COMMUNITY DEVELOPMENT BRIEF

Credit Inclusion in New York City

October 2015

Questions

1 To what extent are New York City residents participating in the mainstream credit market and building a positive credit history?

2 How much do inclusion levels differ between lower and higher income neighborhoods?

When individuals become part of the mainstream consumer credit market, they potentially gain access to a range of new economic opportunities. Credit products such as auto loans, mortgages, credit cards and student loans can be used to finance education and housing, among other things, and to cushion against financial shocks. By building a documented credit and payment history, borrowers can establish a higher credit score, which in turn can help open the door to new and affordable financing options. For individuals and communities, being part of the credit mainstream is a critical aspect of economic and financial inclusion.

Community development discussions commonly consider the consequences for communities of having low levels of attachment to mainstream financial services. The focus, however, is typically on people who lack basic banking services such as a checking account, or the "unbanked." In contrast, there is very little work on *credit* inclusion, or a community's level of attachment to the mainstream credit market. Credit inclusion can play an important role in community development. In communities with higher levels of attachment, residents are better positioned to secure affordable financing, and also to use credit to smooth uneven cash flows. There are few, if any, studies that measure credit inclusion or assess how rates of inclusion differ across communities.

This brief helps fill these gaps by developing a typology of credit inclusion for communities.[1] The analysis focuses on New York City and uses information from a representative sample of credit records to explore two questions:

- To what extent are New York City residents participating in the mainstream credit market and building a positive credit history?
- How much do inclusion levels differ between lower and higher income neighborhoods?

The answers to these questions will provide new data points for policy discussions surrounding financial inclusion, as well as for policymakers and practitioners interested in developing credit building programs, particularly in low and moderate income (LMI) communities.

What is the Community Development Brief series?

Community Development Briefs are short, data-driven reports that analyze community development topics in the Federal Reserve's Second District. Each brief highlights a distinct area of the NY Fed's work to support economic opportunities in low and moderate income (LMI) communities.

Contact the author

Mike Gedal
michael.gedal@ny.frb.org

1 This report benefited greatly from comments and suggestions from Jim Orr and Donghoon Lee. Any remaining errors or omissions are the author's.

Measuring Credit Inclusion

To assess the extent of credit inclusion in NYC, all adult residents are classified based on two criteria. The first consideration is whether a person is actively participating in the mainstream credit market, as indicated by having at least one active credit file account. Those who are non-participants can be viewed as "uncredited," or the credit market analogue to being "unbanked." The second consideration is whether people are using credit in a way that builds a positive credit profile, as opposed to having a negative effect on credit scores. Multiple factors contribute to an individual's credit score, such as duration of active accounts, timeliness of payment, and revolving credit utilization rates. In this brief, people are considered to be building a positive credit history if they have an active credit account and are not delinquent on any credit line.

The analysis relies on credit file information from the NY Fed Consumer Credit Panel (CCP), a representative sample drawn from anonymized credit records from Equifax, one of three major credit reporting bureaus in the US.[2] Using CCP/Equifax data for 2014Q4, it is possible to estimate the number of adults in New York who have an active mainstream credit account[3], as well as the subset of those individuals who are 30 or more days delinquent on at least one credit account.[4]

By combining credit data with counts of the total population of adults (age 18+) in NYC from the U.S. Census[5], each of the adult New Yorkers in the database can be assigned to one of the three credit inclusion categories described in Figure 1: Credit Builders, Participant Non-Builders, and Non-Participants.[6]

2 For a detailed description of CCP/Equifax data, see *An Introduction to the FRBNY Consumer Credit Panel* (Lee and van der Klaauw, 2010).

3 This analysis relies on a 5 percent sample of Equifax records in the five boroughs of NYC. Estimates of the total number of people in NYC with a particular characteristic are constructed by first counting the number of people with that characteristic and then simply multiplying by 20.

4 Accounts can include credit cards (bank issued and retail cards); auto loans; housing debt (mortgages and home equity loans); and student loans (federal loans and private loans). In general, an account is considered to be active if payment information has been updated in the last three months. Delinquent accounts can include the following categories: 30 or more days late, in collections, severely derogatory, and in bankruptcy.

