RENEWING THE PROMISE OF THE MIDDLE CLASS
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Credit Access and Payday Loan Behavior of Low Income Borrowers

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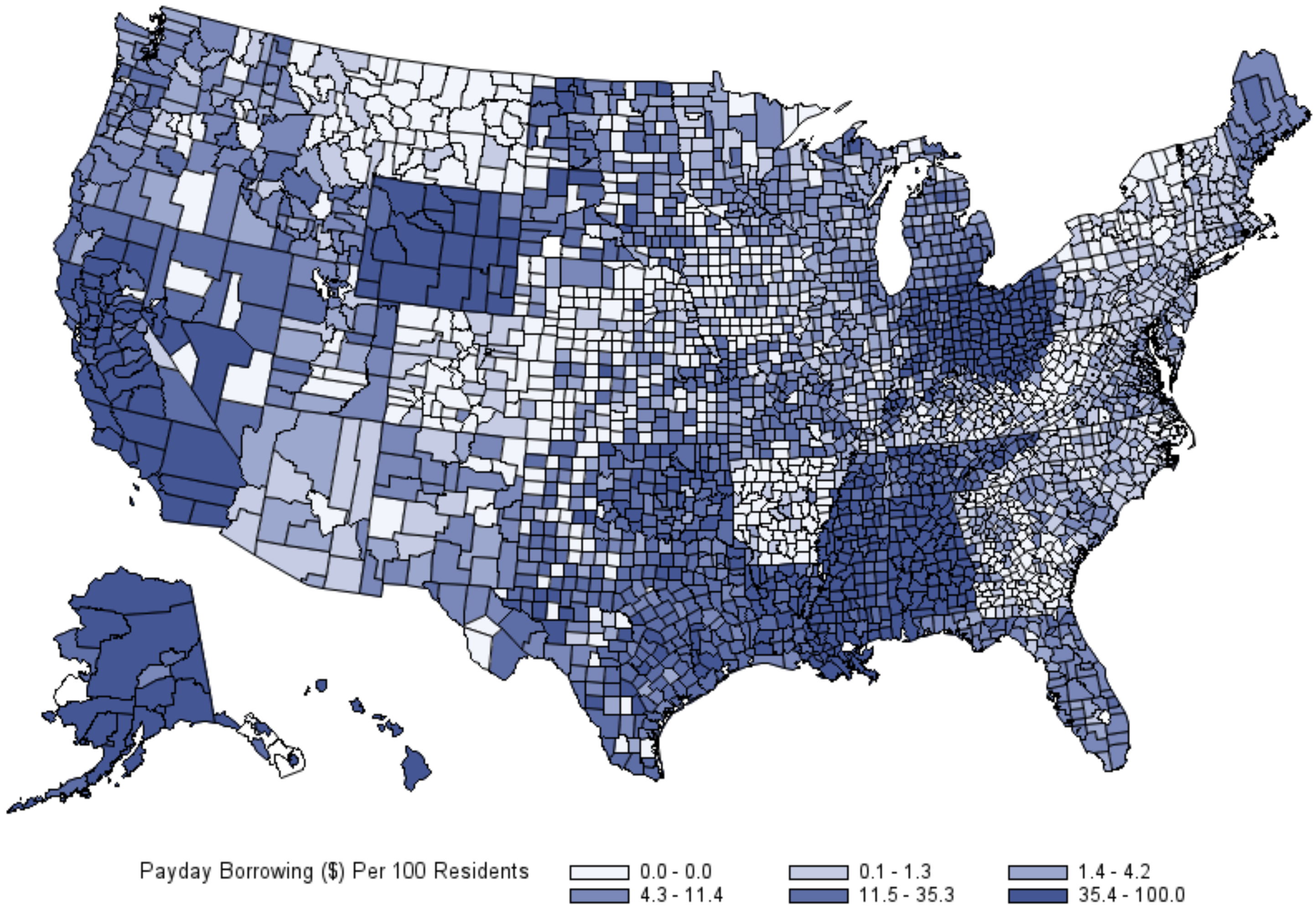
Financial Security and Wealth Building as Key Building Blocks of a Middle Class Lifestyle

