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Tracking the Credit Health of Houston Residents

How can city leaders support an inclusive recovery and help residents build financial health?

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About This Resource

This resource is designed to help local leaders assess the state of their residents’ financial health and identify priorities to advance an inclusive recovery. The chart deck is organized into three sections:

1. The link between financial health and inclusive recovery;
2. Key credit health indicators of Houston residents from the Great Recession through the COVID-19 pandemic; and
3. Policy priorities to stabilize resident financial health and advance an inclusive recovery.

Financial Health Is Integral to Inclusive Recovery

Financial health reflects residents' ability to manage their daily finances, be resilient to economic shocks, and pursue opportunities for upward mobility. Credit health is an important component of overall financial health, in addition to savings, income, and wealth. During economic crises, financially healthy residents can better weather the storm, help stabilize city finances, and contribute to economic recovery. But credit health, like economic recovery, is unevenly distributed across racial and economic groups. And advancing inclusion through financial health requires intentional policies and actions.

An inclusive recovery occurs when a place overcomes economic distress in a way that provides opportunity for all residents—especially historically excluded groups of people—to benefit from and contribute to economic prosperity. To achieve this, an inclusive city must provide a platform of opportunity for all residents while ensuring its residents are financially secure enough to take advantage of that opportunity.

In Houston, racial and economic inclusion is an area for growth. Houston ranks 264th out of the 274 largest cities nationwide along key measures of economic inclusion and 261st along key measures of racial inclusion. Houston is notably worse than other cities on income segregation and the share of residents who are working-poor.

Key Takeaways

- **Credit health among Houston residents—measured by changes in credit scores, credit use, and delinquencies—improved after the Great Recession and into the COVID-19 pandemic as of October 2020.** These trends suggest choices by federal, state, and local policymakers and private-sector partners to help families weather the impacts of COVID-19 are making a difference in their credit health.

- **Disparities by race illustrate that the last economic recovery failed to adequately address systemic barriers facing families of color.** The share of Houston residents in communities of color with subprime credit scores (38.2 percent) is three times higher than in majority-white communities in the city (12.6 percent). Without sustained support and intentional policies that address racial barriers, the economic impacts of COVID-19 could create major setbacks on the pathway to inclusive economic recovery.

- **Credit health is one component of financial health; while credit measures improved, other data point to increased food insecurity, employment income loss, and other hardships, indicating an uneven recovery.** Credit data cannot capture the experiences of about one in ten US adults who do not have a credit file, and people of color are disproportionately represented in this group. Credit data also do not reflect residents' ability to make timely payments once loan forbearance and other protections end, since reporting requirements make qualifying loans that were current before borrowers sought accommodations appear current during forbearance. Even residents with strong credit health may face challenges if underlying financial circumstances—income and savings—have not improved. Assessing the state of resident's incomes, savings, and other assets will be important for understanding the full impact of COVID-19 on financial health.

The State of Financial Health in Houston

Pre-COVID-19

Houston is an economically strong city with threats to financial stability. Similar to Dallas, Miami, Tulsa, and Phoenix, Houston is doing relatively well economically with below-average unemployment rates but has only moderate financial security with median credit scores that are below prime (i.e., near-prime).

Credit scores that are below prime can limit access to loans and credit cards, making it difficult to weather financial emergencies or invest in the future.

Among families in Houston, **62 percent (approximately 518,000 families) were financially insecure in 2019**, with less than $2,000 in savings, compared with 52 percent nationally. This directly affects the city's financial health. In Houston, the estimated government cost of family financial insecurity from eviction and unpaid property taxes and utility bills is **$39 million to $90 million** out of a total annual budget of $5.2 billion.

The Threat of COVID-19 for Resident Financial Health

America's cities are showing the economic impact of the COVID-19 pandemic. In Houston, the unemployment rate went from 3.7 percent in February to 14.4 percent in April. As of October, Houston's unemployment rate was 7.7 percent—still a full 4 percentage points worse than pre-pandemic levels. Small business revenue is down 48 percent, and the metro area has lost nearly 82,000 low-wage jobs since the beginning of the pandemic, nearly half of which were in accommodation and food services or health care and social assistance. These job losses have not impacted all residents or neighborhoods equitably: for example, Gulfton has a poverty rate of 38 percent, but its unemployment rate was just 4 percent in 2018. However, because of COVID-19, about 9.4 percent of workers living in this community may have lost jobs.

These sudden income drops from job losses, reduced hours, or lost business revenue put financial strain on families, many of whom have limited savings to buffer against such shocks. Further, before the pandemic, Houston's residents only had moderate financial security relative to other cities, with median credit scores that were below prime (i.e., near prime). Credit scores that are below prime can limit access to loans and credit cards, making it difficult to weather financial emergencies or invest in the future.

The Additional Threat of COVID-19 for Communities of Color

Households of color have been disproportionately affected by the health and economic consequences of the COVID-19 pandemic. They are more likely to die from COVID-19, more likely to be in essential jobs with outsized exposure to the virus, and more likely to be in low-wage jobs impacted by layoffs.

These disparities are not the result of individual failings but of systemic inequities that produce disparate outcomes by race. Families of color experience greater financial insecurity because of long histories of employment discrimination that hindered pay, housing discrimination that limited wealth building, and residential segregation that slowed mobility. They have less wealth and savings, less access to credit, and more expensive credit than their white peers. Residents in majority-Black, -Hispanic, and -Native communities also experience higher delinquencies and are more likely to use alternative financing services. All these factors contribute to their increased vulnerability to the health and economic shocks of the COVID-19 pandemic and recession.

Resident Credit Health in Houston Improved after the Great Recession and into COVID-19

This section shows key credit metrics for Houston—credit scores, credit use, and delinquent debt—and breaks out delinquencies by debt type. Federally backed mortgages and student loans received especially strong protections from federal policies during the 2020 economic recession. State and local leaders also have leverage in key markets, given their major role in public higher education systems, oversight of financial institutions, and workforce and economic development partnerships.

Where possible, data show metrics for three groups—all communities, communities of color, and majority-white communities—to highlight the need for policies and strategies that include and empower residents of color. Our city-level data are insufficient to break down communities into more defined racial and ethnic groups, and, sometimes, to perform any demographic analysis. We recognize that financial health data aggregated by racial and ethnic groups often mask tremendous differences within groups.

Houston is less financially healthy than many cities, as comparisons with the US show. Nearly 1 in 3 Houston residents have subprime credit scores and 4 in 10 have debt in collections, with Houston residents living in communities color 2.6 times as likely to have debt in collections as residents living in majority-white communities.

While credit health has improved for all racial groups since August 2010 across many metrics that follow, the racial gaps that remain indicate that “a rising tide” is not enough. Further, while the following charts show recent improvement across many measures, those improvements reflect government choices to help families weather the financial impacts of COVID-19. Without sustained support and intentional policies that address racial barriers, the economic impacts of COVID-19 could result in a major setback for resident financial health, further exacerbating the fiscal crunch of state and local governments and slowing the pathway to an inclusive economic recovery.

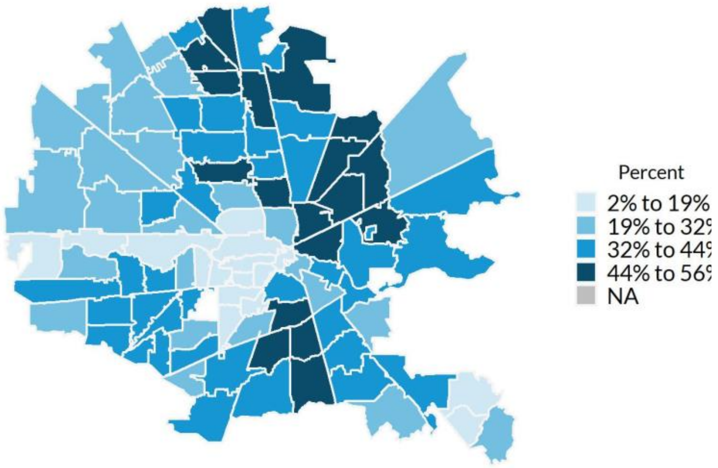
Indicators of the Credit Health of City Residents

Three ways to characterize credit health using credit data:

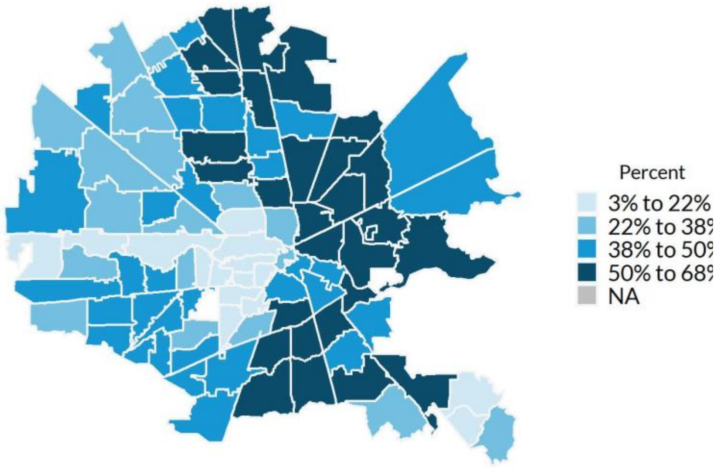
1) **Credit scores** are a composite indicator of overall credit health. Having a subprime credit score can limit access to credit and increase the cost of debt.
   - Scores range from 300 to 850; a score below 600 is subprime.
2) **Credit use** indicates access to credit, which families may use to meet their financial needs. The share of available credit used is a measure of debt burden. Higher debt burdens could signal financial distress.
   - Use of alternative financial service loans like payday loans can indicate emergency needs.
3) **Delinquent debt** data can show where support is needed to avoid foreclosures, bankruptcies, calls from debt collectors, and other hardships. Delinquent debt appears on credit reports, which are sometimes used by employers and landlords to assess job and rental applicants.
   - Delinquent debt is debt that is 30, 60, or more days past due or in collections.

Financial Health Varies by Neighborhood

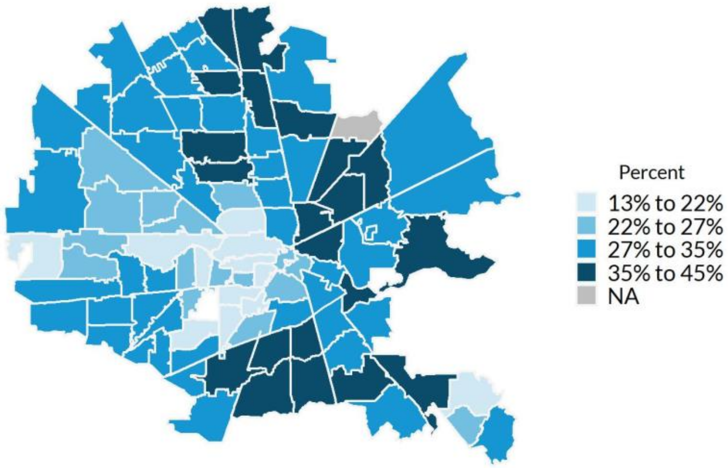
Share with Subprime Credit Score of Houston Residents



Share with Debt in Collections of Houston Residents



Average Credit Utilization of Houston Residents



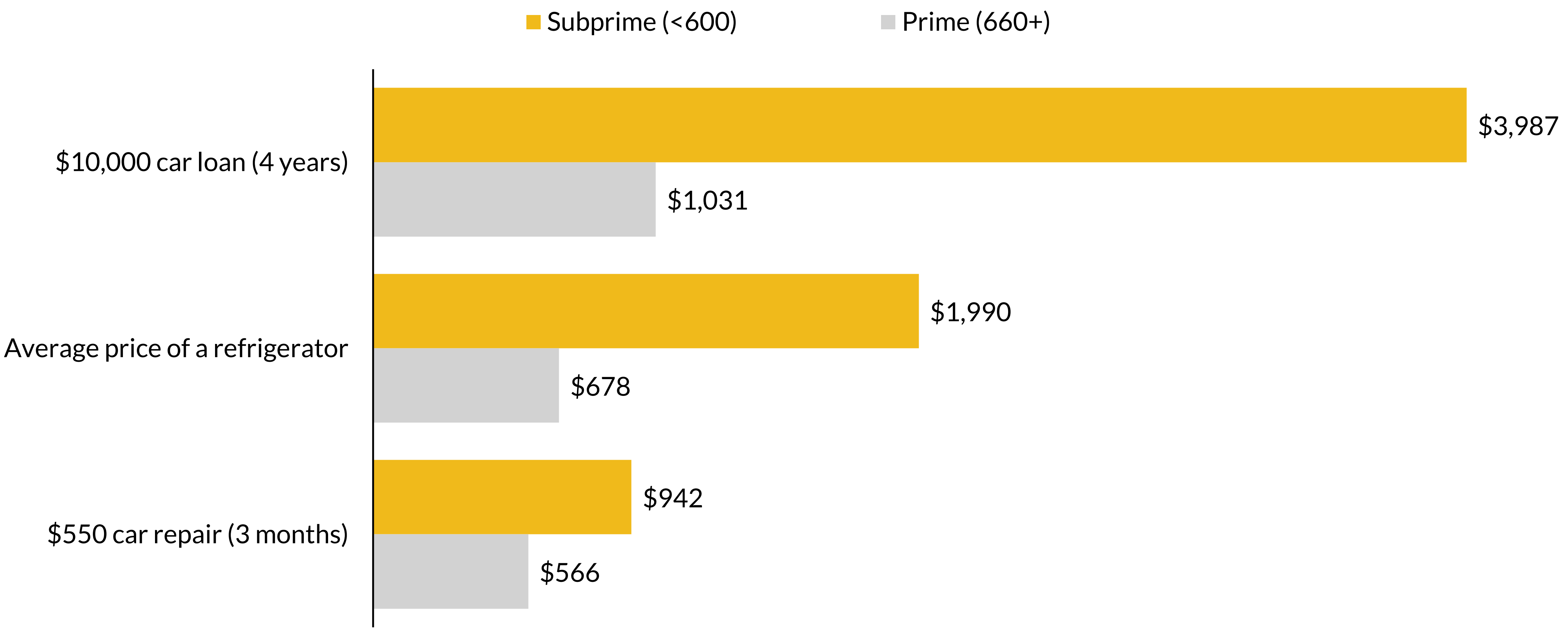
Like in most cities, resident financial health in **Houston** varies by neighborhood. City leaders in government, business, philanthropy, and advocacy can examine differences in delinquencies, credit scores, and credit use to understand how to build a more inclusive recovery, including the targeting of important policies, practices, and resources:

- Community and economic development resources to encourage equitable job and business opportunities
- Location of community services, including banks and financial empowerment centers, to help residents access affordable financial services, build savings, and improve financial resilience
- Design and enforcement of consumer financial protections against predatory lending and unfair debt collection practices

Credit Scores

Credit Health Affects Residents' Costs of Living

Having a subprime credit score increases the costs of common consumer purchases

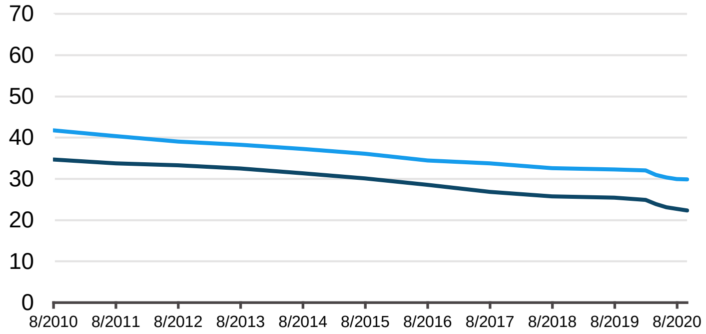


Source: Elliott and Lowitz. 2018. What Is the Cost of Poor Credit. Washington, DC: Urban Institute.

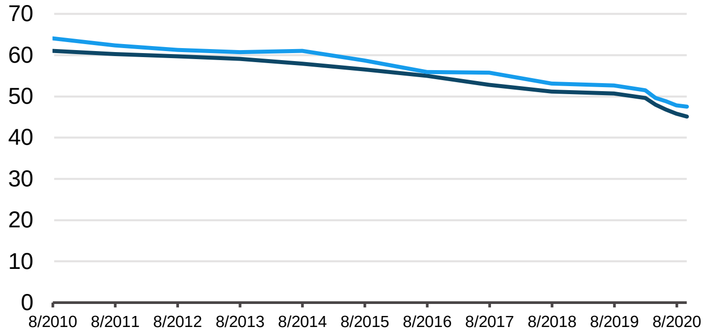
Nationally and in Texas, the share of residents with a subprime credit score steadily declined after the Great Recession and into the pandemic, but racial disparities persisted.