5 Adults are defined as residents 18 years or older. Citywide and borough-level analyses rely on 2014 population estimates from the U.S. Census.

6 Note that these categories differ somewhat from those presented in the NY Fed's *Community Credit* data interactive. The purpose of this brief is to identify people who are actively building a positive credit file. As a result, people are considered to be "participants" if they have an active credit account. In contrast, the *Community Credit* interactive reports the share of adults who have a credit score listed on their file (regardless of whether they are actively using credit). For this reason, the share of adults classified as "Non-Participants" in this brief may be different from the share of adults classified as "Not Included" in the *Community Credit* interactive.

This brings us to the first of two questions: *To what extent are New York City residents participating in mainstream credit markets and building a positive credit history?*

Figure 1 shows that, according to this classification, about 69 percent of adults in NYC are accessing mainstream credit products. At the same time, about 31 percent of New Yorkers are classified as Non-Participants and can be thought of as the "uncredited" population.[7]

FIGURE 1 / **CREDIT INCLUSION IN NYC, 2014**

Credit Inclusion Category	Definition	Percent of NYC Adults (18+)
Credit Builder	Has a mainstream credit product and is current on all accounts	57.7%
Participant Non-Builder	Has a mainstream credit product and is delinquent on 1+ accounts	11.6%
Non-Participant[8]	Holds no mainstream credit products	30.6%

Notes: Sources are 2014Q4 CCP/Equifax data and 2014 U.S. Census population estimates. Due to rounding, may not sum to 100 percent.

In addition, about 58 percent of adults are using mainstream credit to actively build a positive credit profile (Credit Builders). A much smaller share of New Yorkers are classified as Participant Non-Builders, meaning they have accessed mainstream credit but are experiencing credit stress (about 12 percent).

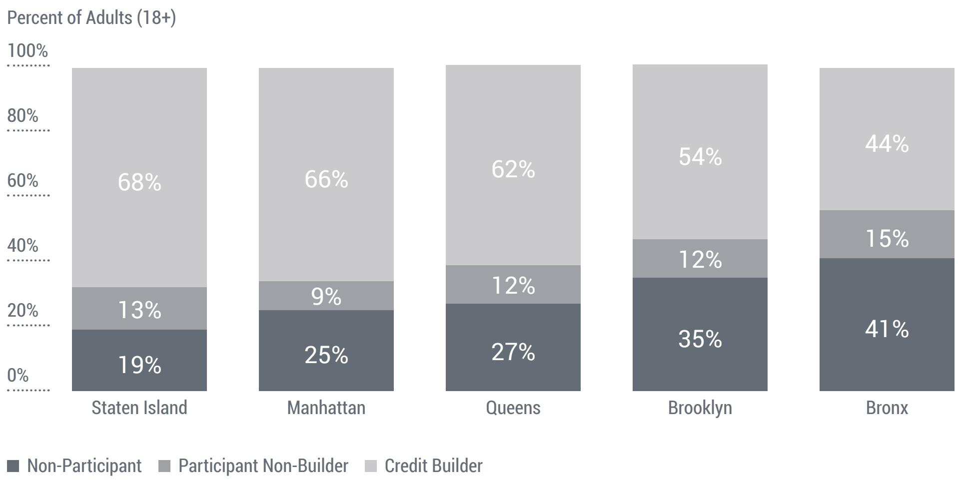
7 Levels of credit inclusion are somewhat lower in New York City than in the US overall. In NYC, a higher share of adults are classified as Non-Participants (31 percent vs. 20 percent nationally) and a lower share as Credit Builders (58 percent vs. 65 percent for the US).

8 The share of adults who are Non-Participants is calculated by first taking the total adult population from Census. After subtracting all individuals who are either Credit Builders or Participant Non-Builders, the remaining population is classified as Non-Participants.

As a first step in understanding how levels of credit inclusion vary across New York, it is helpful to examine inclusion rates separately for each of the city's five boroughs (or counties). There are considerable differences among the boroughs.