MICHIGAN ROSS

Credit Access is vital for economic mobility

- Financial crisis highlighted large disparities in financial outcomes between high and low income neighborhoods.
- Low income more likely to be classified as high-risk subprime and have limited access to formal credit.
- Basic credit is required for housing, cable, internet, and auto loans.
- These differences in credit behaviors and access can make it very difficult to invest in the future and in their children, making it impossible to break the cycle of poverty

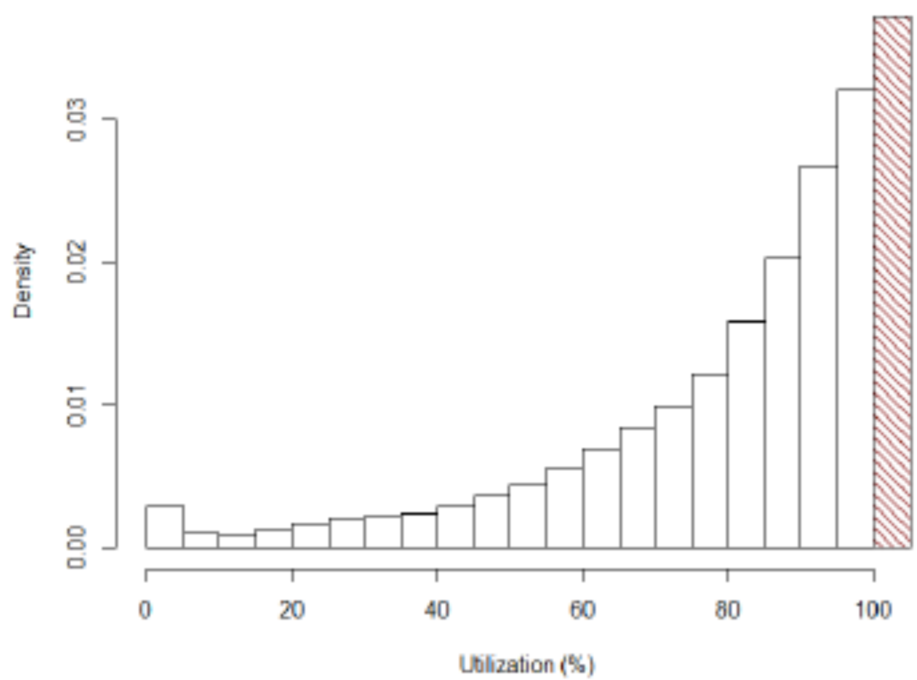
Payday Loan Borrowing Across the U.S., 2016