US TX

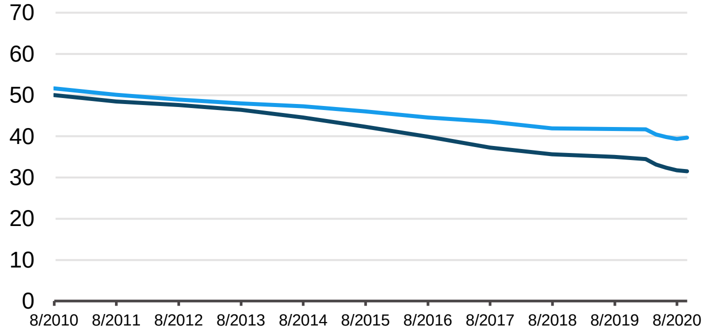
All communities



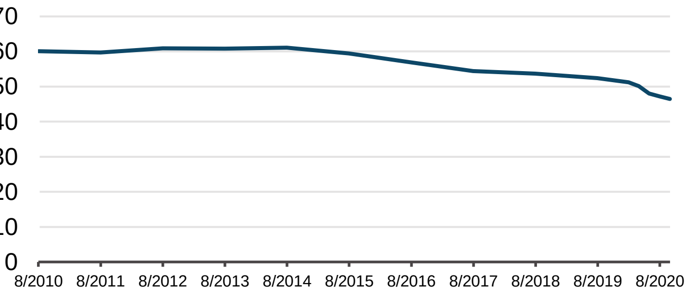
Majority-Black communities



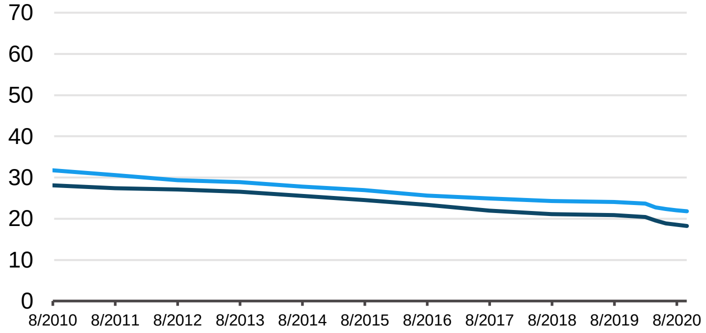
Majority-Hispanic communities



Majority–Native American and Alaska Native communities



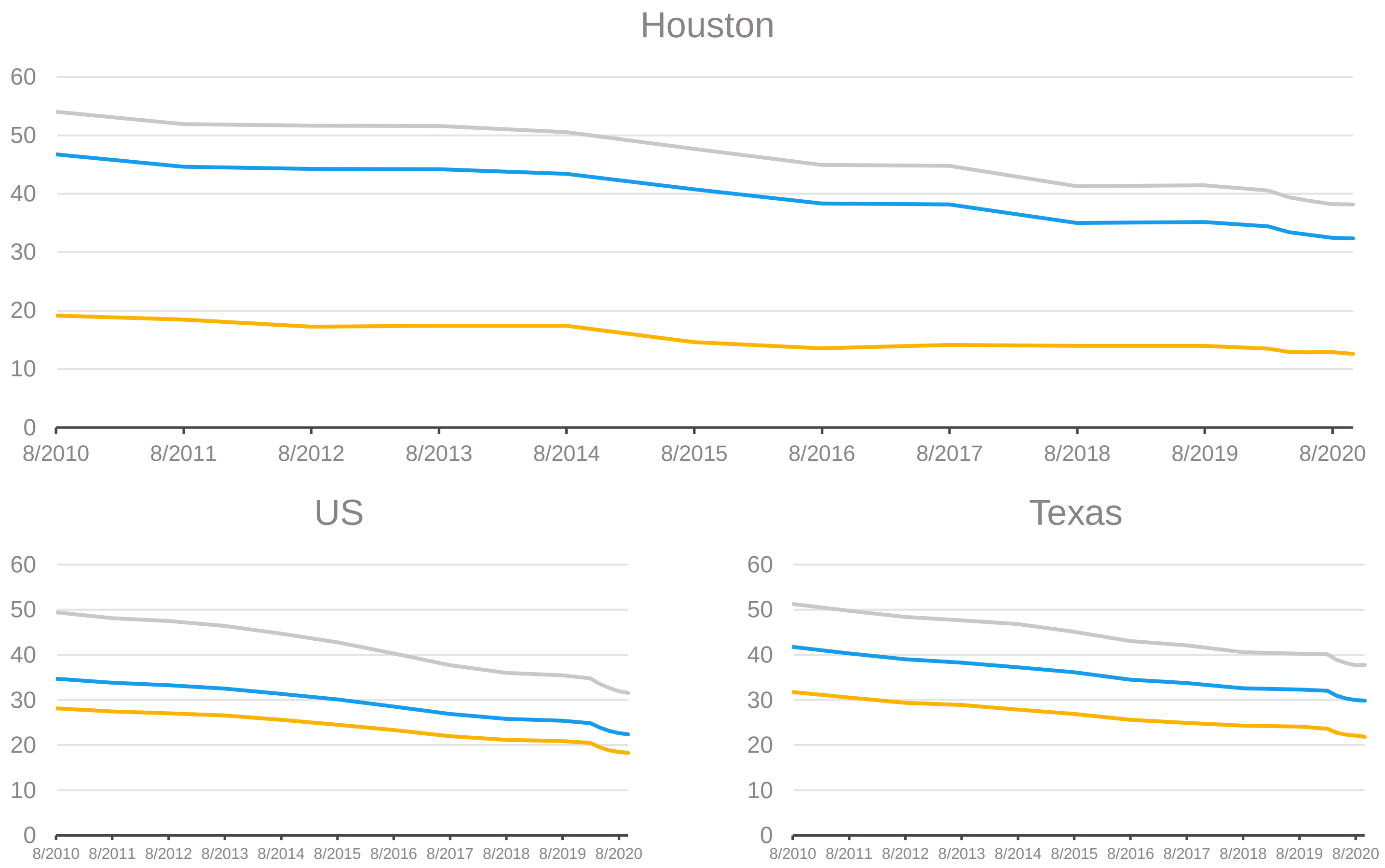
Majority-white communities



Source: Tabulations of Urban Institute credit bureau data.

Notes: Subprime credit score is a VantageScore of 600 or below. Demographic estimates are based on zip codes where at least 60 percent of the population identifies as the given race or ethnicity. Because of limited sample sizes, state-level demographic estimates are not always available for all timespans and/or races or ethnicities.

The share of Houston residents with subprime credit scores declined from 47 percent in August 2010 to 32 percent in October 2020.



This trend follows a similar path to Texas and the United States overall, though the share of Houston residents with subprime credit scores is higher than the statewide and national shares.

Credit scores reflect and perpetuate racial disparities, especially in cities that face challenges in racial inclusion like Houston. The share of residents in communities of color with subprime credit scores (38.2 percent) is 3 times higher than in majority-white communities in the city (12.6 percent).

Source: Tabulations of Urban Institute credit bureau data.

Notes: Subprime credit score is a VantageScore of 600 or below. White communities and communities of color are based on zip codes where most residents (at least 60 percent) are white or most residents (at least 60 percent) are people of color.

