Research Paper

Pulse Points: Disparities in Credit Scores and Length of Credit History

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Introduction

Credit scores, which transform the information on a consumer's credit report (such as loan repayment history and credit use) into a single metric predicting default risk,[1] are used by lenders in hundreds of millions of underwriting decisions a year.[2, 3] These scores directly affect access to mortgages, credit cards, auto loans, and other forms of credit, impacting consumers' wealth-building opportunities.[4] Borrowers with lower scores typically receive higher interest rates and lower credit limits, compromising their ability to manage emergencies or finance large purchases.[5] Credit scores also play a role beyond loan underwriting. For example, landlords can use credit scores when approving tenants, and insurers may use them when setting rates, impacting access to housing and protection against risk.[6] For all these reasons, **credit health is an important indicator of financial health.**[7]

Structural racism in the U.S. has directly impacted credit access and wealth along racial and ethnic lines. For example, discrimination in mortgage lending in the mid-20th century boosted homeownership (and thus wealth-building) for white Americans while excluding Black people.[8] More recently, during the Great Recession, subprime mortgage lending was disproportionately concentrated in communities of color, leading to higher foreclosure rates among Black and Latinx[9] borrowers.[10, 11] These are just the latest chapters in a long history of disenfranchisement, especially for Black Americans, stemming from slavery, reconstruction, and Jim Crow and leading to large and persistent racial wealth and income gaps.[12, 13, 14] In addition, Latinx and Asian Americans are more

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[1] Christina Gibbs et al., "Consumer Credit Reporting Data," National Bureau of Economic Research, August 2024.
[2] Federal Reserve Bank of New York, "Quarterly Report on Household Debt and Credit, Q2 2024," August 2024.
[3] Consumer Financial Protection Bureau, "The Impact of Differences Between Consumer- and Creditor-Purchased Credit Scores," July 20.
[4] Jung Hyun Choi et al., "Explaining the Black-White Homeownership Gap: A Closer Look at Disparities Across Local Markets," Urban Institute, October 2019.
[5] Consumer Financial Protection Bureau, "The Consumer Credit Card Market," October 2023, p. 54.
[6] Chi Chi Wu and Ariel Nelson, "Mission Creep: A Primer on Use of Credit Reports & Scores for Non-Credit Purposes," National Consumer Law Center, August 2022.
[7] Financial Health Network, "Ways to Measure Financial Health."
[8] Federal Reserve History, "Redlining," June 2023.
[9] The Financial Health Network recognizes that language evolves and different communities identify using different terminology. To refer to the Latino/a/e community in this report, we use the term Latinx to reflect the current phrasing of our survey question. See Appendix for more details on our race and ethnicity variable.
[10] Jacob S Rugh et al., "Racial Segregation and the American Foreclosure Crisis," American Sociological Review, October 2014.
[11] U.S. Department of Housing and Urban Development, "Unequal Burden: Income and Racial Disparities in Subprime Lending in America."
[12] Ellora Derenoncourt et al., "Wealth of Two Nations: The Racial Wealth Gap, 1860–2020," The Quarterly Journal of Economics, Vol. 139, Issue 2, May 2024.
[13] Urban Institute, "Nine Charts about Wealth Inequality in America," April 2024.
[14] Kristen Broady et al., "Racial Wealth Gains and Gaps: Nine Facts About the Disparities," Federal Reserve Bank of Chicago, February 2024.

likely to have been born outside the U.S.,[15, 16] and many recent immigrants face the challenge of building a credit history from scratch later in life.[17] These hurdles can make it especially difficult for people of color to build prime credit scores.

Several previous studies have established that Black and Latinx consumers generally have lower credit scores than white and Asian consumers.[18, 19, 20, 21] However, these studies have often relied on datasets that either lacked respondents' self-reported racial identity or were not nationally representative, limiting their ability to capture the full diversity of household experiences. And while recent research has extensively explored racial and ethnic disparities in debt repayment and delinquency,[22] there has been limited recent focus on how other aspects of consumers' credit histories – such as length of credit history – are contributing to these gaps. As a result, financial health stakeholders have an incomplete picture of where they can best focus their efforts to improve racial and ethnic credit score disparities.[23]

In this report, **we debut an innovative data source to help understand racial and ethnic disparities in credit health – credit records matched to a nationally representative survey from our Financial Health Pulse® research initiative**. We use these data to estimate racial and ethnic gaps in credit scores and to explore an important source of score disparities: differences in length of credit history. We focus on this because while credit history is an important credit score input, racial disparities in length of credit history are not well understood. **A deeper understanding of racial and ethnic disparities in length of credit history can help financial service providers address credit health inequities by intervening earlier to guide their customers in their credit journey.**

[15] Pew Research Center, "A Brief Statistical Portrait of U.S. Hispanics," June 2022.
[16] Pew Research Center, "Appendix: Demographic Profile of Asian American Adults," May 8, 2023.
[17] Board of Governors of the Federal Reserve System, "Report to the Congress on Credit Scoring and Its Effects on the Availability and Affordability of Credit," August 2007.
[18] Ibid.
[19] Jung Hyun Choi et al., "Reducing the Black-White Homeownership Gap through Underwriting Innovations," Urban Institute, October 2022.
[20] Urban Institute, "Credit Health during the COVID-19 Pandemic," March 2022.
[21] Neil Bhutta et al., "How Much Does Racial Bias Affect Mortgage Lending? Evidence from Human and Algorithmic Credit Decisions," Board of Governors of the Federal Reserve System, August 2022.
[22] See for example: Urban Institute 2023, Neelakantan 2023, LaVoice and Vamossy 2023, Avtar, Chakrabarti, and Chatterji-Len 2021, Kiel and Fresques 2017, and Dettling et al 2017.
[23] The most recent research evaluating the impact of various aspects of credit histories on racial and ethnic credit score gaps comes from a Federal Reserve study using data from 2003 and 2004. Board of Governors of the Federal Reserve System, "Report to the Congress on Credit Scoring and Its Effects on the Availability and Affordability of Credit," August 2007.