Miller and Soo, 2019

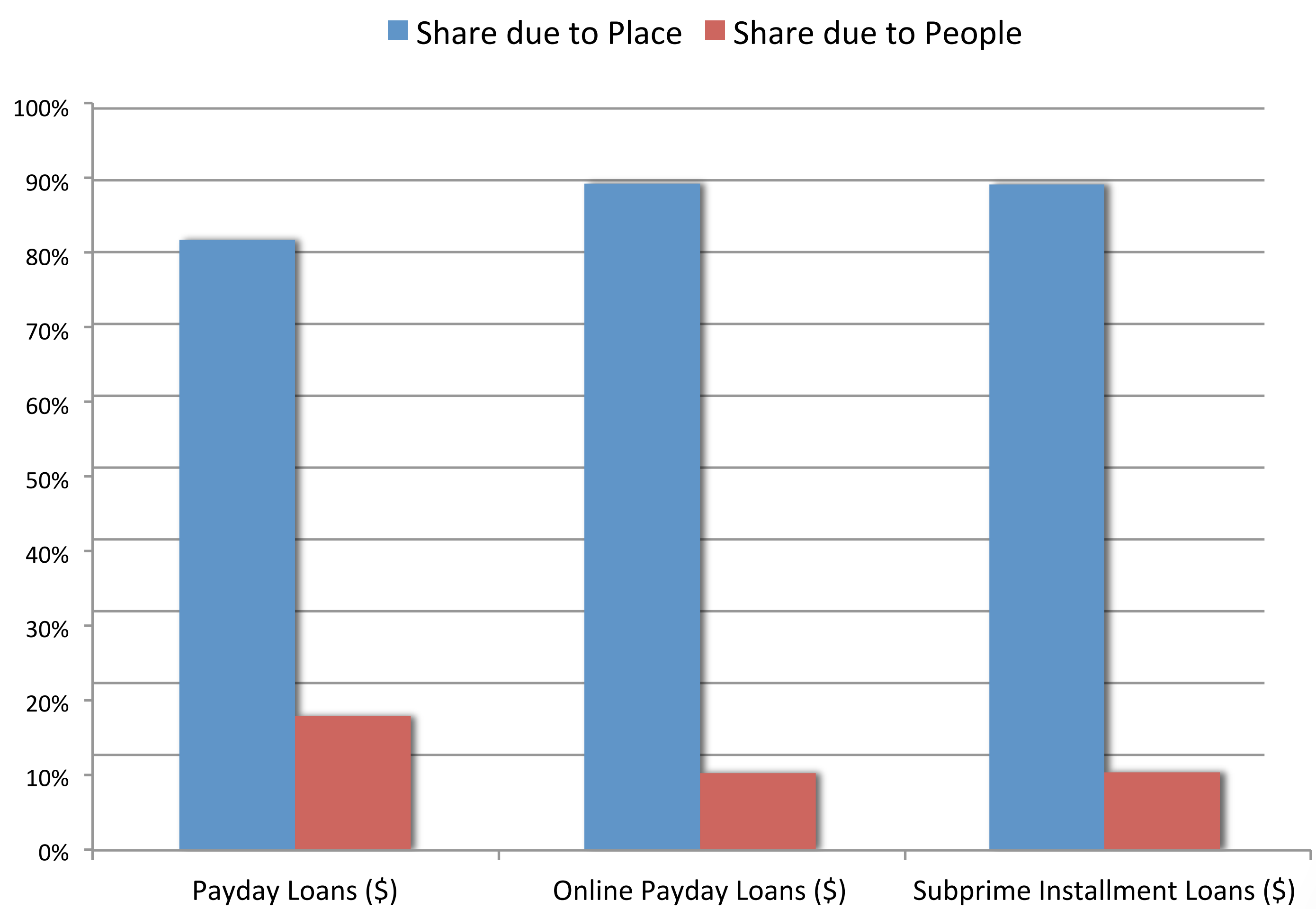
But payday borrowers are credit constrained

Figure 1: Are Payday Borrowers Credit Constrained?



