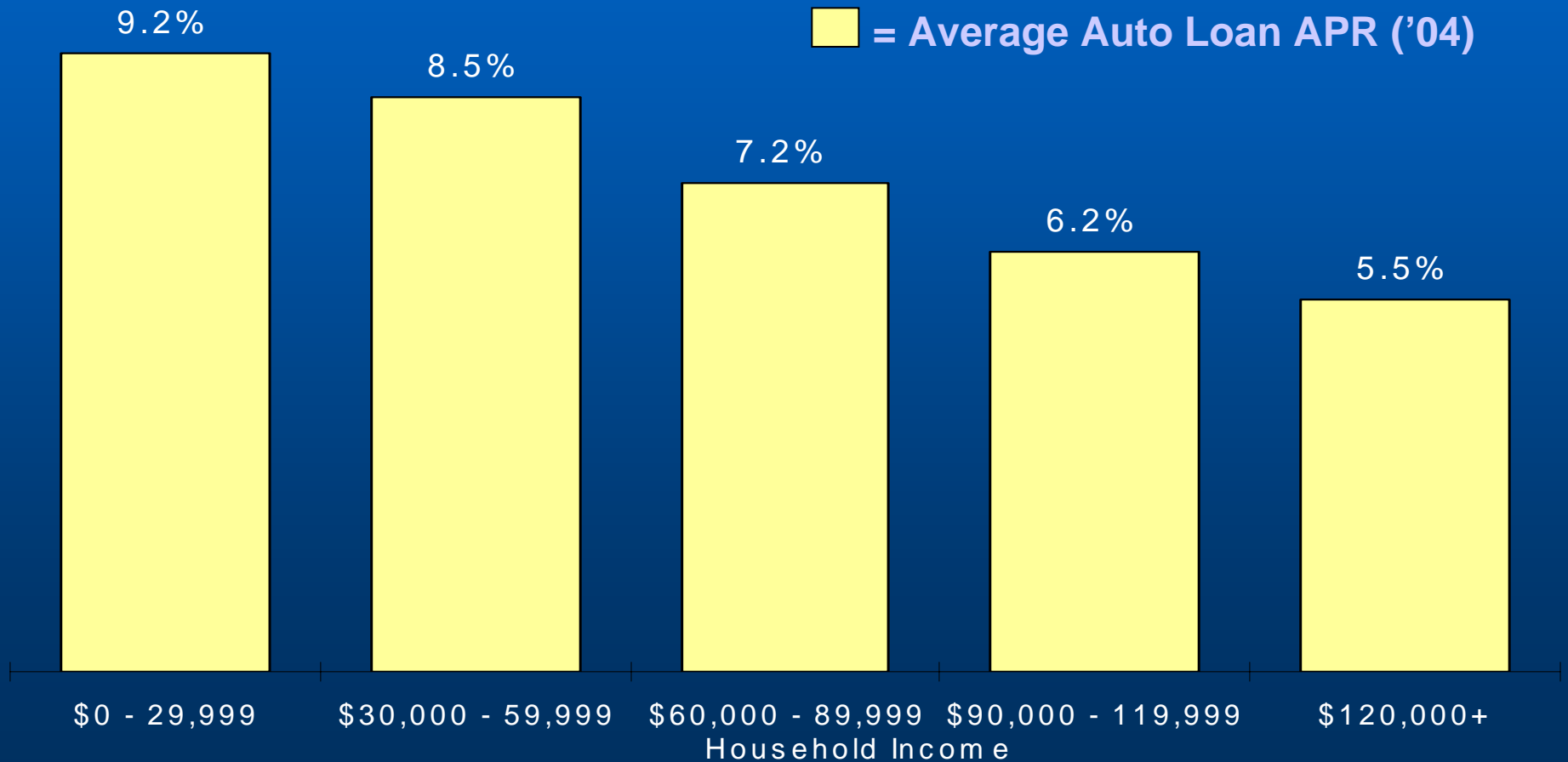
■ Fixed Price

■ Price Premium for Low-Income Families

We know, for instance, that 4.2 million lower income households pay higher than average mortgage prices.



Similarly, 4.2 million lower income households pay higher than average auto loan prices.



Systematic differences in credit information between income groups helps explain this price variance, but those differences are not very well understood.

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Our initial work looks at how information in credit reports vary across the country, and some of the reasons behind that variance, including differences in income.

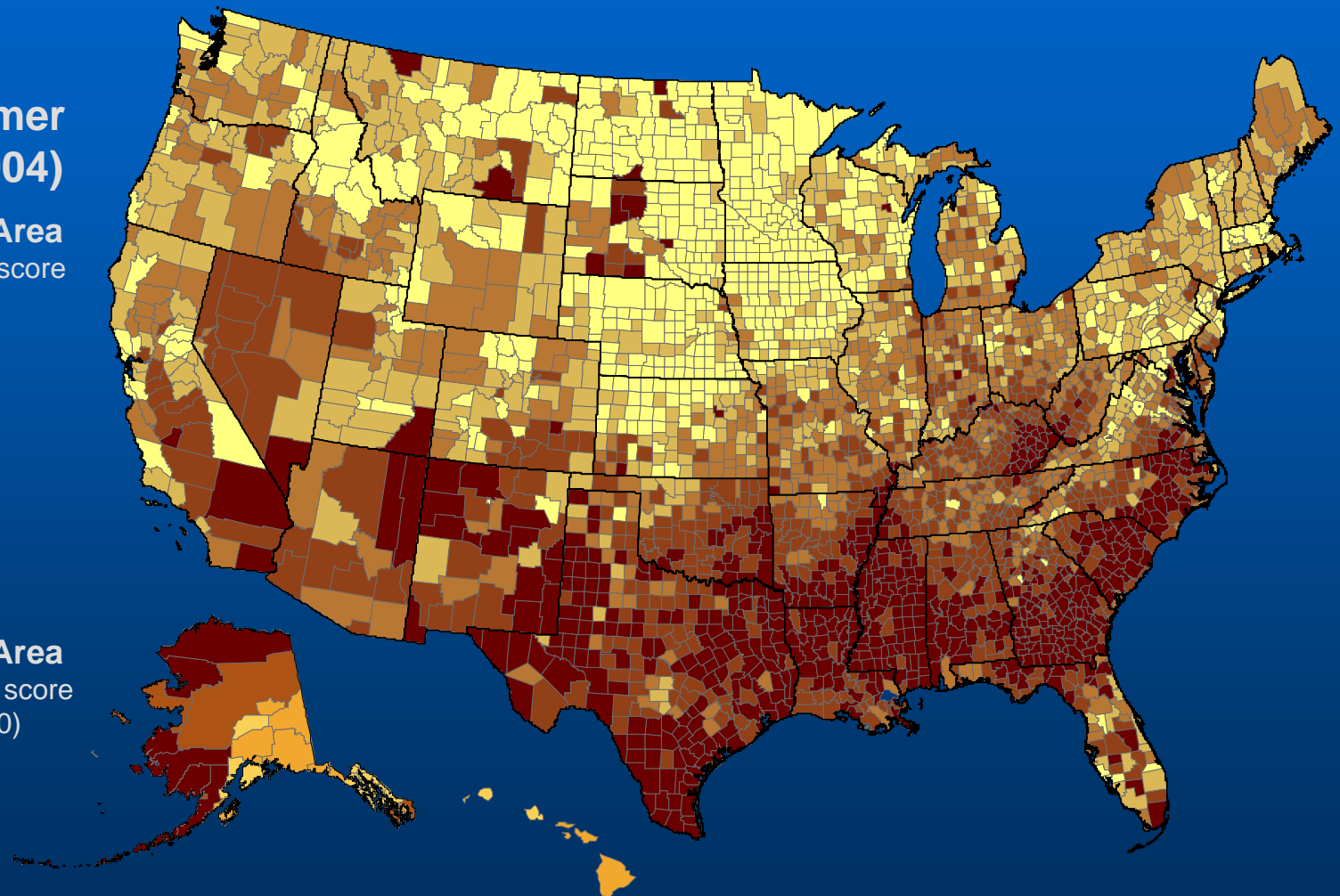
Credit scores widely vary across U.S. counties