A New Approach: Connecting Survey and Credit Data

The Equal Credit Opportunity Act prohibits lenders from considering race when making lending decisions.[24] As a result, lenders generally do not collect race and ethnicity information about individual borrowers or report it to consumer reporting agencies (CRAs). Thus, researchers analyzing samples of credit data provided by CRAs must often rely on proxies (e.g., the racial composition of geographic location and/or surname) or matches from other data sources (e.g., marketing data, Social Security records) when estimating racial variation in credit health.[25, 26, 27, 28, 29] Imputations and proxies of racial identity can introduce biases into estimates. Research using Home Mortgage Disclosure Act (HMDA) data or matched Social Security records is able to circumvent this challenge. Mortgage applicants, however, are not representative of the nation as a whole, and Social Security records are not regularly available to researchers.[30]

While the existing research on racial and ethnic variation in credit scores is a vital starting point for our understanding of disparities in credit health, the data sources available to researchers before now have made it difficult to:

1. Produce up-to-date, nationally representative estimates of credit characteristics by race and ethnicity that can be generalized to U.S. consumers.
2. Understand relationships between credit health and other consumer characteristics that are not captured in credit data but that play an important role in consumer credit interactions. These include consumer attitudes, expectations, personality traits, and financial characteristics such as cash flow and income volatility.

We overcome these limitations by using our nationally representative, probability-based Financial Health Pulse survey data linked to credit records from one of the three major CRAs.[31] Survey

[24] U.S. Department of Justice, "The Equal Credit Opportunity Act."
[25] Jung Hyun Choi et al., "Reducing the Black-White Homeownership Gap through Underwriting Innovations," Urban Institute, October 2022.
[26] Urban Institute, "Credit Health during the COVID-19 Pandemic," March 2022.
[27] Neil Bhutta et al., "How Much Does Racial Bias Affect Mortgage Lending? Evidence from Human and Algorithmic Credit Decisions," August 2022.
[28] Board of Governors of the Federal Reserve System, "Report to the Congress on Credit Scoring and Its Effects on the Availability and Affordability of Credit," August 2007.
[29] Mike Hepinstall et al., "Driving Growth with Greater Credit Access," Experian, 2022.
[30] The only prior research we are aware of matching credit bureau data to Social Security records uses data from 2003 and 2004 (Federal Reserve Board 2007, Avery, Brevoort, and Canner 2010).
[31] Only one prior study has taken this approach ("Credit Card Debt and Consumer Payment Choice: What Can We Learn from Credit Bureau Data?" Stavins 2020), but it did not focus on racial disparities in credit scores. The study also used an Equifax-specific risk score not directly comparable to the more commonly used FICO or VantageScore scores, and its data came from a pilot that is no longer active. Building on this foundation, we use data from the same panel on which the 2014-2016 pilot was conducted, with a new focus on racial disparities in credit scores.

respondents consent to anonymously link their survey responses to deidentified information from their credit records. The resulting data contains a wealth of information about their current and past credit use, captured in the same month they took the Pulse survey.

This report represents our debut of this data and focuses on racial and ethnic disparities. Future reports will connect other Pulse survey insights to consumer credit characteristics. For more information on how we link survey responses to credit records, please see the Appendix.

Even with this critical step forward in understanding consumer credit health, some limitations remain. Because not every adult in the U.S. has a credit report, our sample is a rough representation of the credit visible population in the U.S. rather than a representation of the entire U.S. population. Throughout this report, "consumers" is shorthand for "consumers with a credit record." Even with this caveat, we urge an additional caution. Since there are no available U.S. Census benchmarks for credit visible adults in the U.S., we have limited insight into the ways our sample may be biased with respect to that population. For more details on data collection methodology and weighting, see the Appendix.

Vast Racial and Ethnic Disparities Exist in Credit Scores

Credit scores are calculated based on the information in credit records. Consumers have more than one credit score because there are three major CRAs, each using multiple scoring models. We have access to survey respondents' VantageScore 4.0, which uses the same scale as FICO credit scores (300 to 850) and is structured to create consistent scores across credit bureaus.[32]

Consistent with prior research, **we find vast disparities in credit scores by race and ethnicity.**[33, 34, 35, 36] Mirroring racial and ethnic gaps in other dimensions of household finances such as income and wealth, Asian consumers had the highest average credit score (774), followed by white consumers (729), Latinx consumers (702), and Black consumers (643).[37, 38, 39] To put these gaps into context, the average Black credit score was in the near prime range – barely eligible for conventional mortgages – while the average Asian credit score was almost super-prime and likely eligible for many low interest rate and high credit limit products.[40]

We also found that over a third (39%) of Black consumers had credit scores in the subprime range, the lowest credit score tier. This is nearly twice the share of Latinx consumers (21%) and more than twice the share of white consumers who were subprime (14%) (Figure 1). By contrast, 45% of white consumers had a credit score in the highest tier – super-prime – more than three times the share of Black consumers with a super-prime credit score and a 55% larger share than Latinx consumers.