Credit Use

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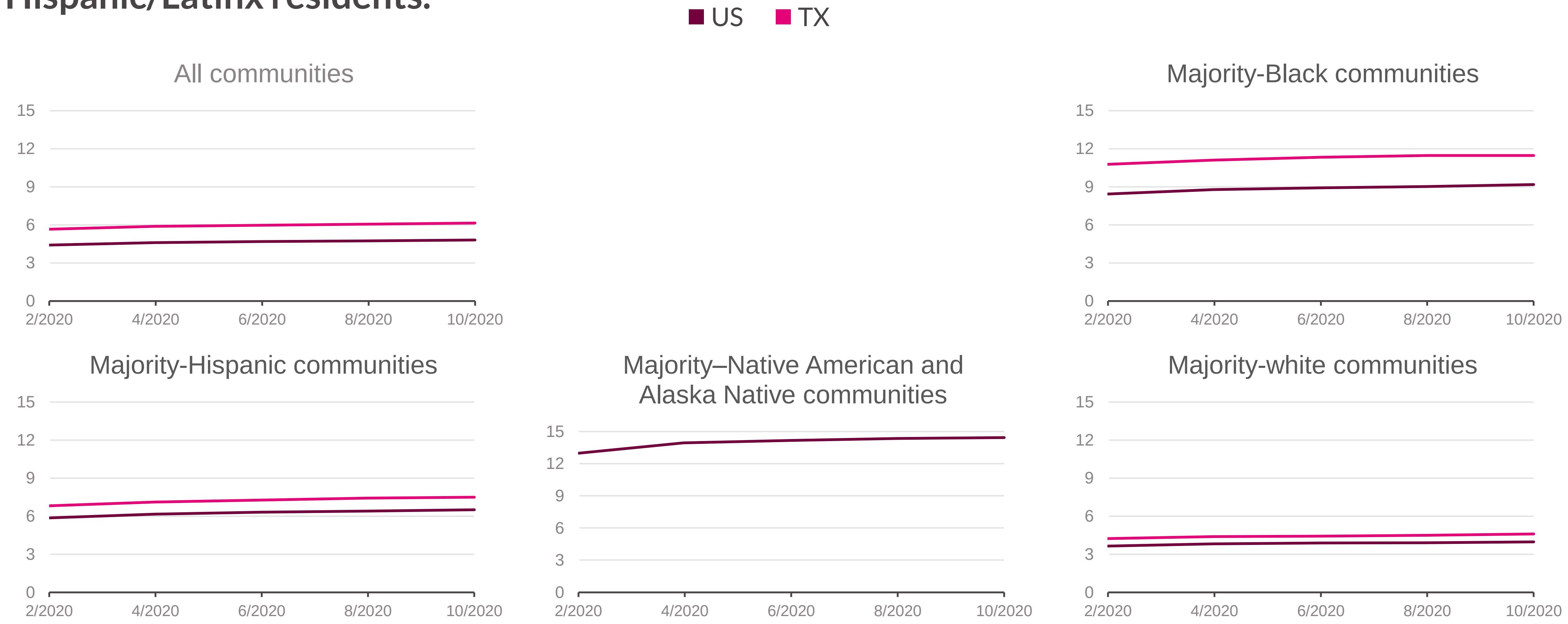
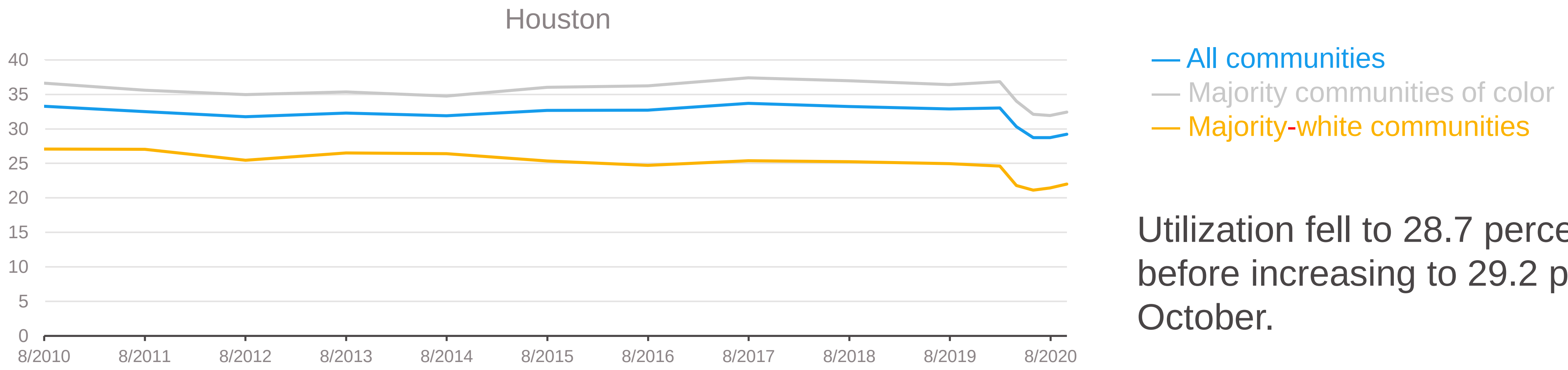
The share of residents using alternative financial service credit, such as payday loans, increased slightly after February 2020. The share is highest in Texas neighborhoods with majority-Black and Hispanic/Latinx residents.

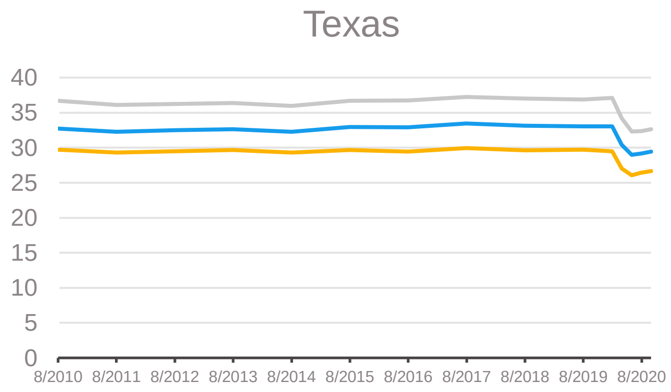


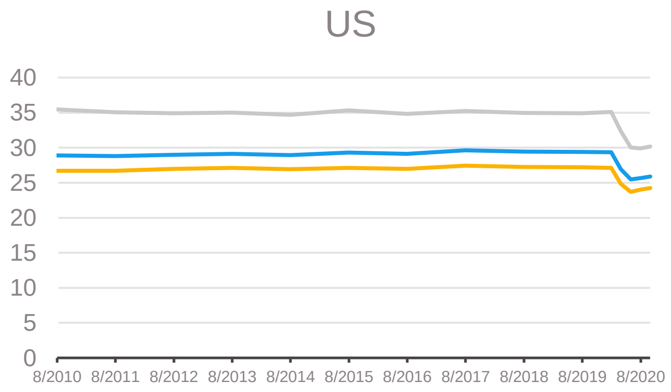
Source: Tabulations of Urban Institute credit bureau and alternative financial service data.

Notes: Alternative financial service credit includes short-term loans (installment loans, nonprime credit cards, auto title loans, rent-to-own) and single-pay credit (pawn shops, payday loans) from non-banking institutions. Demographic estimates are based on zip codes where at least 60 percent of the population identifies as the given race or ethnicity. Because of limited sample sizes, state-level demographic estimates are not always available for all timespans and/or races or ethnicities.

Average credit card utilization in Houston declined slightly between August 2010 and February 2020, then steeply in the first months of the pandemic.







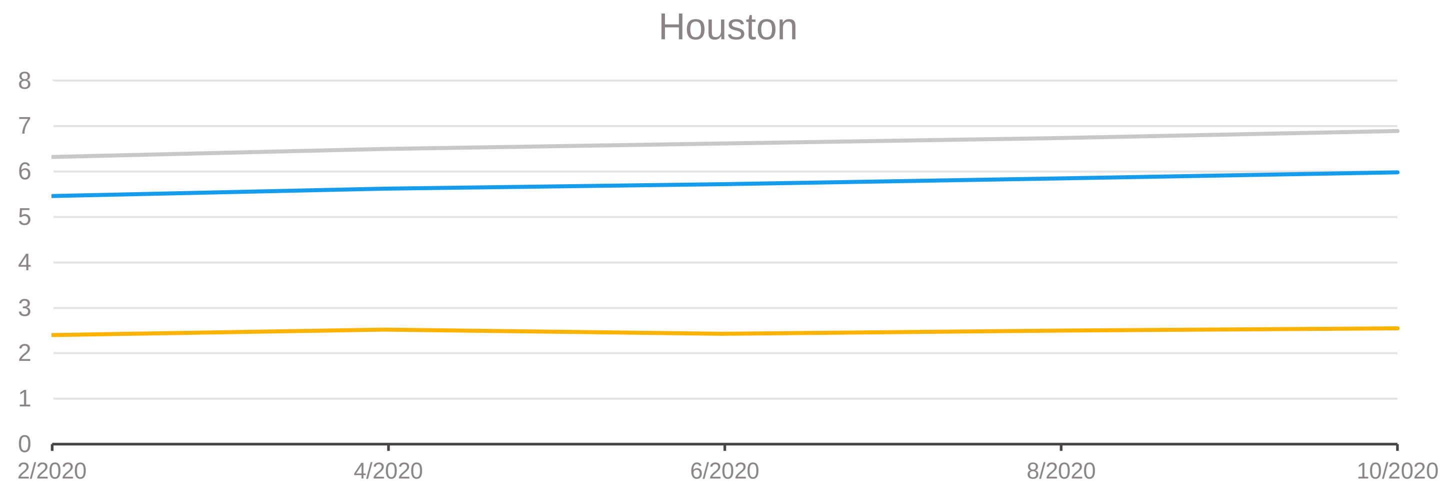
Utilization fell to 28.7 percent in June 2020 before increasing to 29.2 percent in October.