Average Consumer Credit Score (2004)

 **Higher Risk Area**
(Average credit score less than 624)



 **Lower Risk Area**
(Average credit score greater than 690)



Source: Matt Fellowes, The Brookings Institutions, analysis of TransUnion's trend database.

Note: Data displayed in quintiles and by county; the illustrated credit score is the TU Generic Consumer Credit Score.

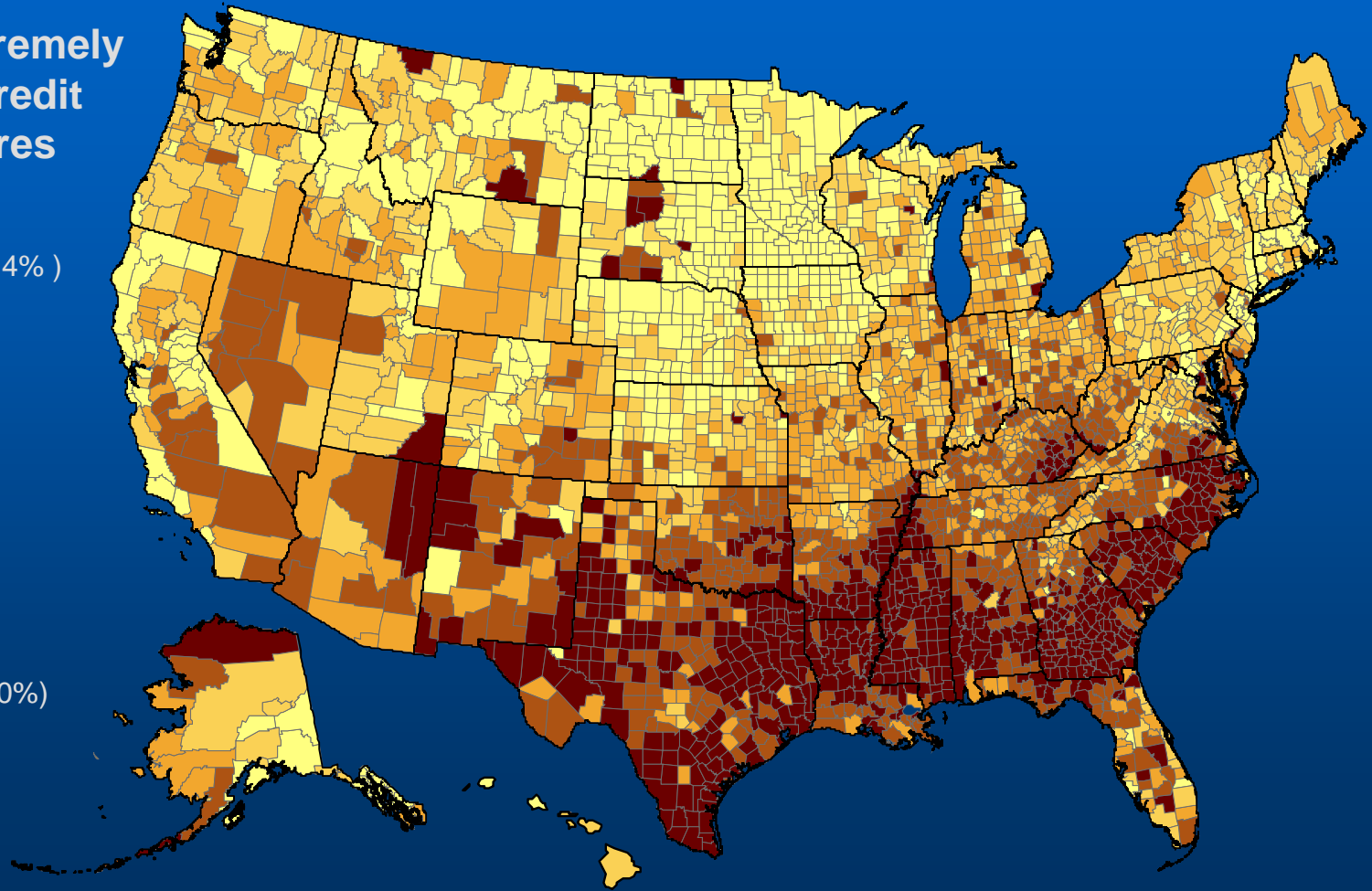
Southern counties have high, relative proportions of consumers with **extremely low** credit scores

Proportion of Extremely Low Consumer Credit Scores to All Scores

 **High**
(More than 24.14%)



Low
(Less than 13.00%)

