

What Can Policymakers Do to Help Young Adults Cope with Debt?

Credit Health among Adults Ages 18 to 24

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December 2022

Nearly **1 in 5 young adults** with a credit record in the US have **debt in collections**.

Young adults are particularly vulnerable to **credit card and auto/retail loan delinquency**, compared with older adults.

Young adults in **communities of color and southern states** are more likely to hold past-due debt.

Targeted policies like **credit card protections; Buy Now, Pay Later regulations; and child development accounts** may help to improve young adults' financial well-being.

Nearly 20 percent of young adults (ages 18 to 24) in the US with a credit record have debt in collections, suggesting they struggle to meet their current financial obligations. Many young adults are students or early-career employees with limited financial resources to meet their needs and buffer against economic shocks.

Because of their short credit histories, young adults typically face high interest rates and other barriers (CFPB 2017a) when accessing credit. The high cost of borrowing coupled with limited income makes it difficult to manage debt in this stage of life. Although credit data provide a glimpse into the financial well-being of young adults, it does not capture all facets of financial well-being (CFPB 2017b) and does not capture young adults without a credit record (CFPB 2015).

However, debt is not equally held across demographic groups and communities. Racial disparities in credit health among young adults¹ reflect long histories of structural disinvestment in communities of color. This leaves young adults of color and residents of southern states, who experience the effects of long-term historical racial regimes (Baker 2022), in relatively more challenging positions as they begin their financial lives. These disparities suggest the need for policy solutions to address structural barriers to financial health among young adults.

YOUNG ADULTS STRUGGLE TO REPAY CREDIT CARD BILLS AND AUTO/RETAIL LOANS

With fewer financial resources such as incomes and assets, and barriers to accessing public safety net programs,² young adults may rely on credit cards to finance daily and emergency expenses. Among young adults with a credit card, 4.5 percent hold delinquent credit card debt, suggesting they struggle to repay debt (figure 1, see next page).

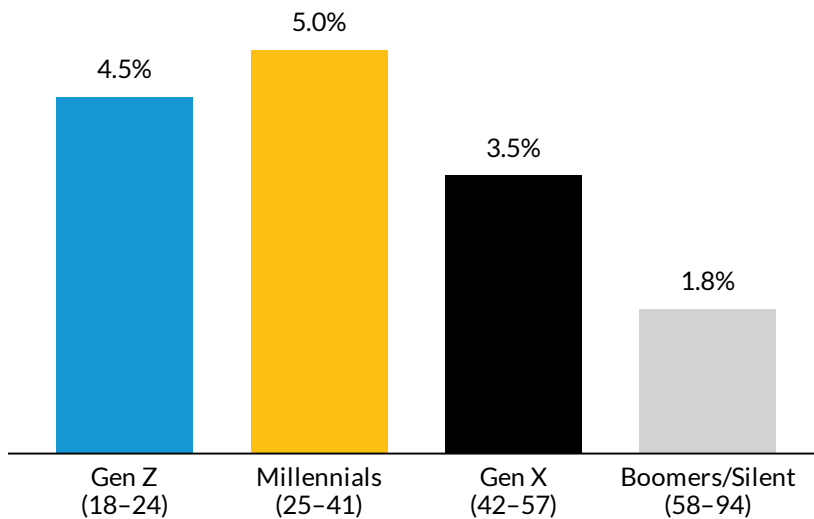
¹ Thea Garon, "Young Adults' Credit Trajectories Vary Widely by Race and Ethnicity," *Urban Wire (blog)*, August 22, 2022, <https://www.urban.org/urban-wire/young-adults-credit-trajectories-vary-widely-race-and-ethnicity>.

² "Young People and the Safety Net," Urban Institute, accessed December 5, 2022, <https://www.urban.org/policy-centers/center-labor-human-services-and-population/projects/young-people-and-safety-net>.