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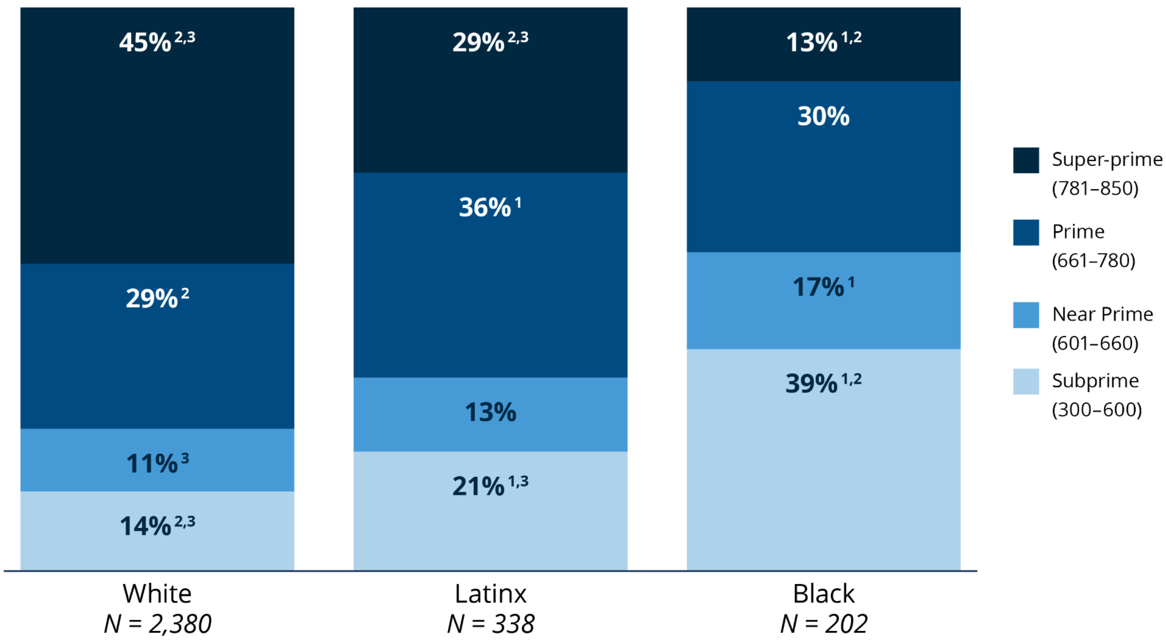
[32] Christa Gibbs et al., "Consumer Credit Reporting Data," National Bureau of Economic Research, August 2024. See Online Appendix.
[33] Jung Hyun Choi et al., "Reducing the Black-White Homeownership Gap through Underwriting Innovations," Urban Institute, October 2022.
[34] Urban Institute, "Credit Health during the COVID-19 Pandemic," March 8, 2022.
[35] Neil Bhutta, Aurel Hizmo, and Daniel Ringo, "How Much Does Racial Bias Affect Mortgage Lending? Evidence from Human and Algorithmic Credit Decisions," Board of Governors of the Federal Reserve System, August 2022.
[36] Board of Governors of the Federal Reserve System, "Report to the Congress on Credit Scoring and Its Effects on the Availability and Affordability of Credit," August 2007.
[37] Urban Institute, "Nine Charts about Wealth Inequality in America," April 2024.
[38] Kristen Broady et al., "Racial Wealth Gains and Gaps: Nine Facts About the Disparities," Federal Reserve Bank of Chicago, February 2024.
[39] Our sample size of Asian consumers (N = 156) is large enough to estimate a mean credit score but not large enough to report out the share falling into each credit score tier. As a result, we have chosen to omit Asian consumers from Figure 1.
[40] Consumer Financial Protection Bureau, "The Consumer Credit Card Market," October 2023.

Figure 1. Racial and ethnic disparities in credit scores are vast.

VantageScore tier distributions by race and ethnicity.



Notes: Financial Health Pulse 2022 survey data merged with credit data. Other racial identities excluded from analysis due to small sample sizes. Credit tiers reported are defined by VantageScore. 41 out of 3,368 respondents with credit records did not have a VantageScore.

[1] Statistically significant relative to white at $p < .05$

[2] Statistically significant relative to Latinx at $p < .05$

[3] Statistically significant relative to Black at $p < .05$

While these racial disparities in credit scores are, in part, a product of long-standing racial and ethnic wealth gaps, they also reinforce those wealth gaps. This is especially true for subprime borrowers, whose access to mainstream credit products, such as mortgages or credit cards, is extremely limited. For example, conventional mortgages typically require a credit score of at least 620, 20 points higher than the top of the subprime score range as defined by VantageScore. This means that at least 39% of Black consumers are likely ineligible for a conventional mortgage based on their credit score alone.[41] More generally, the lower credit scores held by Black and Latinx consumers