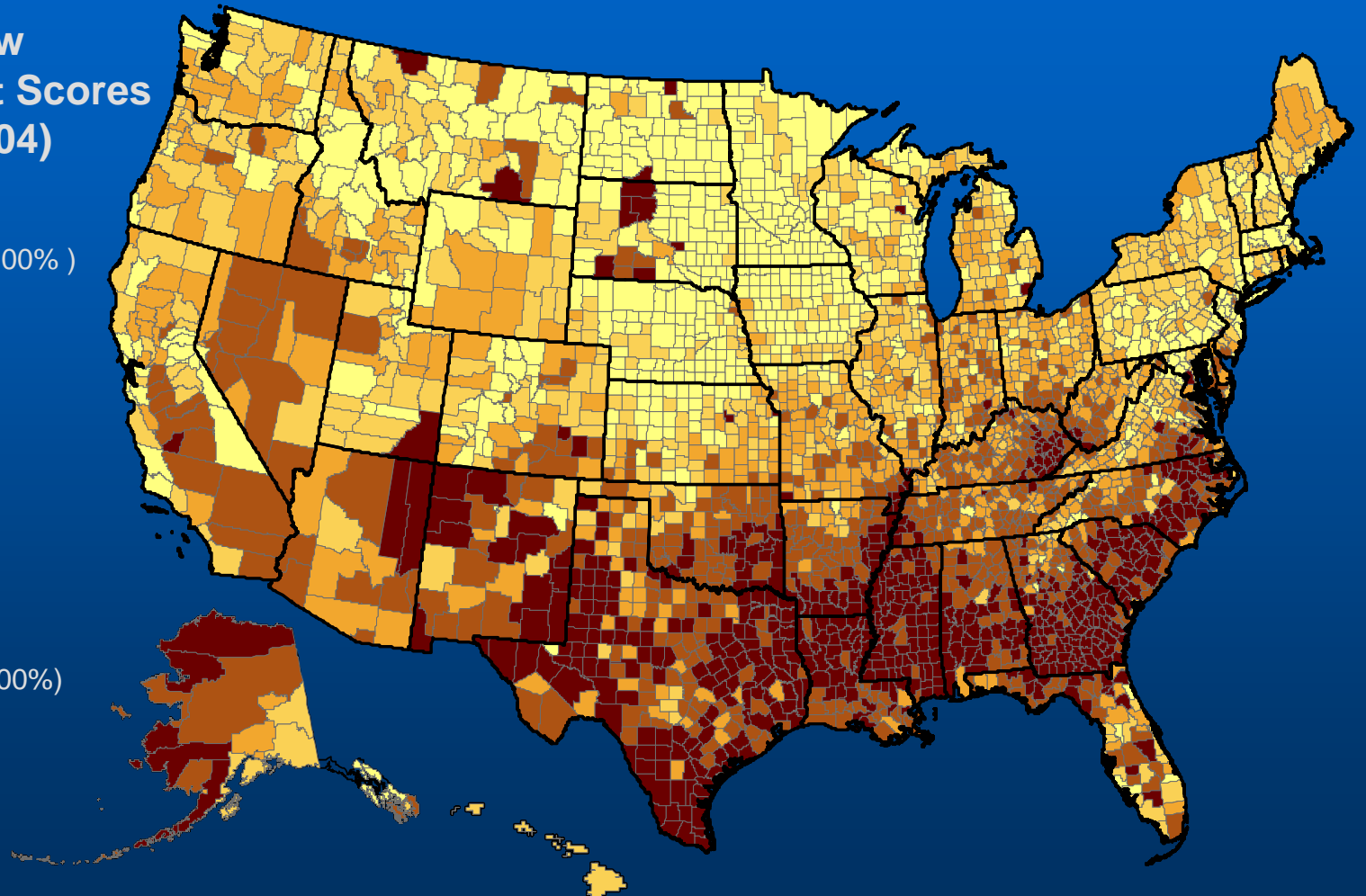
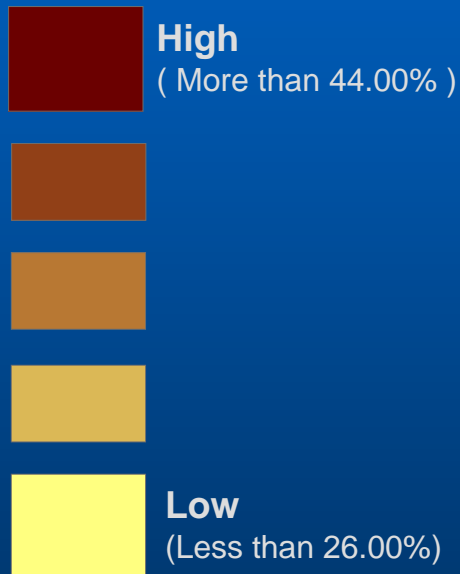


Source: Matt Fellowes, The Brookings Institutions, analysis of TransUnion's trend database.

Note: Data displayed in quintiles and by county; illustrated credit score is the TU Generic Consumer Credit Score; extremely low is below 492.

Southern counties also have high, relative proportions of consumers with **low** credit scores

Proportion of Low Consumer Credit Scores to All Scores (2004)