FIGURE 1

Young Adults Have High Rates of Credit Card Delinquency Relative to Older Adults

Share of people with credit card debt who are 60 or more days delinquent, by age/generation cohort



Source: Urban Institute analysis of February 2022 credit bureau data.

Notes: Share of people with credit/charge card debt who are 60 or more days delinquent. Generations align approximately with those defined by Pew Research Center³ and reflect age groups (shown in parentheses) as of 2022.

Similarly, young adults are particularly vulnerable to auto and retail loan delinquencies. The share of young adults with delinquent auto and retail debt (6.2 percent) is larger than older adults in other generations. Increasing auto costs during the COVID-19 pandemic may have increased the auto debt burden⁴ for young adults as they try to finance this expense. As inflation continues to outpace wage growth,⁵ young adults may struggle to repay auto loans, fall behind on payments, and face financial burdens in other aspects of their lives.

RACIAL DISPARITIES REFLECT LONG HISTORIES OF STRUCTURAL DISINVESTMENT IN COMMUNITIES OF COLOR

Young adults living in communities of color are more likely than their peers in majority-white communities to hold past-due credit card, auto/retail loan, medical, and student debt. The share of young adults living in communities of color with any debt in collections (24.8 percent) is nearly 50 percent higher than young adults living in majority-white communities with any debt in collections (figure 2, see next page). Young adults in communities of color have nearly twice the rate of credit card and auto/retail loan delinquencies as young adults in majority-white communities (6.4 percent vs. 3.6 percent and 9.1 percent vs. 4.7 percent, respectively).

³ Michael Dimock, "Defining Generations: Where Millennials Ends and Generation Z Begins," Pew Research Center, January 17, 2019, <https://www.pewresearch.org/fact-tank/2019/01/17/where-millennials-end-and-generation-z-begins/>.

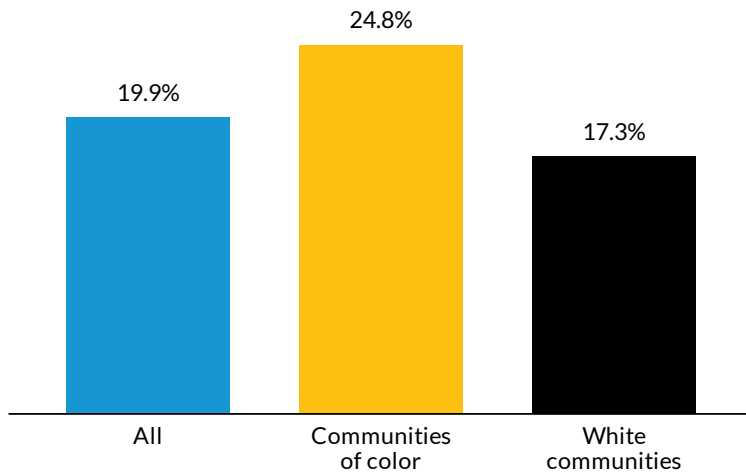
⁴ Ryan Kelly, Chris Kukla, and Ashwin Vasani, "Rising Car Prices Means More Auto Loan Debt," Consumer Financial Protection Bureau (blog), February 24, 2022, <https://www.consumerfinance.gov/about-us/blog/rising-car-prices-means-more-auto-loan-debt/>.

⁵ Q.ai, "U.S. Wage Growth Fails to Keep Up with Rising Prices for 17 Consecutive Months," *Forbes*, accessed December 5, 2022, <https://www.forbes.com/sites/qai/2022/10/01/us-wage-growth-fails-to-keep-up-with-rising-prices-for-17-consecutive-months/?sh=63dd93b0b007>.

FIGURE 2

Young Adults in Communities of Color Face Greater Financial Distress

Share of young adults ages 18 to 24 with a credit record with any debt in collections, by community demographics



Source: Urban Institute analysis of February 2022 credit bureau data and US Census Bureau American Community Survey five-year estimates (2015–19).