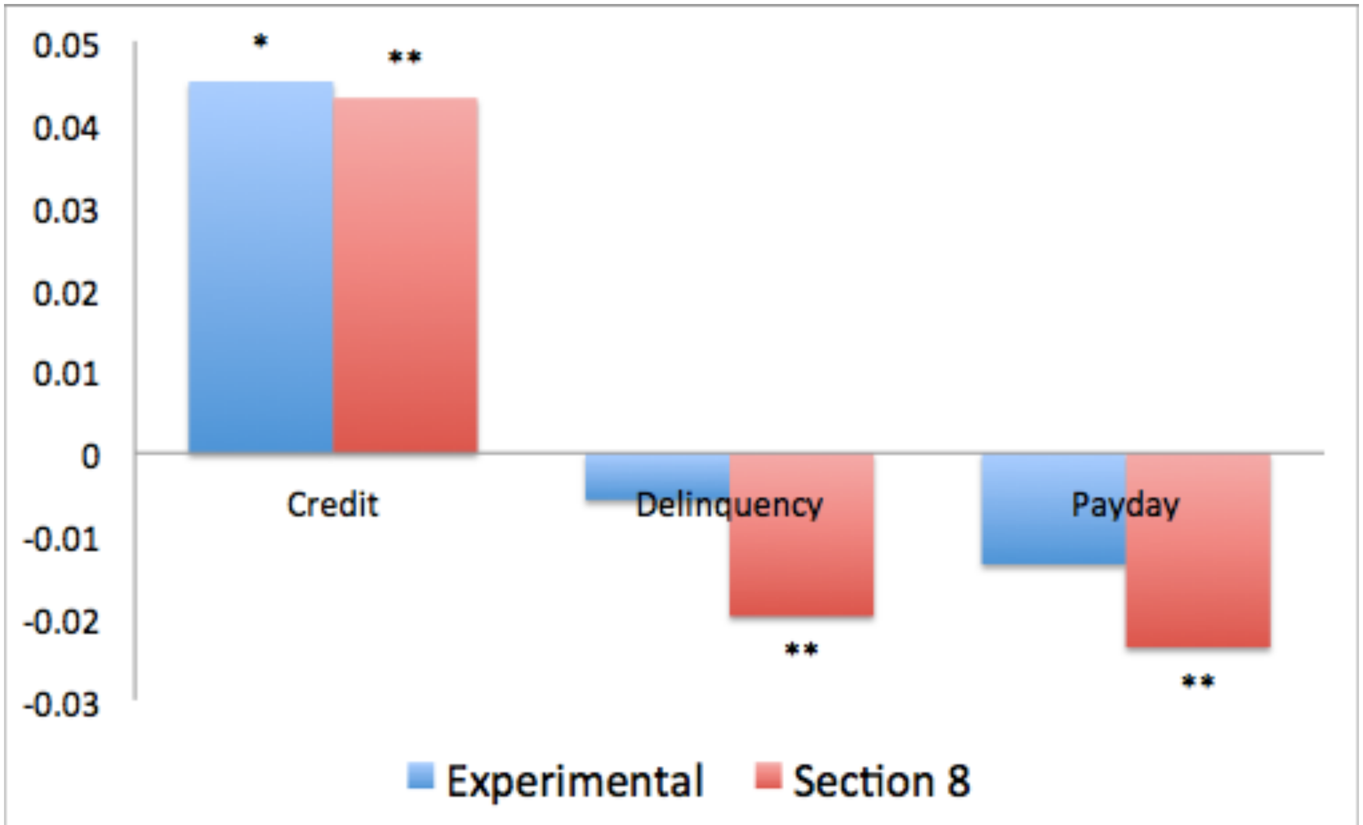
Miller and Soo, 2018

Subprime borrowing driven by location



Miller and Soo, 2018

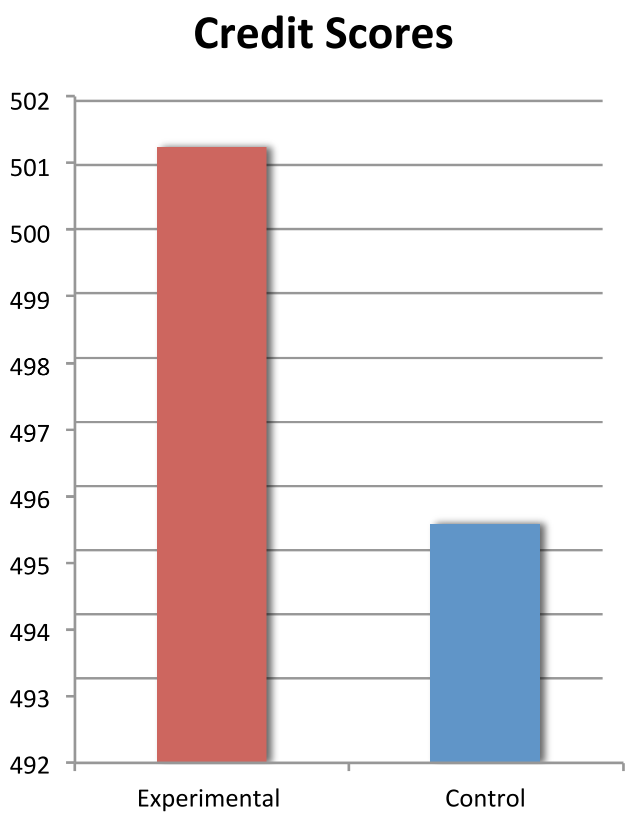
The Moving to Opportunity Experiment: Better neighborhoods improves credit outcomes