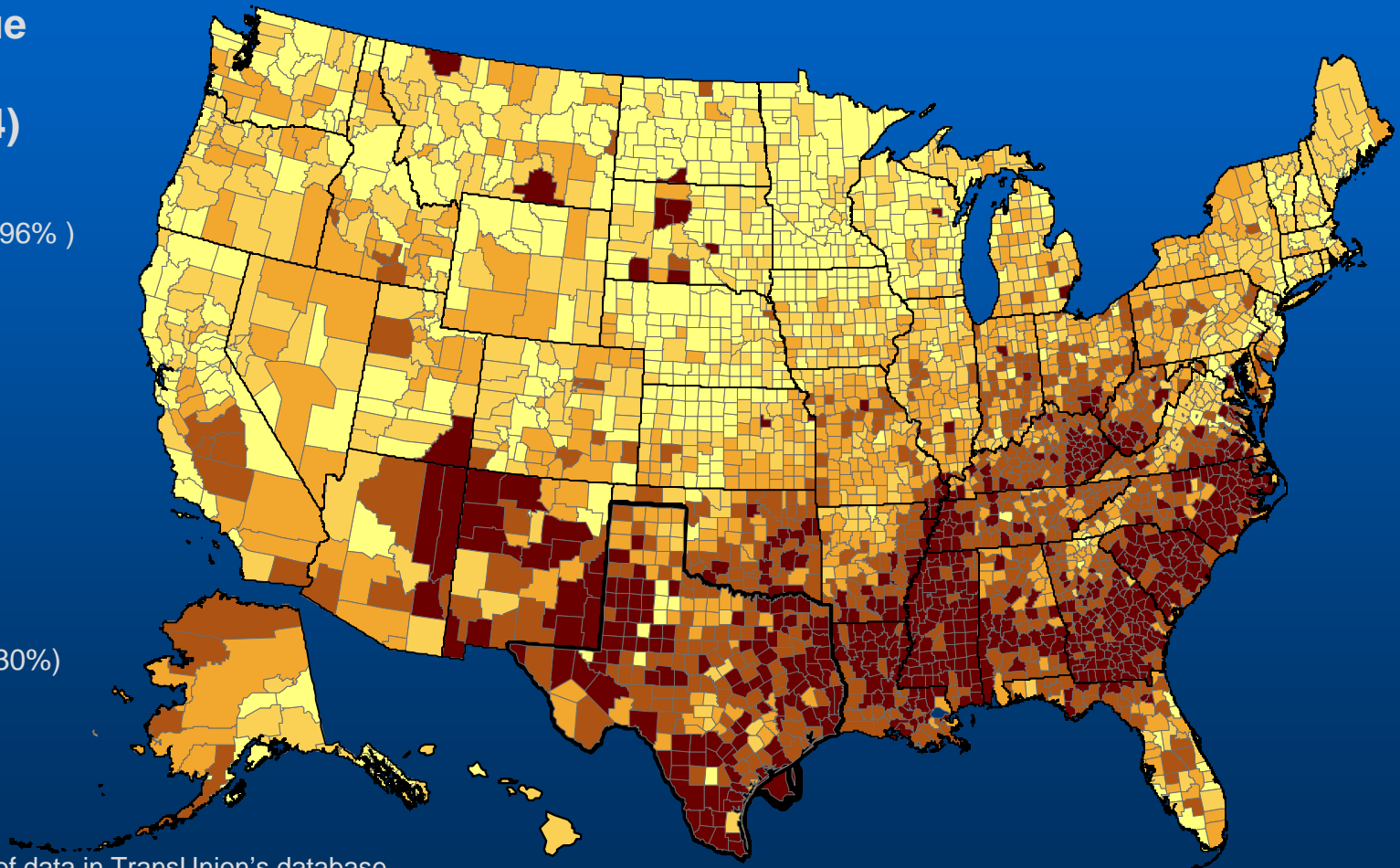
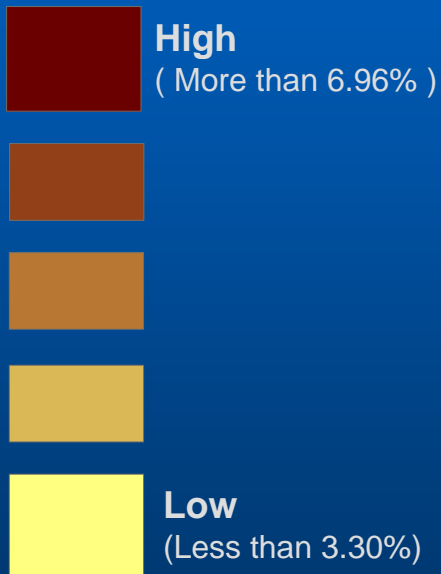
Source: Matt Fellowes, The Brookings Institutions, analysis of TransUnion's trend database.

Note: Data displayed in quintiles and by county; illustrated credit score is the TU Generic Consumer Credit Score; low is below 595.

This type of variance in credit scores reflects real differences across the country in credit utilization and management.

For instance, southern counties have higher consumer delinquency rates compared to other areas of the country

Ratio of Past-Due Borrowers to all Borrowers (2004)



Source: Author's analysis of data in TransUnion's database.

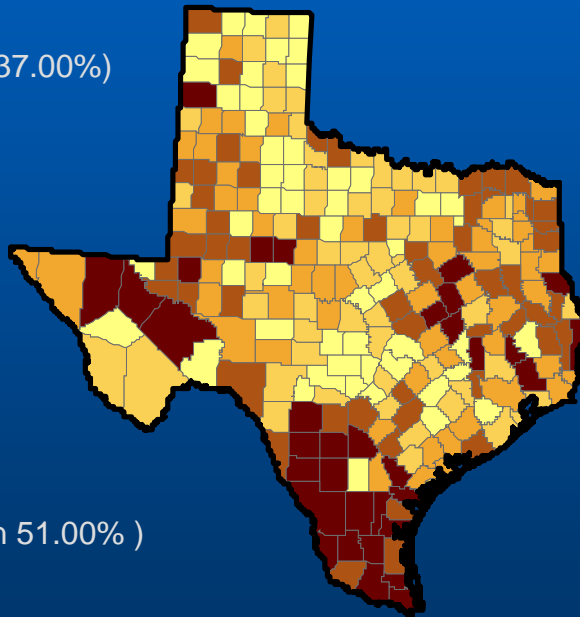
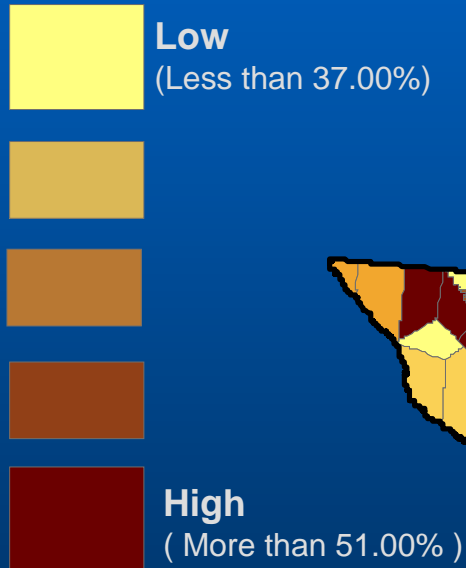
Note: All available data in the trend database were aggregated from depersonalized consumer credit reports. Data are displayed by county and in quintiles; delinquency mortgages are 60+ days past due.