Notes: Share of debt in collections is the share of young adults with a credit record who have any debt in collections, which includes closed or charged-off past-due credit lines and unpaid bills pursued by a creditor. For example, credit card accounts enter collections status once they are 180 days past due. The value for majority-white communities is based on credit records for people who live in zip codes where 60 percent or more residents are white, while the value for communities of color is based on credit records for people who live in zip codes where 60 percent or more residents are people of color. We define people of color as those who identify as African American, Hispanic, Asian or Pacific Islander, American Indian or Alaska Native, another race other than white, or multiracial in the 2015–19 five-year American Community Survey.

For decades, communities of color have been locked out of key wealth-building pathways,⁶ undermining their ability to accrue wealth and build financial stability. Policy choices have limited access to homeownership, stable jobs, high wages, retirement savings, and tax benefits (Hanks, Solomon, and Weller 2018). These factors continue to leave their mark on the financial health of families of color, with young adults of color facing disproportionate economic hardship (FHN and GenForward 2020) as they begin their financial lives.

YOUNG ADULTS LIVING IN SOUTHERN STATES EXPERIENCE WORSE CREDIT HEALTH

The combination of Black Americans concentrated in the South, policies that undermine the economic mobility of Black Americans (Baker 2022), and limited resources to buffer against financial shocks (Gaines, Hardy, and Schweitzer 2021) reinforces regional inequality in the South.⁷ This results in clear spatial patterning in credit and debt outcomes, with states with the highest shares of young adults with any debt in collections (figure 3), credit card delinquency, and auto/retail loan delinquency concentrated in the South.

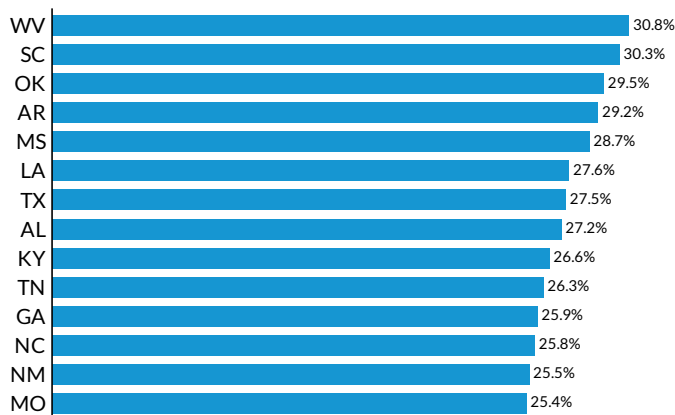
⁶ Kilolo Kijakazi, Jonathan Schwabish, and Margaret Simms, “Racial Inequities Will Grow Unless We Consciously Work to Eliminate Them,” *Urban Wire* (blog), July 1, 2020, <https://www.urban.org/urban-wire/racial-inequities-will-grow-unless-we-consciously-work-eliminate-them>.

⁷ Jay Shambaugh, Ryan Nunn, and Stacy A. Anderson, “How Racial and Regional Inequality Affect Economic Opportunity,” *Brookings Up Front* (blog), February 15, 2019, <https://www.brookings.edu/blog/up-front/2019/02/15/how-racial-and-regional-inequality-affect-economic-opportunity/>.

FIGURE 3

Young Adults in Southern States Experience Greater Challenges with Past-Due Debt

Share of young adults ages 18 to 24 with a credit record with any debt in collections by state, in states where more than 1 in 4 young adults have debt in collections



Source: Urban Institute analysis of February 2022 credit bureau data.

Notes: Share of debt in collections is the share of young adults with a credit record who have any debt in collections, which includes closed or charged-off past-due credit lines and unpaid bills pursued by a creditor. For example, credit card accounts enter collections status once they are 180 days past due. This chart shows outcomes for young adults living in states where more than 1 in 4 young adults with a credit record have debt in collections.