As Figure 2 shows, credit inclusion is highest in Staten Island—a full 81 percent of residents there have a mainstream credit product, while 68 percent are classified as credit builders.

FIGURE 2 / **CREDIT INCLUSION IN NYC BY BOROUGH, 2014**



Notes: Sources are 2014Q4 CCP/Equifax data and 2014 U.S. Census population estimates. Due to rounding, columns may not sum to 100 percent.

On the other side of the spectrum, the Bronx has the lowest levels of inclusion. A very sizable portion of Bronx adults—41 percent—do not participate in the mainstream credit market. Furthermore, the share of Bronx residents who are building a positive credit profile is only slightly larger (44 percent). In other words, in the Bronx the number of people who are unattached to the mainstream credit market (Non-Participants) is roughly the same as the number who are building a positive credit profile (Credit Builders).

Credit Inclusion in Low and Moderate Income Neighborhoods

We now turn to another question: *To what extent do inclusion levels differ between lower vs. higher income neighborhoods?* Answering this question requires information on neighborhood income levels, which is taken from the Federal Financial Institutions Examination Council (FFIEC). The FFIEC classifies each census tract in the country into one of four neighborhood income categories: low, moderate, middle, and upper.[9] FFIEC income classifications are used by a range of government and regulatory agencies to assess lending and investment activity in low and moderate income communities, as well as for determining Community Reinvestment Act (CRA) eligibility.[10] Tract income categories are determined based on the median family income (MFI) of the census tract relative to the metro area, with cut-offs at 50 percent, 80 percent and 120 percent of area MFI. For example, a tract is classified as "low income" if median family income there is less than 50 percent of the value for the metro area.[11]

Figure 3 summarizes neighborhood income categories in New York City. Roughly half of NYC adults (age 18+) live in low or moderate income (LMI) neighborhoods, with 17 percent in tracts classified as low income, and an additional 32 percent in neighborhoods considered to be moderate income.

FIGURE 3 / DISTRIBUTION OF NYC ADULTS ACROSS 4 NEIGHBORHOOD INCOME CATEGORIES

	Percent of Adults (18+)					
Neighborhood Income Category	**NYC**	**Bronx**	**Brooklyn**	**Manhattan**	**Queens**	**Staten Island**
Low <50% of area MFI	17%	46%	19%	16%	3%	1%
Moderate 50-80% of area MFI	32%	30%	43%	21%	32%	9%
Middle 80-120% of area MFI	26%	17%	25%	8%	47%	29%
Upper >120% of area MFI	25%	7%	13%	55%	18%	60%

Notes: Source is 2014 FFIEC data, which relies on tract-level population and income figures from 2010 per U.S. Census. Due to rounding, columns may not sum to 100 percent.

9 A census tract is a standard unit of geography that researchers commonly use to define neighborhoods. Tract boundaries are designed to correspond roughly to what people think of as a "neighborhood." The average tract has about 4,000 residents, and there are approximately 2,100 census tracts in NYC.

10 The Community Reinvestment Act of 1977 is intended to encourage banks to help meet the credit needs of the communities where they operate. Regulators monitor CRA compliance by assessing bank services, investment and lending in areas deemed to be eligible for CRA. The main determinant of CRA eligibility is neighborhood income level.

11 This analysis uses FFIEC data from 2014, which relies on tract-level population and income figures from 2010 per U.S. Census.