[41] Because the VantageScore tiers do not perfectly align with the commonly used 620 score cutoff for conventional mortgages, one view of our estimates in Figure 1 is that the proportion of consumers who are "subprime" is a conservative estimate of the percentage who would not qualify for a conventional mortgage. Some non-conventional loans accept a lower minimum credit score. For more on mortgage eligibility, see: Experian, "What Credit Score Do I Need to Buy a House?"

imply that they face higher interest rates and spend a greater share of their income on fees and interest, making it more challenging to pay off debt and save.[42, 43]

A Note on Asian Diversity

Our data and other research shows that Asian consumers in the U.S. have higher average credit scores than white, Latinx, and Black consumers, as well as higher levels of wealth, income, and educational attainment.[44, 45] This should not be taken as evidence that Asian Americans do not face structural barriers to financial health. All racial and ethnic groups contain considerable diversity, and Asian Americans are no exception. At least 20 distinct national origin groups from East, Southeast, and South Asia are represented in the United States, with widely varying levels of average educational attainment and income.[46] Asian communities, like other communities of color, have also faced direct economic harm at the hands of American public policy. For example, many Japanese Americans were stripped of assets during World War II.[47] As the research community's ability to sufficiently sample and represent Asian Americans in research grows, we will gain a deeper understanding of these critical nuances and their policy implications.

Shorter Latinx and Black Credit Histories Likely Contribute to Credit Score Disparities

Longer credit histories contribute to higher credit scores because they provide lenders with more information about a borrower's ability to repay debt.[48, 49] For this reason, establishing a credit history earlier in life and keeping accounts open for longer can benefit credit health. Yet various factors may lead Black and Latinx consumers to have shorter credit histories than Asian and white consumers, including differences in how they establish credit and how their credit accounts are closed.

[42] Consumer Financial Protection Bureau, "The Consumer Credit Card Market," October 2023.
[43] Financial Health Network, "FinHealth Spend Report 2024," August 2024.
[44] Federal Reserve Bank of St. Louis, "Asian American Households Had More College Grads, Higher Incomes in 2022," August 2024.
[45] Federal Reserve Bank of St. Louis, "Wealth and Its Distribution: A Look at Asian American Households in 2022," August 2024.
[46] Pew Research Center, "Key Facts About Asian Origin Groups in the U.S.," April 2021.
[47] C. Aujean Lee et al., "Asian American and Pacific Islander Wealth Inequality and Developing Paths to Financial Security," *AAPI Nexus Journal*, Vol. 13, No. 1 & 2, Fall 2015.
[48] VantageScore, "The Complete Guide to Your VantageScore," October 2019.
[49] myFICO, "How the Length of Your Credit History Impacts Your FICO Score."

For example, lower incomes, discrimination, lower levels of trust in financial institutions, and even geographic disparities in credit marketing may make Black and Latinx people less likely to apply for and be approved for credit earlier in life, resulting in a slower start to building credit history.[50, 51, 52, 53]

Consumers may also have shorter credit histories if their credit accounts are closed sooner. Closed accounts are eventually removed from credit records and no longer contribute to a consumer's length of credit history.[54] Research points to two reasons Black and Latinx consumers may experience higher rates of account closure: higher delinquency rates, which can trigger a lender to close an account, and a lower likelihood of holding mortgages and credit cards, which are typically open longer and can help build longer credit records.[55]

To investigate racial and ethnic disparities in length of credit history, we observe how long ago the oldest still-visible account on each consumer's credit record was established. This is the length of the consumer's credit history that is visible to lenders and used in credit scoring models.

We find that, on average, Asian and white consumers had older visible credit histories than Latinx consumers. All groups had older visible credit histories than Black consumers (Figure 2).[56] White consumers' credit records had about two more years of visible repayment history than Latinx consumers' records and five more years of visible repayment history than Black consumers' records.

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[50] Devra Pager, Hana Shepherd "The Sociology of Discrimination: Racial Discrimination in Employment, Housing, Credit, and Consumer Markets," Annual Review of Sociology 34:181–209

[51] Financial Health Pulse data shows that Asian and white households report higher levels of trust in financial institutions than Black and Latinx households (analysis available upon request). Additionally, some recent qualitative research has pointed to distrust as a barrier to investing for Americans of color (see: Judy T. Lin et al., "Investors of Color in the United States," January 2024).

[52] Simon Firestone, "Race, Ethnicity, and Credit Card Marketing," Journal of Money, Credit and Banking, Vol. 46, No. 6, September 2014.

[53] Ethan Cohen-Cole, "Credit Card Redlining," The Review of Economics and Statistics, May 2011.