TARGETED POLICIES CAN HELP YOUNG ADULTS FIND A STRONGER FINANCIAL Foothold

Policies aimed at reducing young adults' debt burdens can help protect them and improve their financial resilience and financial stability as they move further into adulthood.

- **Make credit card terms and conditions clearer to young consumers.** The Credit CARD Act of 2009 protected young adults from credit card debt with stricter rules around marketing and lending for consumers younger than age 21. Despite this legislation, young people, and college students in particular, still receive unsolicited preapproved credit card offers (Hawkins 2012), indicating a need for stronger protections and enforcement. Increased access to information about credit card terms and conditions (Norvilitis, Szablicki, and Wilson 2006) can also help to inform young consumers' financial decisions.
- **Consider regulating Buy Now, Pay Later (BNPL) products.** An attractive alternative to credit cards, BNPL products offer quick credit approvals and little to no interest. As recent research shows, young adults are more likely to use BNPL products (Gdalan, Greene, and Celik 2022). They are more likely than other adults to have one or more BNPL loans in default,⁸ in part because of their lack of understanding of the terms and conditions (Gerrans, Baur, and Lavagna-Slater 2021). This suggests that regulations such as adherence to baseline credit card protections,⁹ data surveillance rules, development of credit-reporting practices, and supervisory examinations can help young adults have the information needed to make informed financial choices about BNPL use.
- **Help young adults build financial buffers early in life.** Policy solutions that increase assets for young adults can also protect consumers from the burden of debt. Early investments in children through progressive child development accounts¹⁰ and Baby Bonds (Hamilton and Darity Jr. 2010) programs increase young adults' assets, and Baby Bonds are likely to reduce racial disparities in young adults' wealth and need for student loans. These programs can reduce the racial disparity (Zewde 2019) in the median net wealth of young adults (Buitrago and Mullany 2017)—enabling young adults of color to better meet their financial needs, respond to economic shocks, and invest in their futures without debt.

⁸ Paulina Cachero, "It Ruined Everything": Buy Now, Pay Later Drives Gen Z into Debt," *Bloomberg*, October 28, 2022, <https://www.bloomberg.com/news/articles/2022-10-28/buy-now-pay-later-loans-drive-gen-z-into-debt-hurting-credit-scores>.

⁹ National and state and local organization signees, "Re: Comment Regarding the CFPB's Inquiry Into Buy-Now-Pay-Later (BNPL) Providers (CFPB-2022-0002)," letter to Consumer Financial Protection Bureau Director Rohit Chopra, March 25, 2022, <https://www.nclc.org/wp-content/uploads/2022/10/Coalition-Comment-Regarding-the-CFPBs-Inquiry-Into-Buy-Now-Pay-Later-BNPL-Providers-CFPB-2022-0002.pdf>.

¹⁰ "Child Development Accounts," Washington University St. Louis, Brown School, Center for Social Development, accessed December 5, 2022, <https://csd.wustl.edu/child-development-accounts/>.

ABOUT THE DATA

We use a 4 percent nationally representative panel (more than 10 million consumers) of deidentified consumer data from February 2022 from a major credit bureau. These data do not reflect about 10 percent of US adults who do not have a credit file (CFPB 2015), a disproportionate amount of whom are young adults and people of color, including approximately 65 percent of 18- and 19-year-old adults and 20 percent of 20- to 24-year-old adults without a credit file. We also incorporate zip code-level race and ethnicity five-year estimates (2015–19) from the US Census Bureau American Community Survey.

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ACKNOWLEDGMENTS

This research is funded by the Annie E. Casey Foundation. The views expressed are those of the authors and should not be attributed to the Urban Institute, its trustees, or its funders. Further information on the Urban Institute's funding principles is available at urban.org/fundingprinciples. Copyright © December 2022. Urban Institute. Permission is granted for reproduction of this file, with attribution to the Urban Institute.