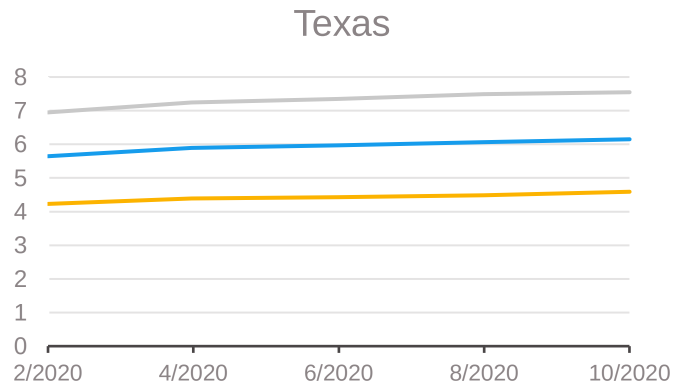
Average credit card utilization is higher in Houston than nationwide and is similar to all Texans.

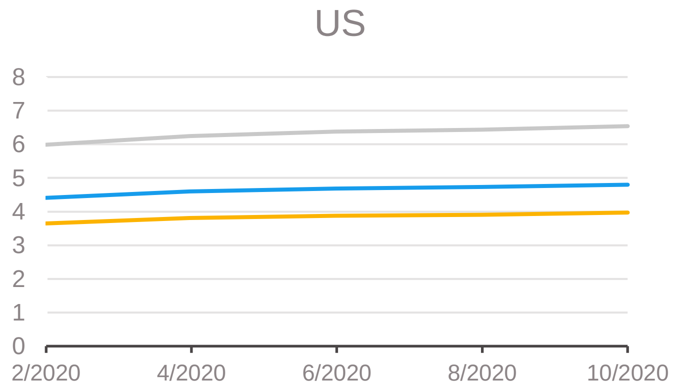
Source: Tabulations of Urban Institute credit bureau data.

Notes: Average credit card utilization is the average percentage of available credit card limit used. White communities and communities of color are based on zip codes where most residents (at least 60 percent) are white or most residents (at least 60 percent) are people of color.

The share of residents using credit from alternative financial services since the start of the COVID-19 pandemic has remained around 6 percent in Houston.







— All communities
— Majority communities of color
— Majority-white communities

Alternative loan use is higher in Houston than it is nationwide and slightly lower than all of Texas.

Alternative loan use is about three times higher in communities of color than it is in majority-white communities in Houston.

Source: Tabulations of Urban Institute credit bureau data.

Notes: Alternative finance products include short-term loans (installment loans, nonprime credit cards, auto title loans, rent-to-own) and single-pay credit (pawn shops, payday loans). Loan origination channels could be online or storefront. Loan types could be installment or single pay.

Delinquent Debt

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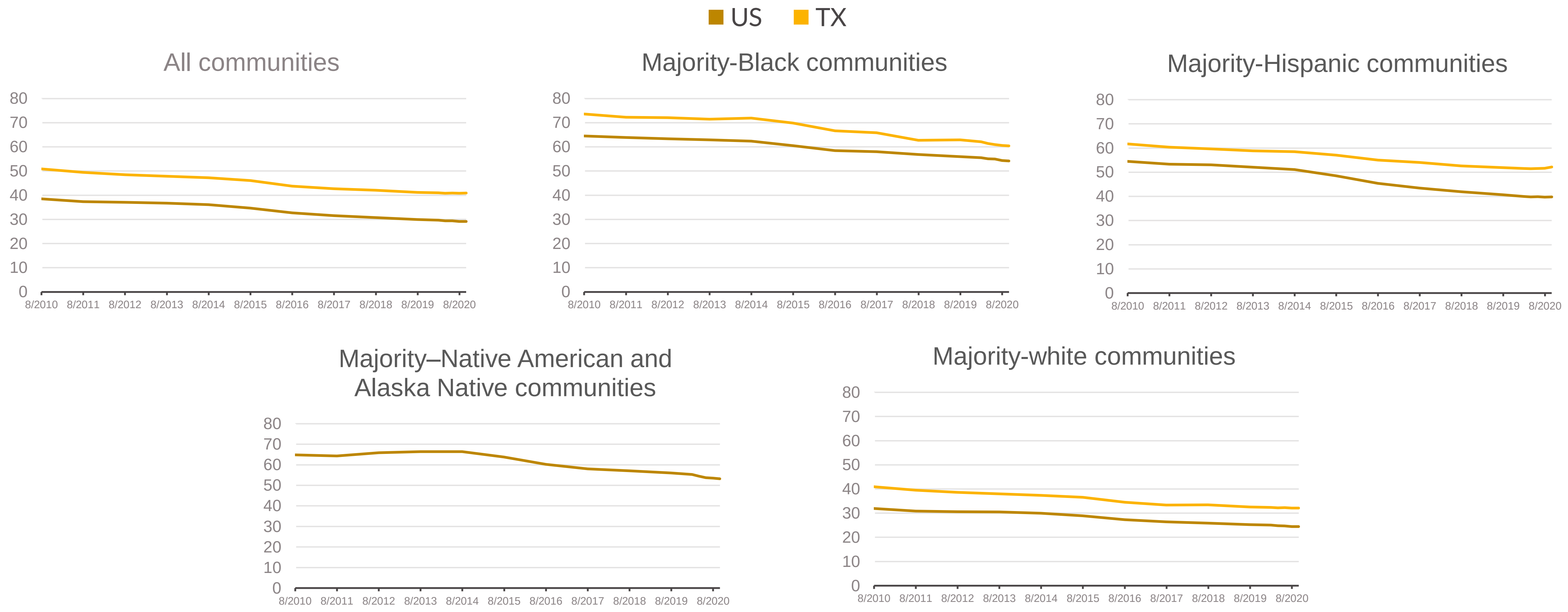
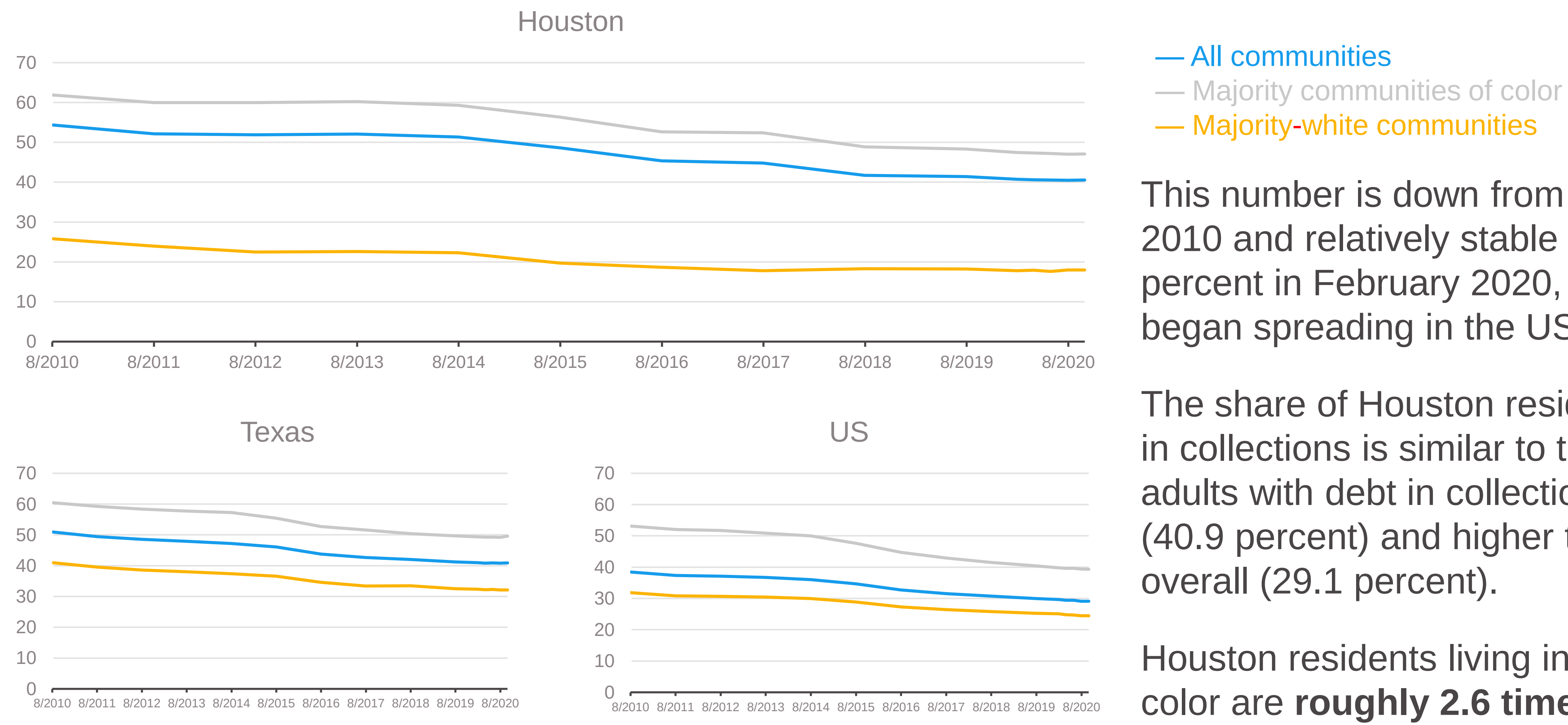
The share of residents with debt in collections also declined after the Great Recession. Nearly 1 in 3 (29.1 percent) US adults with a credit file, and 4 in 10 Texans, had debt in collections in October 2020. Overall, racial disparities have continued.