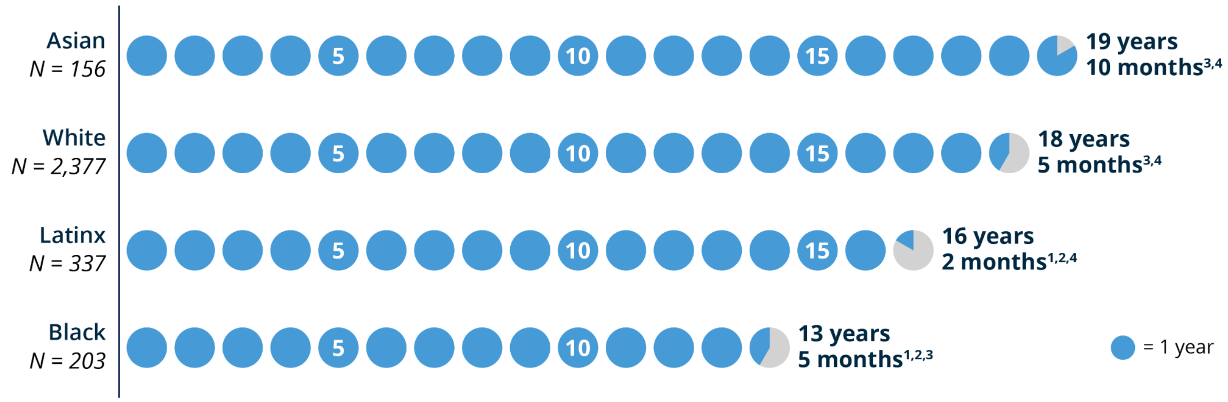
[54] Accounts that are closed in good standing drop off of one's credit report 10 years after closing, and derogatory closed accounts drop off of a credit record 7 years after their original delinquency date. After closed accounts disappear, they are no longer included in calculations of credit history length or any other component of a credit score (see: Jim Akin, "When Are Closed Accounts Deleted?" Experian, May 2023).

[55] In our credit data sample, Asian and white consumers are both more likely to have mortgages and credit cards reflected on their credit reports than Black and Latinx consumers. See also other research on differences in credit card and mortgage ownership by race, such as "Economic Well-Being of U.S. Households in 2021," Federal Reserve Board, 2021.

[56] We controlled for consumer age in these estimates because length of credit history is partly a function of age and because the Asian and Latinx respondents in our sample are younger on average than Black and white respondents. The patterns we observe are directionally similar, even without controlling for age. The racial and ethnic groups in our sample also differed on other socioeconomic characteristics that could account for variations in length of credit record. Yet even after adding additional controls for income, education, and immigrant status, on average, white consumers' credit histories remained about 44 months older than for Black consumers and 21 months older than for Latinx consumers.

Figure 2. Asian and white consumers have longer visible credit histories.

Average age (in years) of oldest account on credit report by race and ethnicity, controlling for age of consumer.



Notes: Financial Health Pulse 2022 survey data merged with credit data. Estimates are from linear regressions controlling for the respondent's age and holding age at its mean. 46 consumers had no accounts on their credit records and were excluded from the analysis. Other racial identities are not shown due to small sample sizes.

[1] Statistically significant relative to Asian at $p < .05$

[2] Statistically significant relative to white at $p < .05$

[3] Statistically significant relative to Latinx at $p < .05$

[4] Statistically significant relative to Black at $p < .05$

As a result, longer credit histories are likely to improve the credit scores of Asian and white consumers relative to Latinx and Black consumers, contributing to racial and ethnic disparities in credit scores. The gaps estimated here likely reflect a mixture of Black and Latinx people becoming credit visible later in life, being less likely to hold accounts like mortgages and credit cards that tend to stay open longer, and being more likely to have accounts that closed due to delinquency.

Black Borrowers May Receive Less Assistance Lengthening Their Credit Histories

Another reason Black and Latinx consumers have shorter visible credit histories may be their relatively limited access to friends and family with strong credit who can assist in lengthening their credit histories. Prior research has established that financial support patterns vary by race and ethnicity. For example, while Black families are more likely than white and Latinx families to receive financial support from family or friends, both Black and Latinx families receive smaller dollar amounts of support and fewer large gifts and inheritances than white families due to racial and ethnic disparities in household financial resource levels.[57, 58, 59, 60] However, very little research has directly explored racial and ethnic disparities in receiving assistance from family or friends to establish or lengthen a credit record.

Consumers can use the strength of their own credit history to help family or friends establish or lengthen their credit record in two primary ways: joint accounts and authorized user accounts. These two methods impact the length of one's visible credit history and credit score in slightly different ways.

A joint account is established with a cosigner who shares legal responsibility for the debt. Joint ownership can help a new borrower establish a credit history because lenders may be more willing to extend credit to someone with a limited credit history if they have a cosigner with a strong credit history.[61]

Unlike a joint account holder, an authorized user has been given access to a line of credit but is not liable for the debt. A borrower with a strong credit history can help a borrower establish their credit record or lengthen their credit history by adding them as an authorized user to an existing account. The authorized user then receives the entire payment history for that account on their own credit record.[62] In some cases, this can instantly and dramatically increase the length of the authorized user's visible credit history length. Both FICO and VantageScore state that the newer versions of their models weigh authorized user accounts less heavily than other accounts, but the added credit history can still contribute to a higher credit score.[63, 64, 65, 66]

In our credit report data, we can determine whether the oldest visible account on a borrower's record is a joint account or an account to which they were added as an authorized user. Using this

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[57] Signe-Mary McKernan et al., "Do Racial Disparities in Private Transfers Help Explain the Racial Wealth Gap?," Urban Institute, May 2014.
[58] Stack, C. B. (1974). All Our Kin: Strategies for Survival in a Black Community. Basic Books.
[59] Sarkisian, et al., "Kin Support among Blacks and Whites: Race and Family Organization."
[60] Teresa Toguchi Swartz, "Intergenerational Family Relations in Adulthood: Patterns, Variations, and Implications in the Contemporary United States," Annual Review of Sociology, Vol. 35, 2009.
[61] Kenneth P. Brevoort and Michelle Kambara, "Becoming Credit Visible," Consumer Financial Protection Bureau, June 2017.
[62] Robert Avery et al.,"Credit Where None is Due? Authorized-User Account Status and Piggybacking Credit," Board of Governors of the Federal Reserve System, May 2010.
[63] myFICO "What Is an Authorized User?"
[64] VantageScore, "VantageScore 4.0: User Guide." VantageScore Solutions, September 2022.
[65] VantageScore, "What Are Best Practices When It Comes to Credit Health?" VantageScore Solutions.
[66] Robert Avery et al., "Credit Where None is Due? Authorized-User Account Status and Piggybacking Credit," p. 518-47. Board of Governors of the Federal Reserve System, May 2010.

information, we can identify consumers who effectively lengthened their credit history via joint accounts or authorized user accounts.