But, to really explain this variance in credit scores will take more research. To get a sense of this, I want to just show you a few, correlated factors to county credit scores *(all of which had strong, independent effects in preliminary regression models)*

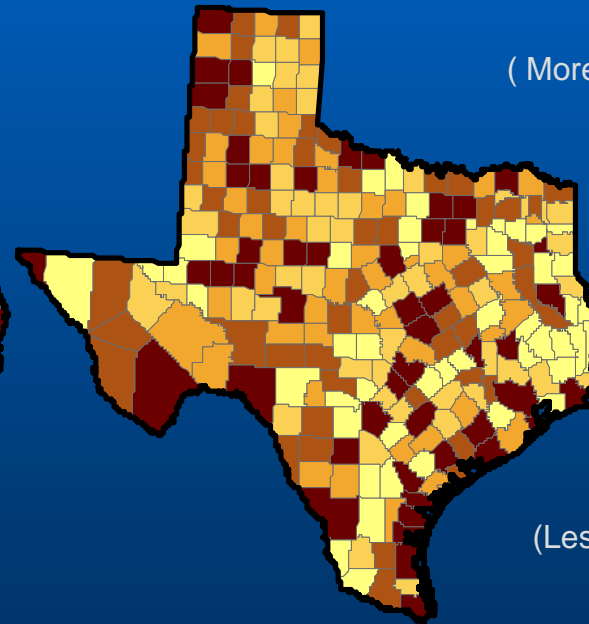
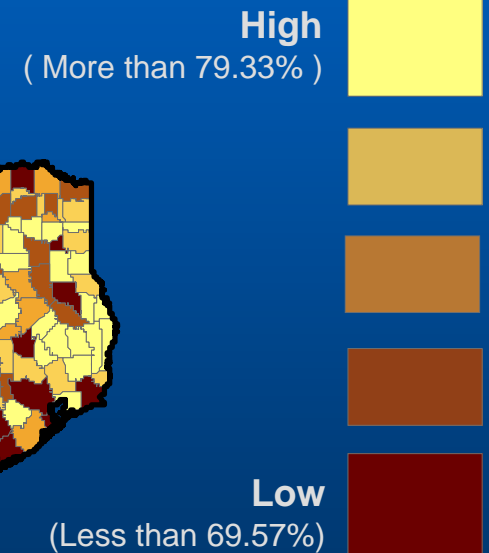
I'll show you a few examples from Texas, since this state has some of the fastest growing large metros in the country, and has a very large emerging immigrant market.

County credit scores are strongly related to homeownership rates

Proportion of Low Consumer Credit Scores to All Scores (2004)



Percent of Occupied Housing Units That are Owner-occupied

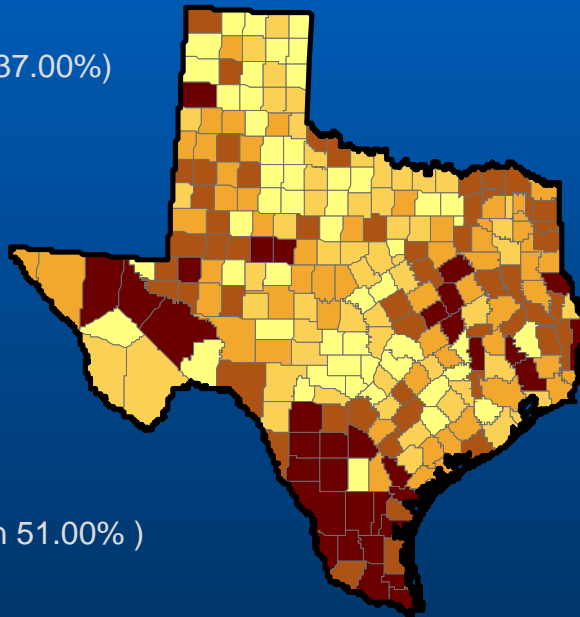
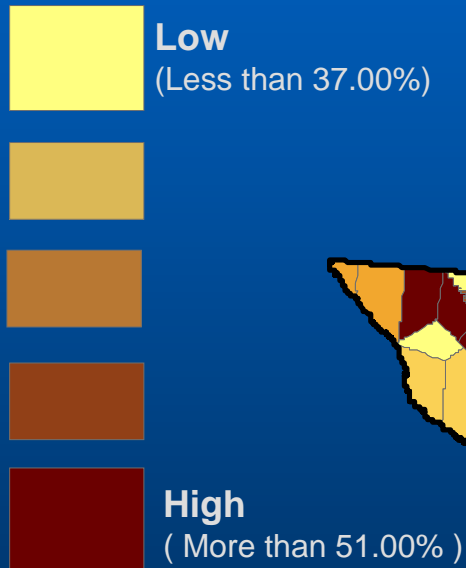


Source: Matt Fellowes, The Brookings Institutions, analysis of TransUnion's trend database.

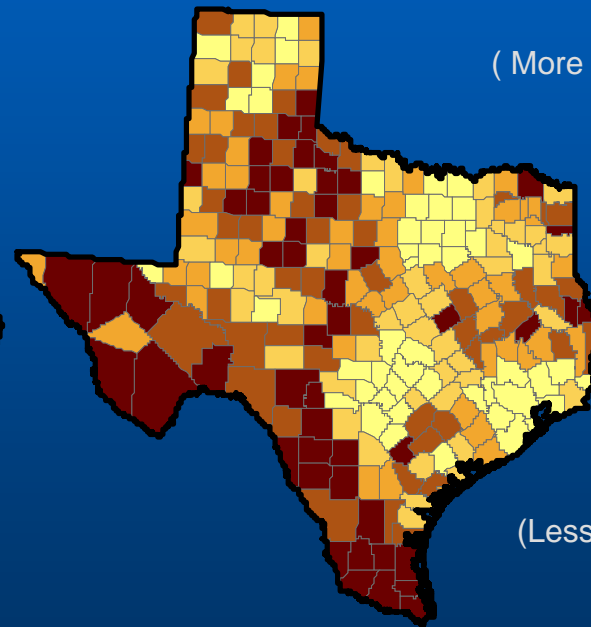
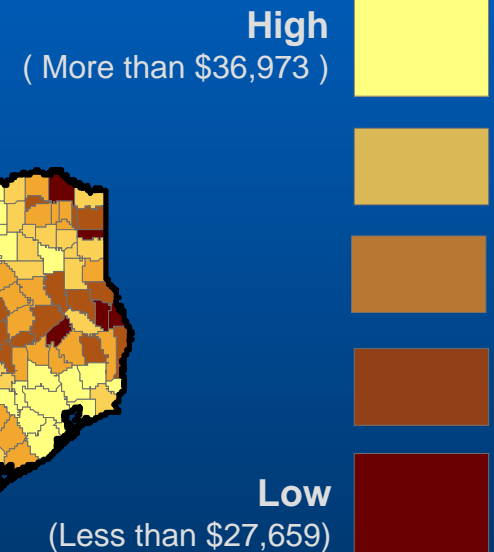
Note: Data displayed in quintiles for Texas and by county; the credit score is the TU Generic Consumer Credit Score; low is below 595.