Source: Tabulations of Urban Institute credit bureau data.

Notes: Share with any debt in collections is the share of people with a credit bureau record who have any debt in collections. Demographic estimates are based on zip codes where at least 60 percent of the population identifies as the given race or ethnicity. Because of limited sample sizes, state-level demographic estimates are not always available for all timespans and/or races or ethnicities.

40.5 percent of Houston adults with credit files had debt in collections in October 2020.



Source: Tabulations of Urban Institute credit bureau data.

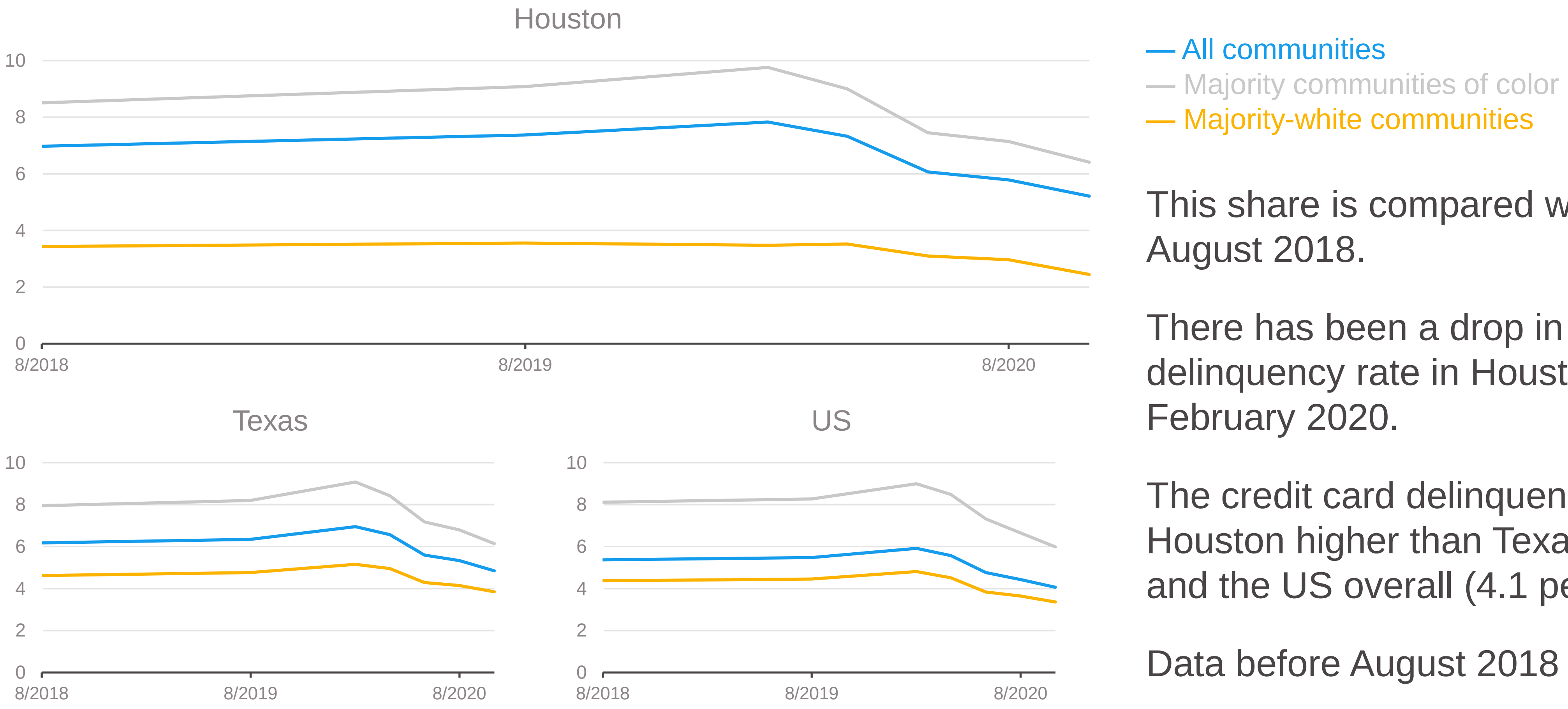
Notes: Share with any debt in collections is the share of people with a credit bureau record who have any debt in collections. White communities and communities of color are based on zip codes where most residents (at least 60 percent) are white or most residents (at least 60 percent) are people of color.

This number is down from 54 percent in 2010 and relatively stable from 40.7 percent in February 2020, when COVID-19 began spreading in the US.

The share of Houston residents with debt in collections is similar to than the share of adults with debt in collections in Texas (40.9 percent) and higher than the US overall (29.1 percent).

Houston residents living in communities of color are **roughly 2.6 times as likely** to have debt in collections as residents living in majority-white communities (47.1 percent compared with 18.0 percent).

The credit card delinquency rate in Houston was 5.2 percent in October 2020.



This share is compared with 7 percent in August 2018.

There has been a drop in the credit card delinquency rate in Houston since February 2020.