A substantial portion of the population has their credit history lengthened via these account types. Among those with at least one account on their credit records, we find that 17% of borrowers' oldest visible accounts were joint accounts, and 12% were accounts where they were added as an authorized user. Together, **over a quarter (29%) of borrowers' oldest visible accounts were established with assistance from a friend or family member using one of these two methods, but this varies dramatically by race and ethnicity.**

Asian, Latinx, and white consumers were more than twice as likely as Black consumers to have jointly held accounts or authorized user accounts as their oldest visible accounts (Table 1). Over a quarter of Asian (31%), Latinx (32%), and white (27%) consumers' oldest accounts were joint accounts or accounts where they were added as authorized users, compared with only 12% of Black consumers. This is consistent with the possibility that Black consumers are less likely to have family and friends with prime credit who can assist them in establishing a credit record, helping to explain why they have shorter average credit histories.

Table 1. Black consumers are the least likely to have received assistance opening their first account.

Percentage whose oldest account was either joint or authorized user, by race and ethnicity.

Race or Ethnicity	Asian	White	Latinx	Black
Oldest account was opened independently	69%[4]	68%[4]	73%[4]	88%[1, 2, 3]
Oldest account is joint or authorized user account	31%[4]	32%[4]	27%[4]	12%[1, 2, 3]
Total	100%	100%	100%	100%
N	156	2,377	337	203

Notes: Financial Health Pulse 2022 survey data merged with credit data. We combine joint and authorized user accounts to avoid reporting very small cell sizes for Black and Asian consumers. 46 credit records had no accounts and were excluded from the analysis. Other racial identities were excluded from the analysis due to small sample sizes.

[1] Statistically significant relative to Asian at $p < .05$

[2] Statistically significant relative to white at $p < .05$

[3] Statistically significant relative to Latinx at $p < .05$

[4] Statistically significant relative to Black at $p < .05$

Conclusion

Access to mainstream credit can be crucial for a household's ability both to build wealth (for example, by financing a home) and to respond to financial shocks (for example, by covering a surprise expense with a credit card rather than a payday loan). Credit scores play an important role in determining this access, and they also lay bare the vast disparities in credit access that exist along racial and ethnic lines in the U.S. These disparities both fuel and are fueled by long-standing racial inequities in wealth, income, and opportunity.

In this report, we do not address whether or how credit scoring algorithms should be altered to improve racial equity. These are vitally important policy questions that are outside the scope of this analysis. For now, we focus on racial and ethnic gaps in one particular aspect of credit scoring and their implications for building a more equitable credit ecosystem.

Our findings reveal that racial disparities in one component of credit health – length of credit history – contribute to disparities in credit scores. We also find that Black consumers less frequently establish or lengthen their credit histories through joint account ownership or authorized usership. This raises concerns about the availability of these strategies to people of different racial and ethnic identities.

Because credit score disparities stem from long-standing wealth and income gaps, fully closing racial and ethnic credit score gaps is a large-scale policy problem that requires cross-sector solutions. Some historians, policy experts, and advocates have argued that the Black-white wealth gap, in particular, is unlikely to close without bold solutions such as baby bonds and reparations for slavery.[67, 68] In the near term, our findings also hold important implications for financial institutions and community organizations that aim to improve racial equity in credit access and wealth building, which we explore below.

There are substantial racial and ethnic disparities in credit scores.

- Financial institutions can positively impact racial equity by focusing on their customers with subprime credit. Any actions taken to improve the credit of subprime customers will likely disproportionately help the Black and Latinx members of their customer base.

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[67] Prosperity Now, "Baby Bonds."
[68] William Darity et al., "From Here to Equality: Reparations for Black Americans in the Twenty-First Century." University of North Carolina Press, 2020.

- Tools like credit builder loans and secured cards are often proposed to help borrowers with no history establish credit and to help subprime borrowers rebuild their credit. However, these products can carry risks as well, and more evidence is needed to determine who could benefit from which of these products at which times.
- Organizations like Working Credit offer workshops through employers and program providers with a racial equity lens to help establish and build credit.

One contributing factor to racial and ethnic disparities in credit scores is that Black and Latinx consumers have shorter visible credit histories, a key input to calculating credit scores in many scoring models.

- Financial institutions and community organizations could explore safe ways to help younger adults establish credit records earlier and keep accounts open longer.
- Entry-level credit builder products can be designed to both help new borrowers establish a credit history and lengthen it. For example, secured card issuers could offer a graduation path to unsecured credit on the same account, enabling the borrower to keep that first line of credit open longer.
- Lenders should clearly disclose the risks associated with credit-building products, including under what conditions they may damage credit scores (e.g., what types of negative information are reported to CRAs).[69]
- An important next step will be understanding the extent to which later account openings vs. earlier account closures contribute to racial and ethnic length of credit history gaps to help develop more targeted solutions.