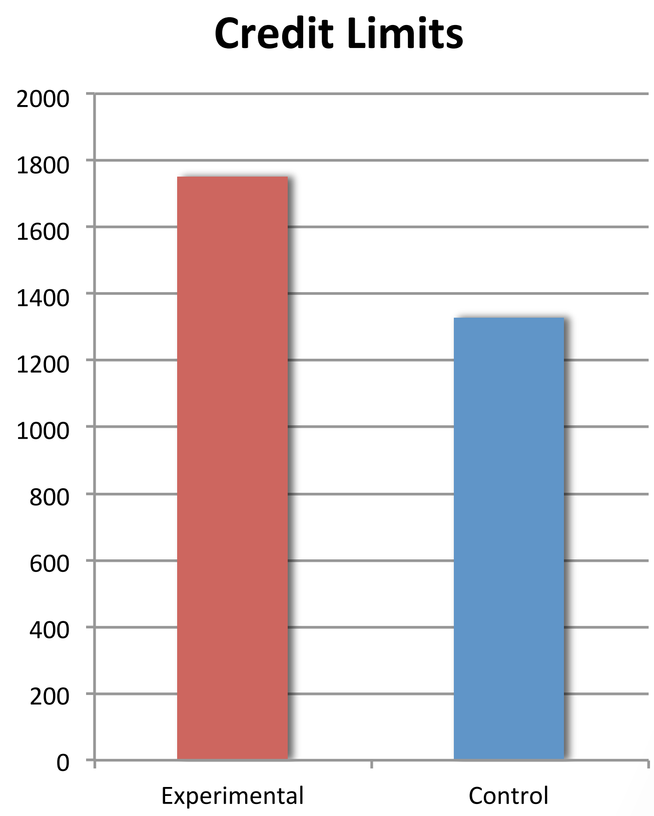


Miller and Soo, 2018

Better neighborhoods have positive impacts on children's future credit outcomes

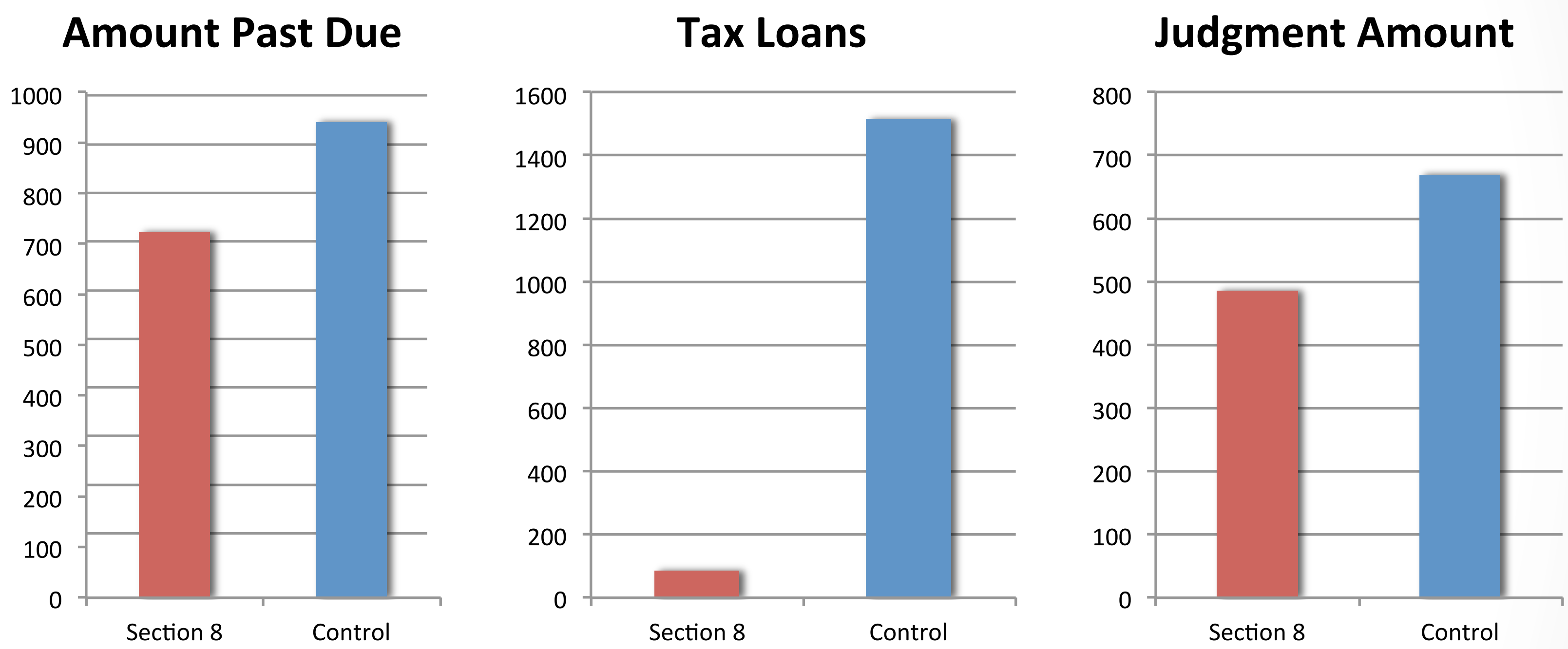
Impacts of Moving to a Better Neighborhood on Young Children into Adulthood