County credit scores are also strongly related to median income

Proportion of Low Consumer Credit Scores to All Scores (2004)



Median Household Income (2000)

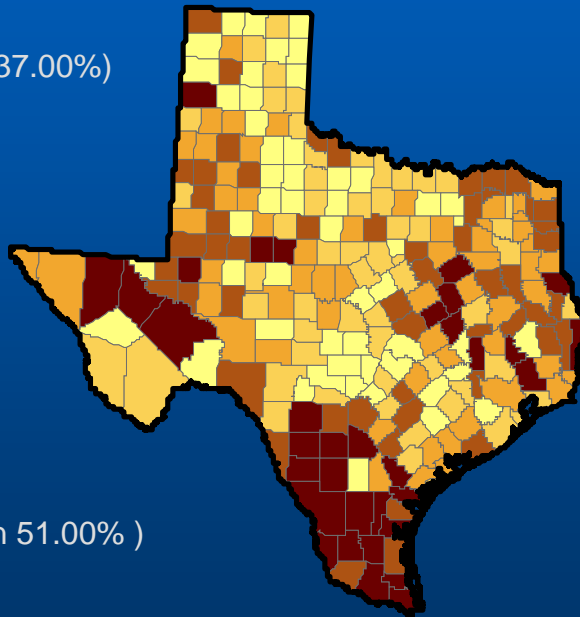
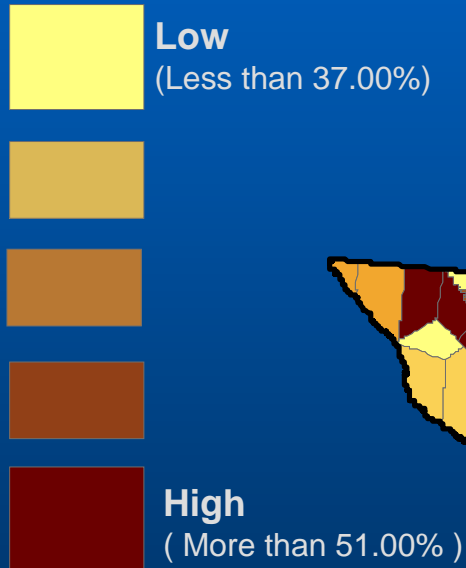


Source: Matt Fellowes, The Brookings Institutions, analysis of TransUnion's trend database.

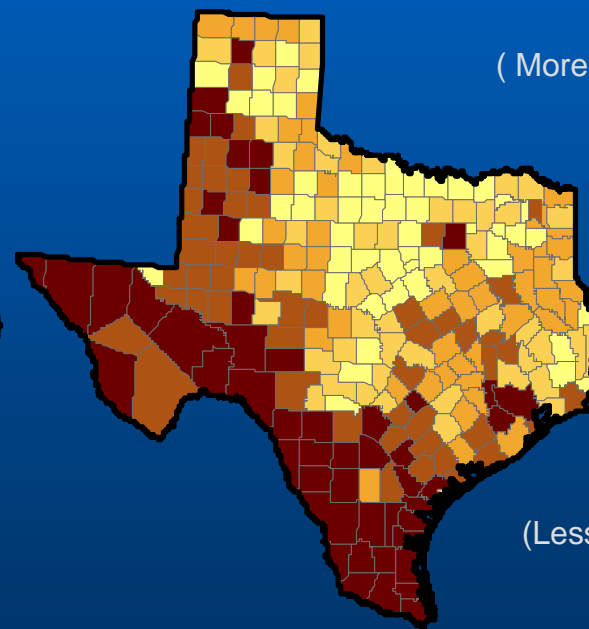
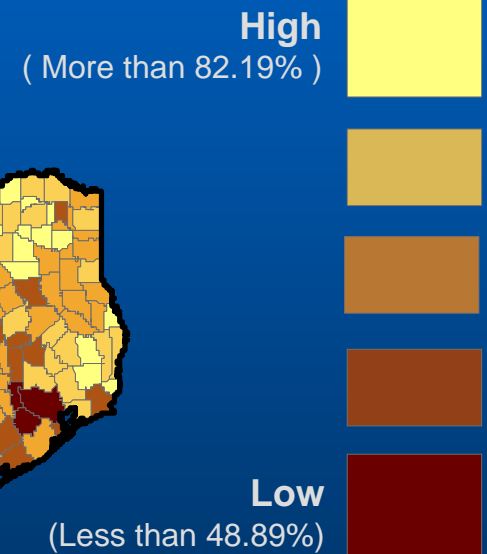
Note: Data displayed in quintiles for Texas and by county; the credit score is the TU Generic Consumer Credit Score; low is below 595.

County credit scores are also strongly related to racial distributions

Proportion of Low Consumer Credit Scores to All Scores (2004)



Percentage of White Population (2000)

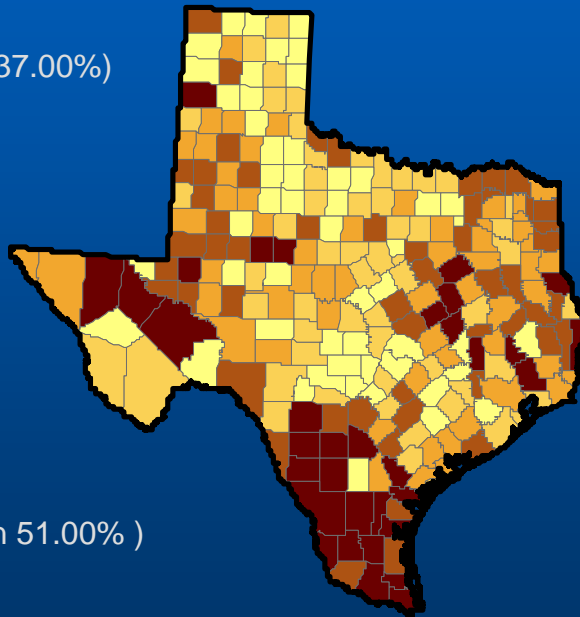
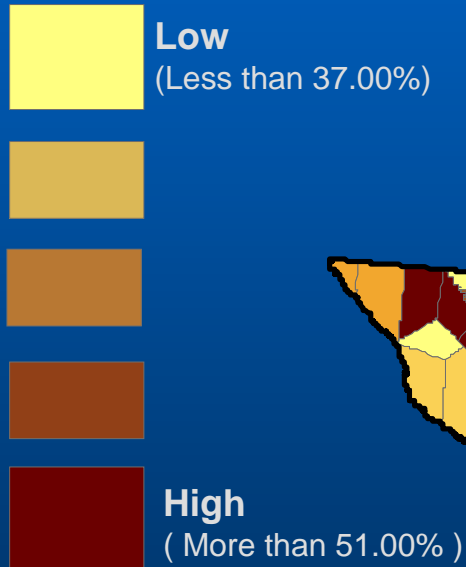


Source: Matt Fellowes, The Brookings Institutions, analysis of TransUnion's trend database.