Black borrowers are less likely to have the length of their credit histories lengthened from joint ownership and authorized usership.

- Financial institutions and community organizations can ensure that the communities they serve are aware of joint ownership or authorized usership as tools to get a healthy credit record started while noting their risks.[70, 71] For example, parents with credit cards with long, positive payment histories should know the possible benefits of adding their adult children as authorized users.
- Our data do not allow us to directly observe who consumers are receiving assistance from when establishing joint and authorized user accounts, leaving a few open questions for future research. This data would help us understand differences in social financial support sources in greater detail.

[69] David Silberman, "Credit Building in the Digital Age: Opportunities and Risks From Fintech Innovations," Financial Health Network, May 2023.
[70] Consumer Financial Protection Bureau, "Why Would I Need a Co-Signer for an Auto Loan?," September 2023.
[71] Equifax, "What Is an Authorized User on a Credit Card?"

All stakeholders who work with borrowers should keep in mind that an improved credit score can positively impact other areas of financial health via access to homeownership, access to employment, lower interest rates on debt, access to higher credit limits, and even lower insurance premiums. Supporting a customer's credit health may also be a prudent business strategy for financial institutions, given that customers who perceive their primary financial institutions as supporting their financial health report stronger satisfaction and loyalty.[72] Efforts to assist Black and Latinx consumers in establishing positive credit earlier in life and keeping accounts open longer could benefit their credit health and, thereby, their resilience to economic shocks and ability to pursue wealth-building opportunities.

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[72] Marisa Walster et al., "Building Valuable Customer Relationships Through Financial Health," Financial Health Network, August 2020.

Appendix

Terminology

Consumer Reporting Agency (CRA): Also known as credit bureaus. There are three major U.S. CRAs: Equifax, TransUnion, and Experian. Lenders voluntarily report consumer repayment information to CRAs. CRAs compile this information into individual credit records.[73]

Credit Score: A quantitative metric of a consumer's default risk used to aid underwriting. Modern credit scores are the output of statistical models that use the information on a consumer's credit record to estimate the risk of the consumer defaulting (i.e., 90-day delinquency or worse) on an account in the next 24 months.[74] The major categories of inputs into the most commonly used models are:[75]

1. **Length of credit history:** the age of the oldest account and average account age
2. **Payment history:** the presence of past or current delinquencies or debt in collections
3. **Utilization:** the amount currently owed relative to total available credit on revolving accounts
4. **Credit mix:** the diversity of types of credit used, e.g., installment and revolving
5. **New credit:** the frequency of recent inquiries and accounts recently opened

Length of Credit History: A credit score input that considers a borrower's oldest and average account ages. A longer history of repaying debt and managing credit contributes to a higher score.[76, 77]

Credit Visibility: Credit visibility refers to whether or not an individual has a credit record with a CRA. Credit records are only established when a lender (or debt collector) reports information about that individual for the first time to a CRA. Thus, not all consumers in the U.S. are credit visible.

Joint Account: A joint account is one where two or more parties are mutually responsible for the debt. Joint ownership can help a new borrower establish a credit record because lenders may be more willing to extend credit to someone with a limited credit history if they have a cosigner with a strong credit history.[78]

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[73] Christa Gibbs et al., "Consumer Credit Reporting Data," National Bureau of Economic Research, August 2024.
[74] Louis DeNicola, "The Difference Between VantageScore® Scores and FICO® Scores," Experian, March 2022.
[75] Christa Gibbs et al., "Consumer Credit Reporting Data," National Bureau of Economic Research, August 2024.
[76] VantageScore, "The Complete Guide to Your VantageScore," October 2019.
[77] myFICO, "How the Length of Your Credit History Impacts Your FICO Score."
[78] Kenneth P. Brevoort and Michelle Kambara, "Becoming Credit Visible," Consumer Financial Protection Bureau, June 2017.

Authorized User Account: An authorized user is someone who has been given access to a line of credit but is not contractually liable for the debt. A borrower with a strong credit history can help a new borrower establish a credit history by adding them as an authorized user to an existing account. The authorized user then receives the entire payment history for that account on their own credit record.[79]

Linking Credit and Survey Data

In our Financial Health Pulse surveys, we ask for respondents' consent to anonymously link their survey responses to deidentified information from their credit records from a major Consumer Reporting Agency (CRA). Upon consenting, USC's Center for Economic and Social Research securely provides the respondent's name, date of birth, and address to the CRA, which attempts to find a matching credit record. In 2022, 62% of respondents consented, and the CRA matched 88% of those respondents to records. Information summarized from that credit record is scrubbed of personal identifiers and delivered to FHN for analysis on a secure server with restricted access.

The resulting dataset contains a wealth of information about the consumer's current and past credit use, captured in the same month they took the Pulse survey. In this report, we use data from the 3,368 respondents who responded to the 2022 Pulse survey, reported their racial and ethnic identity, and for whom we have 2022 credit data.