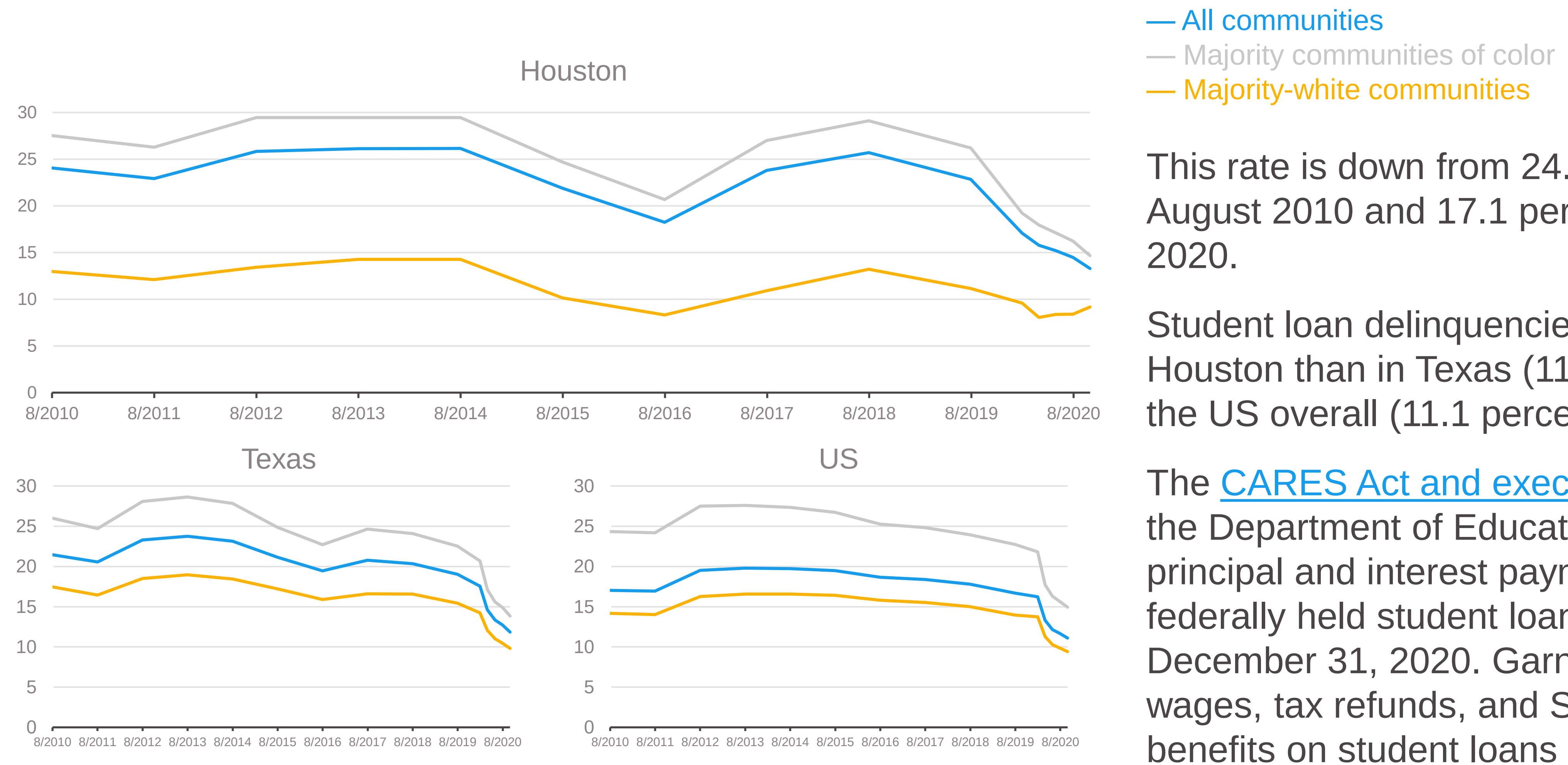
The credit card delinquency rate in Houston higher than Texas (4.8 percent) and the US overall (4.1 percent).

Data before August 2018 are unavailable.

Source: Tabulations of Urban Institute credit bureau data.

Notes: Credit card debt delinquency rate is the share of people with credit/charge card debt who are 30 or more days delinquent. White communities and communities of color are based on zip codes where most residents (at least 60 percent) are white or most residents (at least 60 percent) are people of color.

The student loan delinquency rate in Houston was 13.3 percent in October 2020.



This rate is down from 24.1 percent in August 2010 and 17.1 percent in February 2020.

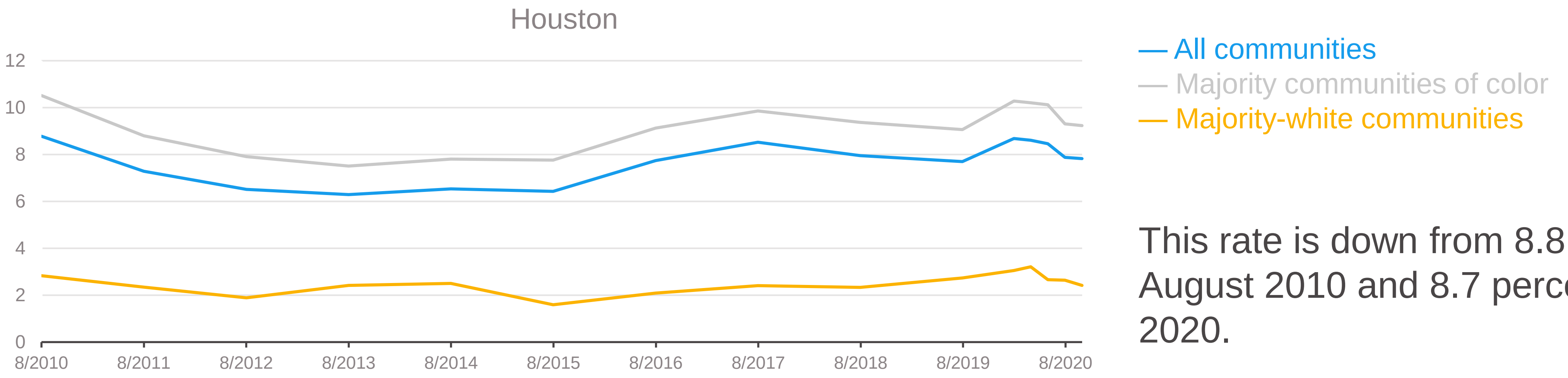
Student loan delinquencies are higher in Houston than in Texas (11.8 percent) and the US overall (11.1 percent).

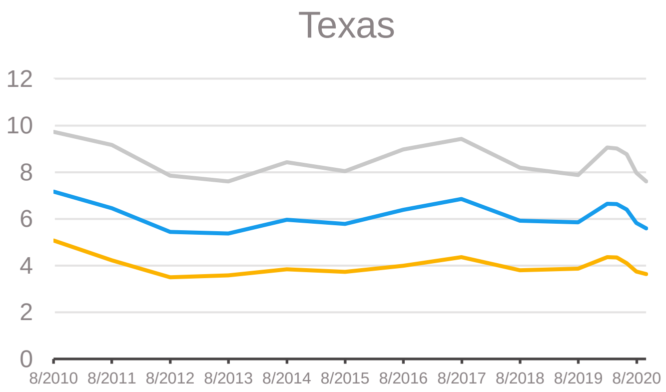
The CARES Act and executive actions by the Department of Education suspended principal and interest payments on federally held student loans through December 31, 2020. Garnishments of wages, tax refunds, and Social Security benefits on student loans in default were also suspended.

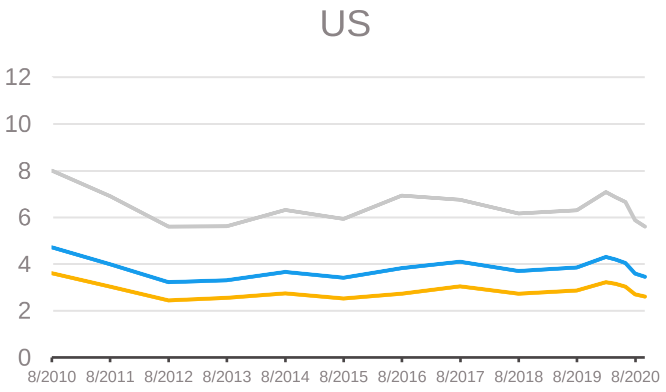
Source: Tabulations of Urban Institute credit bureau data.

Notes: Student loan debt delinquency rate is the share of people with student loans who are 60 or more days delinquent. White communities and communities of color are based on zip codes where most residents (at least 60 percent) are white or most residents (at least 60 percent) are people of color.

The auto/retail loan delinquency rate in Houston was 7.8 percent in October 2020.