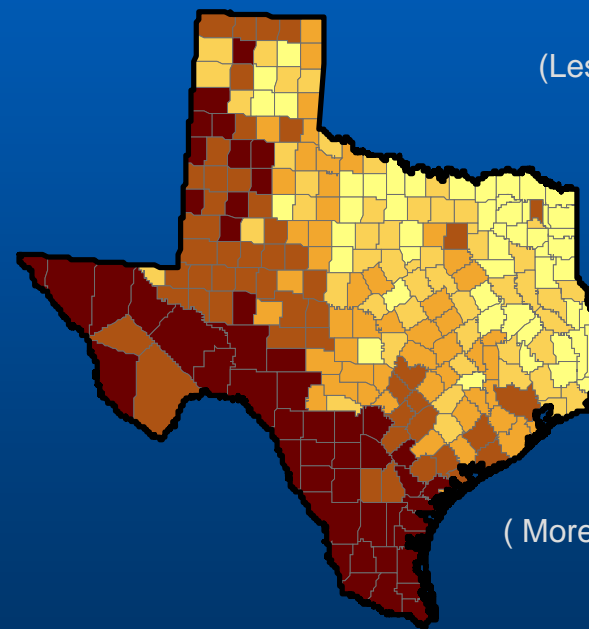
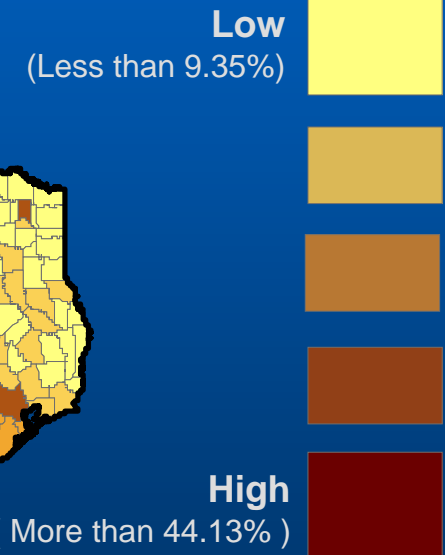
Note: Data displayed in quintiles for Texas and by county; the credit score is the TU Generic Consumer Credit Score; low is below 595.

County credit scores are also strongly related to racial distributions

Proportion of Low Consumer Credit Scores to All Scores (2004)



Percentage of Hispanic or Latino Population (2000)

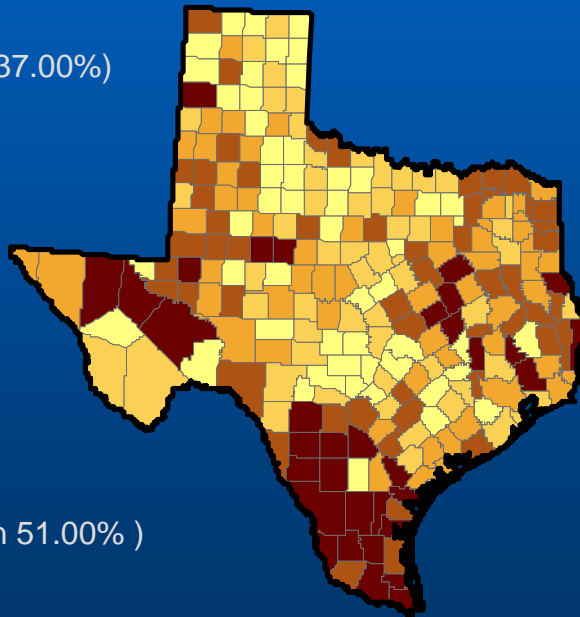
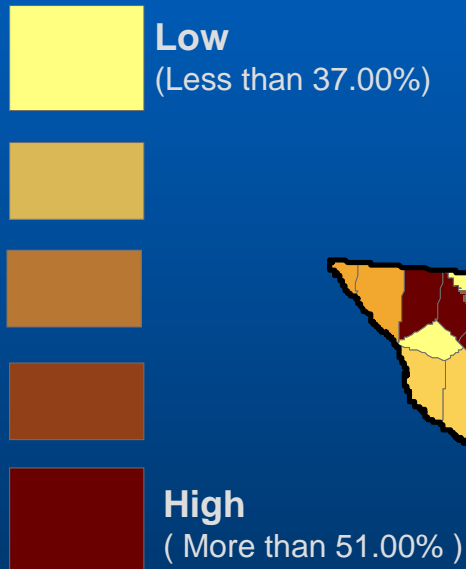


Source: Matt Fellowes, The Brookings Institutions, analysis of TransUnion's trend database.