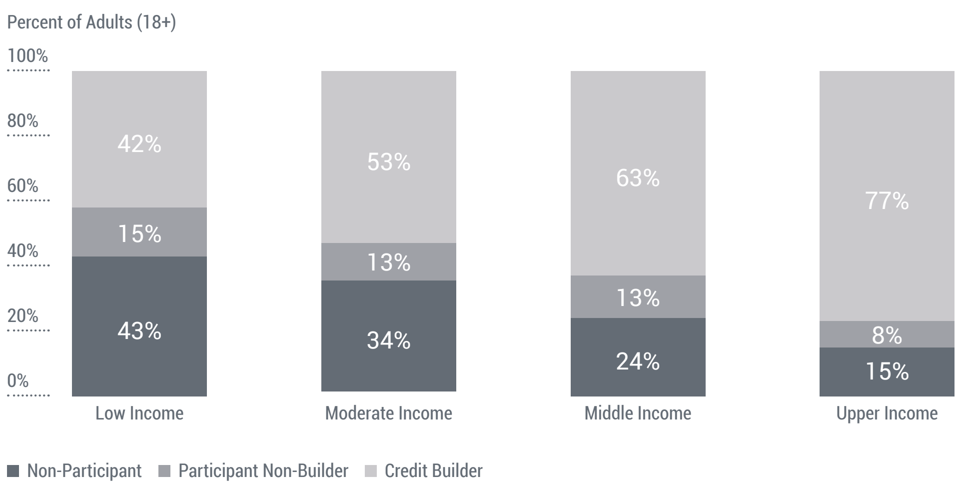
Figure 3 also reveals that the distribution of residents across neighborhood income categories is quite different in each of the city's five boroughs. A large share of Bronx residents live in low income areas (46 percent), much more than in any other borough.

Queens is largely middle income, with 79 percent of adults residing in neighborhoods classified as moderate or middle income. Manhattan and Staten Island are both dominated by more affluent areas, with the majority of residents in these boroughs living in upper income tracts. Finally, it's interesting to note that Brooklyn (perhaps contrary to popular perception) does not have a disproportionately large share of residents in either upper income or low income areas.

To directly examine the extent to which credit inclusion rates are different in high vs. low income areas, each person in the credit file data is assigned to one of the four FFIEC neighborhood income categories. This matching is possible because the CCP/Equifax credit records identify the neighborhood (census tract) where each individual reports an address.[12]

Figure 4 displays inclusion rates for each of the four neighborhood income categories in NYC. Levels of credit inclusion vary considerably across income categories. In low income areas, for example, 43 percent of residents are Non-Participants, compared to just 15 percent in the city's highest income neighborhoods. On the flip side, the share of residents classified as Credit Builders is just 42 percent in low income areas, compared to 77 percent in upper income communities.

FIGURE 4 / CREDIT INCLUSION IN NYC BY NEIGHBORHOOD INCOME



Notes: Sources are 2014Q4 CCP/Equifax data and 2014 FFIEC data. Due to rounding, columns may not sum to 100 percent.

12 To ensure proper matching between credit file data and neighborhood income categories, any credit records that meet either of the following criteria are excluded from the neighborhood income analysis: i) the tract-zip code combination listed in CCP/Equifax is not considered a valid tract-zip combination for NYC (per Missouri Census Data Center's MABLE database); ii) the census tract in CCP/Equifax does not match to a tract that has a valid FFIEC income classification. Overall, about 98 percent of CCP/Equifax records were successfully matched to a neighborhood income category. A large share of non-matching records were for zip codes listed as P.O. boxes.

There are also important differences between low and upper income communities in terms of delinquency. In low income neighborhoods, about 15 percent of the adult population has a delinquency listed on their credit report, compared to just 8 percent in upper income areas. This is a large differential—especially after considering that residents of low income neighborhoods are also much less likely to be holding a mainstream credit product.

Conclusion

This brief highlights new findings about credit inclusion in low and moderate income communities, and by doing so helps fill some critical information gaps. Overall, more than half of New Yorkers (58 percent) are building a positive credit profile. At the same time, about 31 percent are not using a mainstream credit product. In the city's low income neighborhoods, credit inclusion rates are much lower. Despite this fact, the share of adults who are delinquent on a credit product is still considerably higher in low income communities compared to upper income neighborhoods.

These new data provide a useful starting point to ground discussions about community financial inclusion. As a next step, it will be critical to investigate whether the patterns observed in NYC are similar in other places. How does NY compare to other metro areas in terms of inclusion rates? In other cities, do low income communities experience lower levels of inclusion than high income areas, or is this phenomenon specific to NYC? It would also be useful to explore differences in credit product holdings between communities. Which credit products do individuals in low income areas hold? How much do current and delinquent credit users in these places differ in terms of the products they hold?