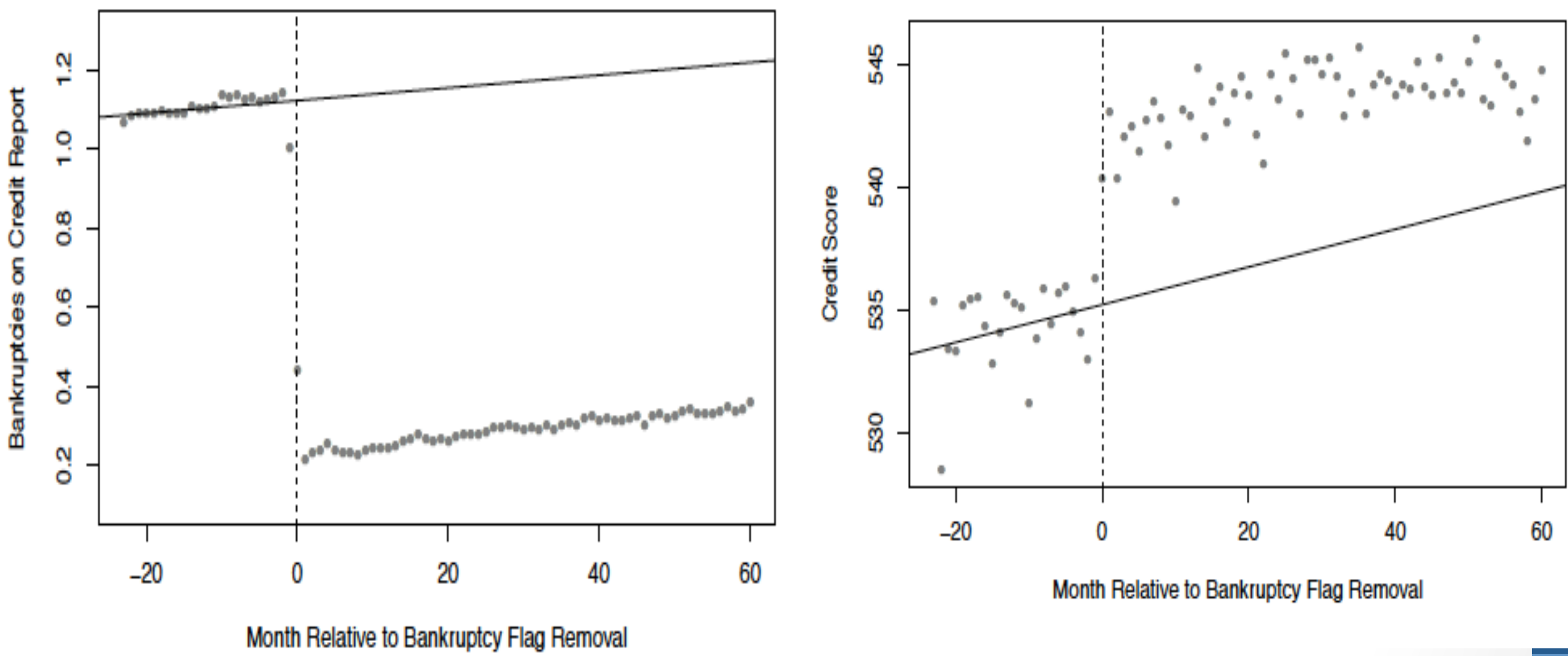
Miller and Soo, 2018

Delinquency behaviors of adults improve



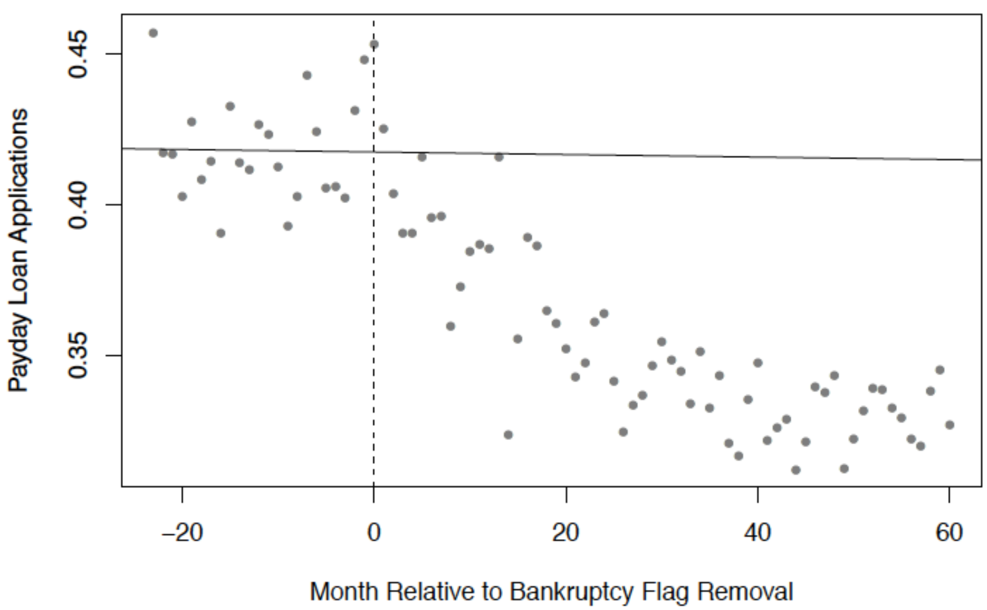
- Despite this improvement in