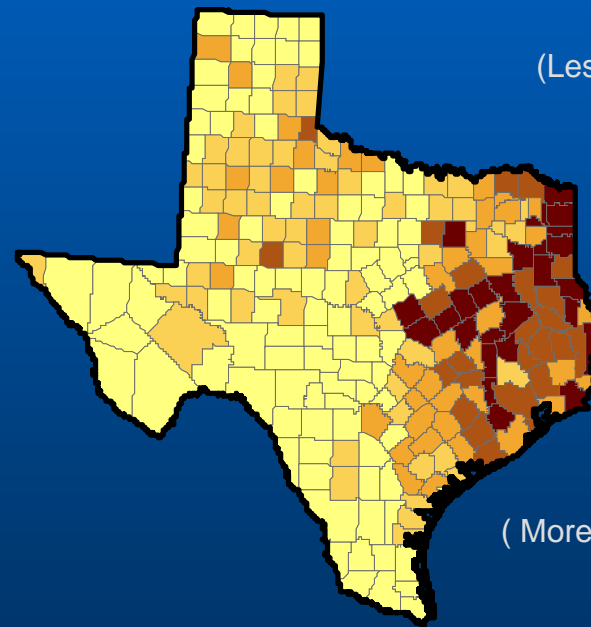
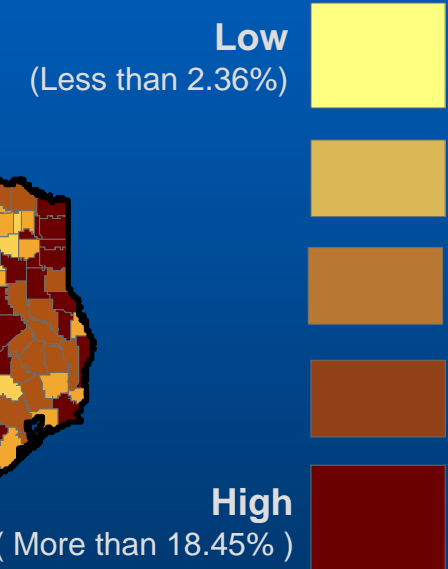
Note: Data displayed in quintiles for Texas and by county; the credit score is the TU Generic Consumer Credit Score; low is below 595.

County credit scores are also strongly related to racial distributions

Proportion of Low Consumer Credit Scores to All Scores (2004)



Percentage of Black Population (2000)

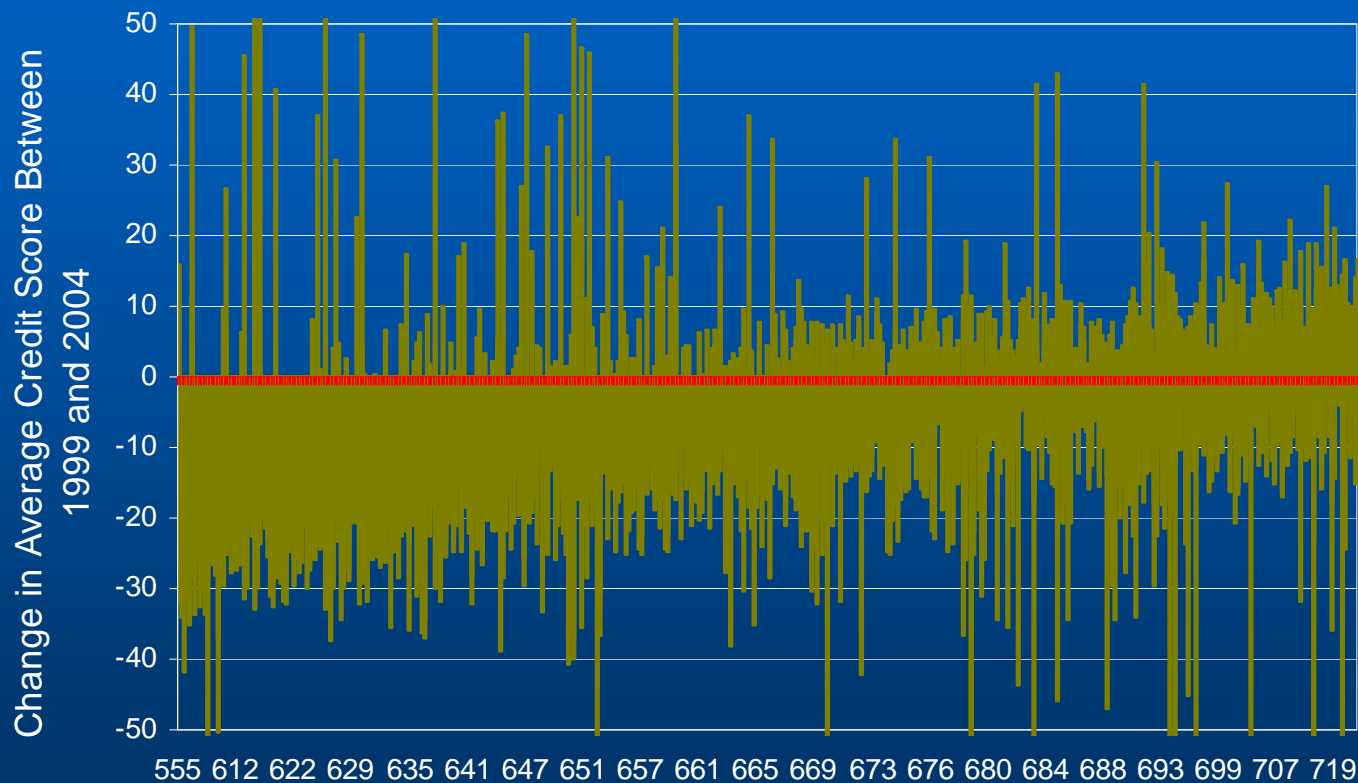


Source: Matt Fellowes, The Brookings Institutions, analysis of TransUnion's trend database.

Note: Data displayed in quintiles for Texas and by county; the credit score is the TU Generic Consumer Credit Score; low is below 595.

We also looked for evidence of path-dependence, since there is a lot of concern that high-priced credit can erode financial security over time without more education.

We found some preliminary evidence of this: counties with strong credit scores tend to improve over time; counties with weak scores tend to decline. And, the negative effects of this trend are concentrated in the South.



Average Consumer Credit Score in 1999, by county

Source: Matt Fellowes, The Brookings Institutions, analysis of TransUnion's trend database.

Note: The illustrated credit score is the TU Generic Consumer Credit Score.

But, this is just preliminary evidence because there are a host of intervening factors that could be driving this trend. Better data would look at individuals over time.

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A lot of research...

On individual credit report files

On financial education

On new applications of credit report information

And, on alternative scoring models

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ANNOUNCEMENT

Urban Center Becomes Metropolitan Program

In a major promotion, the Center on Urban and Metropolitan Policy this month became the Brookings Metropolitan Policy Program—and the first new Brookings department established since 1948. The new status reflects the rising importance of metropolitan issues to the domestic and global challenges Brookings seeks to address.

▶ read an open letter from Brookings President Strobe Talbott

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Mechanisms for Market-Based Land Use Control

Using case studies and a national survey, this paper examines transfers of development rights (TDRs) and other market-based land preservation techniques like mitigation banking and density transfer fees.

IMMIGRATION

Washington Goes Polyglot

Metro Washington's "limited English proficient" (LEP) population