Consent rates varied by race and ethnicity, with white respondents being more likely to consent than Latinx respondents, followed by Asian and Black respondents (Table A1). Differences in consent rate by race and ethnicity could bias our results if the relationship between consent and any of our outcome variables also differs by race and ethnicity. For example, if the relationship between credit score and consent were strongly positive for white respondents but strongly negative for Black respondents, this would suggest our results overestimate the white-Black credit score gap because the white sample would be skewed toward higher credit scores while the Black sample would be skewed toward lower credit scores. To test for the presence of this bias, we conducted a separate analysis using logistic regressions modeling consent probability with interactions between race and self-rated credit score. We found no statistically significant or practically significant differences between racial and ethnic groups in terms of the relationship (i.e., slope) between self-rated credit score and consent. The small differences in estimated slopes between groups would likely account for no more than a 1-to-2 percentage point shift in the white-Black and white-Latinx subprime and

[79] Brevoort, Avery, and Canner (2013) Credit Where None is Due? Authorized-User Account Status and Piggybacking Credit Journal of Consumer Affairs 47(3) p. 518-47.

super-prime credit tier gaps. As a result, our overall takeaways about the direction and magnitude of credit score gaps are not likely meaningfully affected by racial variation in consent rates.

Table A1. Consent rates by race and ethnicity

Race and ethnicity	% Consenting to share credit data, 2022 survey respondents
Asian	50%
White	62%
Latinx	55%
Black	49%

Survey Weights

We apply weights to the analytic sample to reduce survey nonresponse bias and credit data nonconsent bias and to better align the sample with the general population. Because there are no national benchmarks for the credit visible population, determining how to weight merged credit and survey data is challenging. We explored various avenues and ultimately decided that the most transparent and effective solution was to apply base weights provided by the Understanding America Study and then weight the sample to general population benchmarks from the 2022 Census American Community Survey, using a technique called raking. The raking factors used were education level, race and ethnicity, age group, region, and gender. Weights were calculated for and applied to the sample of respondents with merged survey and credit data.

Our decision was partly informed by our interpretation of Consumer Financial Protection Bureau (CFPB) research on "credit invisibles."[80] This research revealed that while the credit invisible population is demographically different from the general population, it is relatively small (11%). As a result, the demographics of the credit *visible* population are similar to the general population. Two exceptions are that by weighting to the general population, we may slightly overrepresent young adults (roughly ages 18-24) and lower-income people in our estimates.

Lastly, the limited publicly available information about the distribution of credit scores in the general population suggests that our sample may overrepresent prime credit scores and underrepresent subprime credit scores.[81] To account for this, we repeated our analysis with an alternative weight using score tier distributions published by VantageScore as a raking factor. We found that average

[80] Consumer Financial Protection Bureau, "Data Point: Credit Invisibles," May 2015.
[81] Consumer Financial Protection Bureau, "Consumer Finances in Rural Areas of the Southern Region," June 2023.

credit scores decreased for all groups, but our results remained qualitatively similar, with large racial and ethnic gaps persisting. We elected not to report these results because we lack detailed insight into how VantageScore calculated these score tier distributions.

Our approach to weighting credit data is a work in progress and may evolve if new benchmarks for the credit visible population become available. Please contact us with any questions about our work in this continuously evolving research area.

Glossary of Variables Used

Variables from Consumer Reporting Agency

Measure Referred to in Results	Variable Description(s) from CRA	Additional Notes
Credit Score	VantageScore 4.0	We follow VantageScore's definition of credit score tiers.
Age of oldest account on credit report	"Number of months since the oldest trade was opened excluding collections and authorized user trades including indeterminates"	This variable reflects the age in months of the oldest trade on the respondent's credit record. It applies to all trades open or closed, as long as the trade has not dropped off their credit record.
Oldest account is joint account	"Number of months since the oldest trade was opened excluding collections including indeterminates" "Number of months since the oldest joint trade was opened excluding collections including indeterminates"	For those who have at least one joint trade on their credit record, if their oldest trade is exactly the same age as their oldest joint trade, we determine that their oldest trade was a joint trade. These variables count all trades open or closed.
Oldest account is authorized user account	"Number of months since the oldest trade was opened excluding collections including indeterminates" "Number of months since the oldest trade was opened excluding collections and authorized user trades including indeterminates"	For those whose oldest trade is older than their oldest non-authorized user trade, we determine that their oldest trade was an authorized user trade. These variables count all trades open or closed.

Presence of installment credit	"Total number of installment trades" (excluding first and second mortgages) "Total number of first mortgage trades" "Total number of second mortgage trades"	Respondents who have at least one of any of these types of trades are determined to have installment trades on their credit record. These variables count all trades open or closed.
Presence of revolving credit	"Total number of revolving trades"	Respondents who have one or more are determined to have at least one revolving trade on their credit record. These variables count all trades open or closed.

Variables from Survey Data

QB12. What is your race or ethnicity? Mark all boxes that apply. Note, you may report more than one group.

1. White
2. Hispanic, Latino, Spanish, or Latinx
3. Black or African American
4. Asian or Asian American
5. American Indian or Alaska Native
6. Middle Eastern or North African
7. Native Hawaiian or other Pacific Islander
8. Some other race or ethnicity (please specify)

Race and ethnicity	Unweighted count	Weighted percentage
Asian	157	4%
Black	210	11%
Latinx	340	13%
White	2,405	62%
Multiple races	194	8%
Other race/ethnicity	62	2%
Total	3,368	100%