debts, we do not find significant impacts on credit scores or credit limits

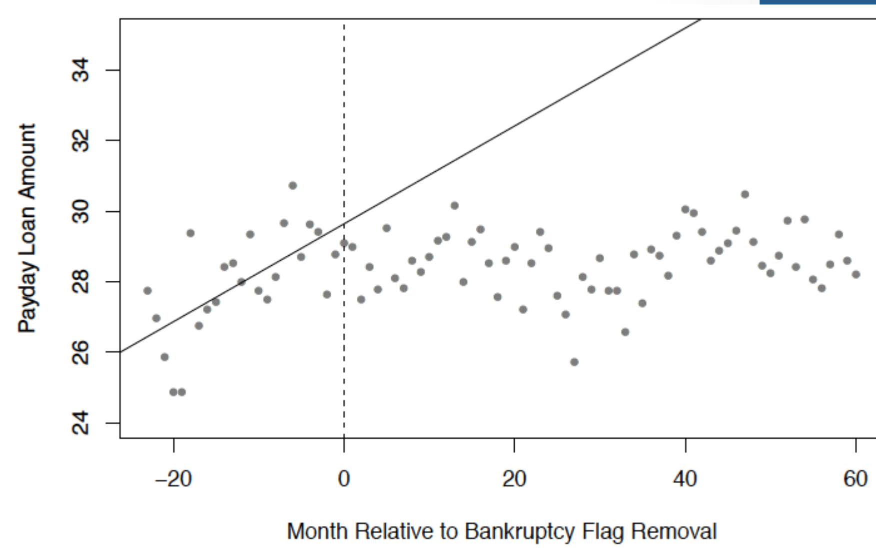
What happens if we increase traditional credit access?



Increasing formal credit access reduces payday loan borrowing

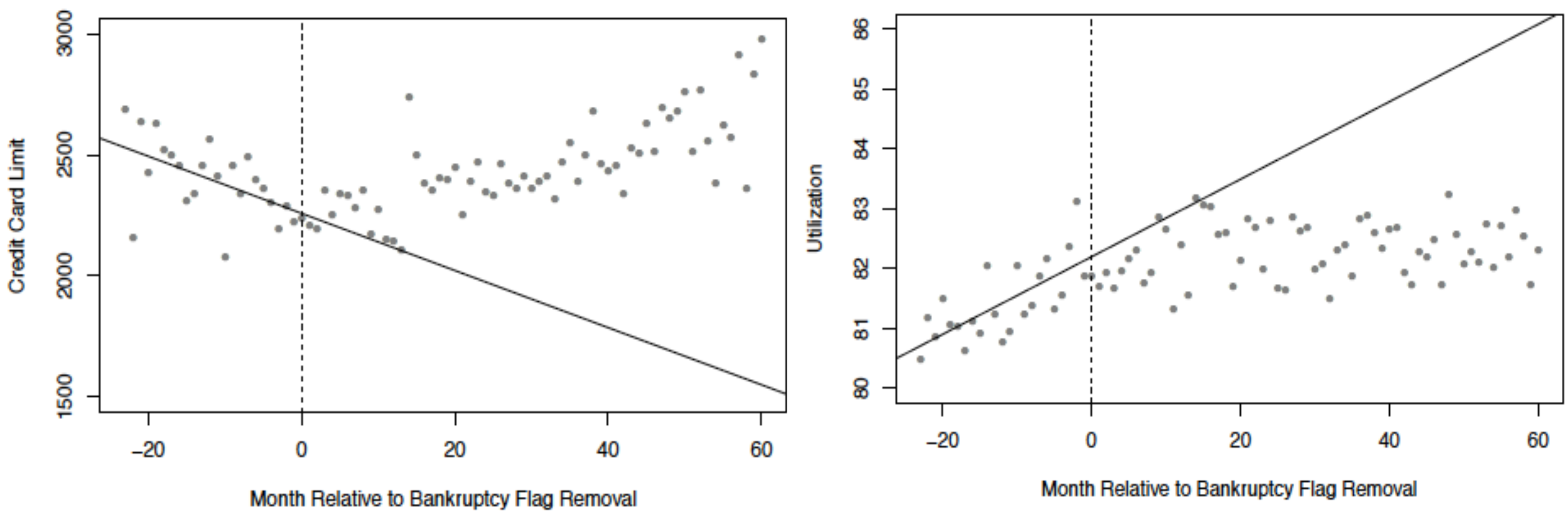
- Payday loan applications drop by 67%
- Payday loan amounts borrowed drop by $17 per loan by the end of 5 years.





Traditional credit borrowing improves

- Credit limits increase by $1252 to $1366 by end of first year (60 to 65% increase)
- Borrowers experience improved liquidity across credit cards (utilization rates are lower).



Takeaways

- Building credit and achieving economic self-sufficiency is vital for economic mobility
- However there exist high barriers as credit behaviors of low-income borrowers do not help build credit
- Moving to better neighborhood environment has improved credit market outcomes for children, but additional assistance needed to move to those neighborhoods
- Improving traditional credit access has positive impacts on borrowing
- Otherwise, credit constrained low-income borrowers have only high-interest, high-risk products available