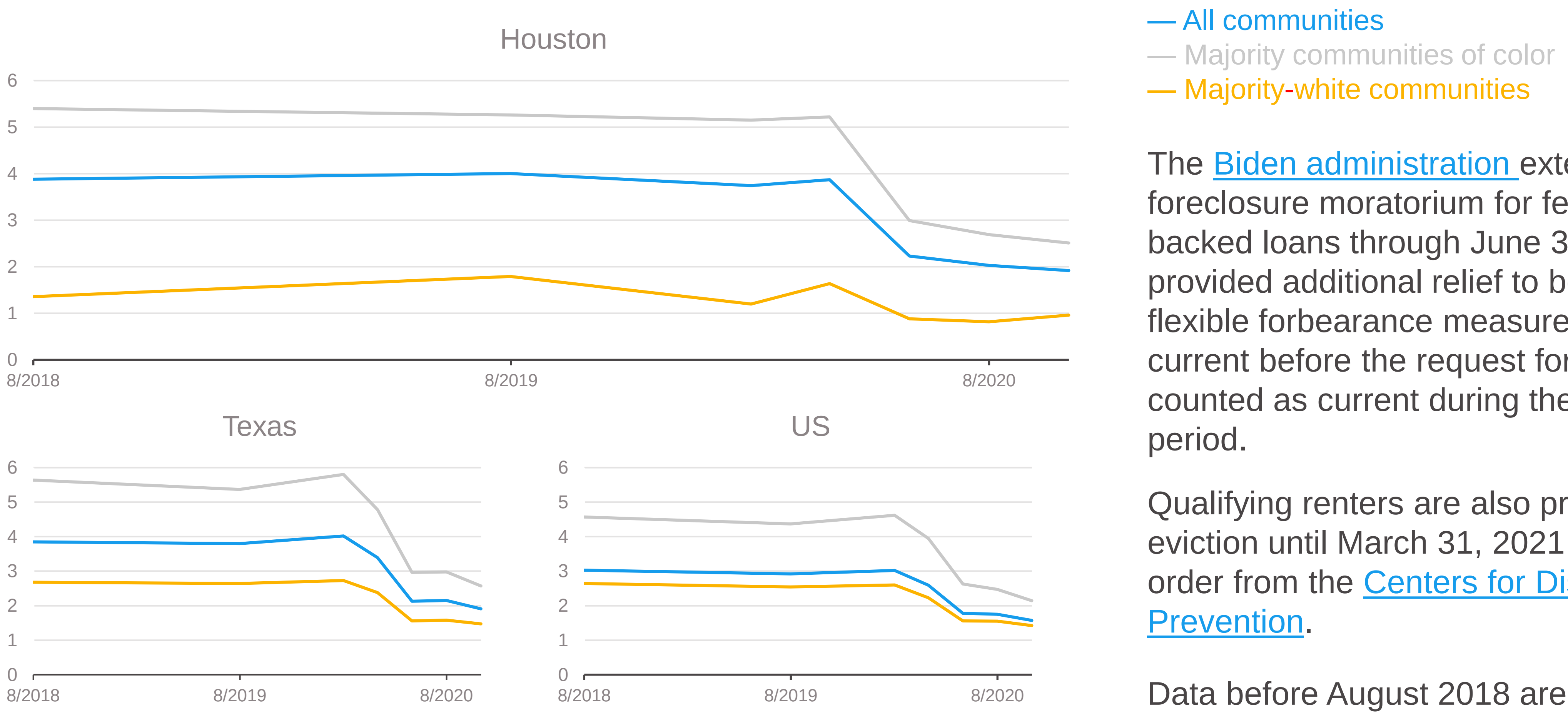
This rate is down from 8.8 percent in August 2010 and 8.7 percent in February 2020.

In October 2020, Houston residents living in communities of color were nearly four times as likely to have delinquent auto or retail loans as residents living in majority-white communities (9.2 percent compared with 2.4 percent).

Source: Tabulations of Urban Institute credit bureau data.

Notes: Auto/retail loan delinquency rate is the share of people with an auto loan or lease or a retail installment loan who are 60 or more days delinquent. White communities and communities of color are based on zip codes where most residents (at least 60 percent) are white or most residents (at least 60 percent) are people of color.

Two percent of people with mortgages in Houston are 30 or more days past due.



The Biden administration extended the foreclosure moratorium for federal and GSE backed loans through June 30, 2021 and provided additional relief to borrowers through flexible forbearance measures. If a loan was current before the request for forbearance, it is counted as current during the forbearance period.

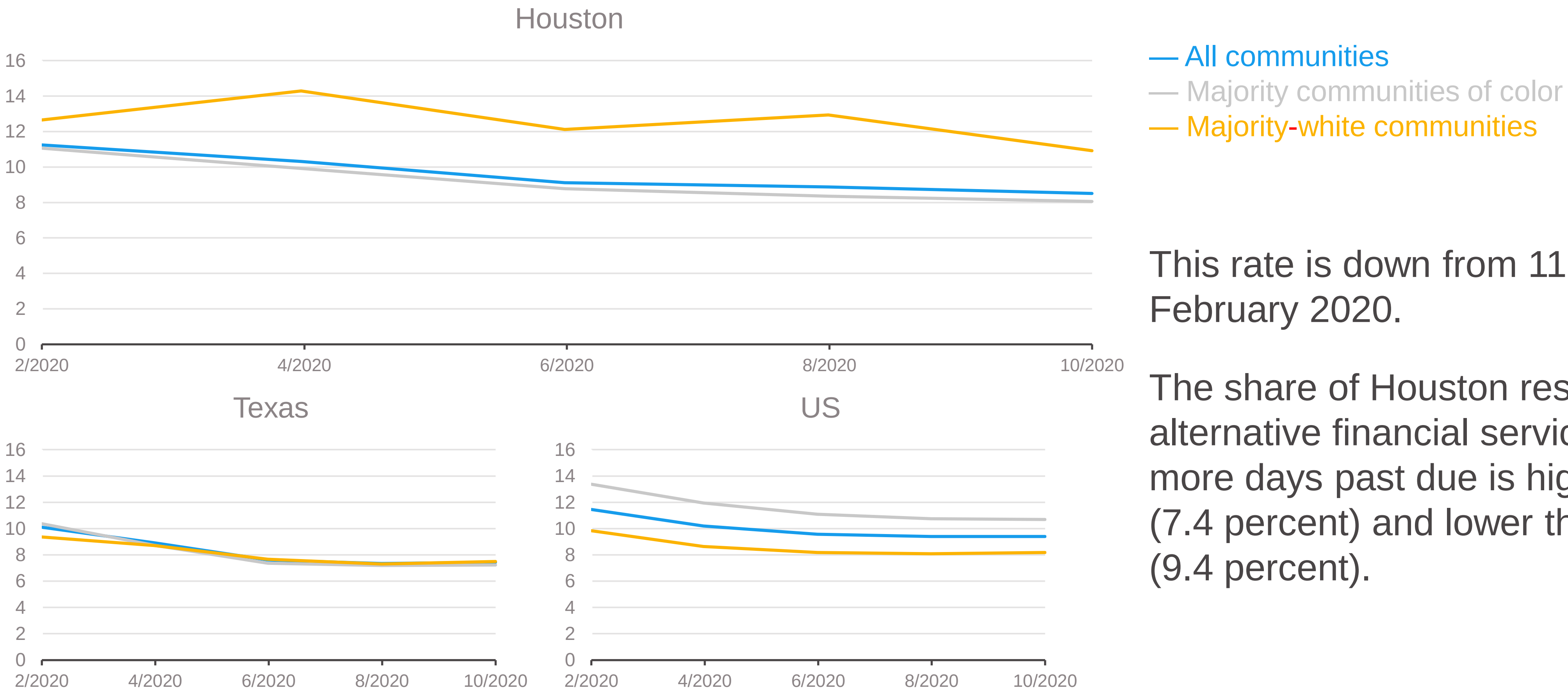
Qualifying renters are also protected from eviction until March 31, 2021, according to an order from the Centers for Disease Control and Prevention.

Data before August 2018 are unavailable.

Source: Tabulations of Urban Institute credit bureau data.

Notes: Mortgage delinquency rate: share of people with a mortgage who are 30 or more days delinquent. White communities and communities of color are based on zip codes where most residents are white (at least 60 percent of the population is white) or most residents are people of color (at least 60 percent of the population is of color).

The share of alternative financial services loans 30 or more days past due in Houston was 8.5 percent in October 2020.



This rate is down from 11.3 percent in February 2020.

The share of Houston residents with alternative financial services loans 30 or more days past due is higher than Texas (7.4 percent) and lower than the US overall (9.4 percent).

Source: Tabulations of Urban Institute credit bureau and alternative financial service data.

Notes: Alternative financial service credit includes short-term loans (installment loans, nonprime credit cards, auto title loans, rent-to-own) and single-pay credit (pawn shops, payday loans) from non-banking institutions. White communities and communities of color are based on zip codes where most residents (at least 60 percent) are white or most residents (at least 60 percent) are people of color.

What solutions are cities exploring to support resident financial health?

To address the economic and health challenges presented by COVID-19, national, state, and local policymakers—along with businesses, philanthropy, and other partners—responded with policies and services to help families avoid eviction and foreclosure and stay current on bills. Federal policies like the CARES Act provided cash payments to millions of families, expanded unemployment benefits, created forbearance options to affected borrowers, and enacted protections to prevent renters from being evicted from their homes. State and local policymakers and their partners filled gaps and built on federal measures, such as by expanding or extending eviction and foreclosure protections. The policy response may explain why many credit measures sometimes improved, counterintuitively, after February.

This last section explores policies and approaches to building resident financial health, both short-term responses to the emergency created by the COVID-19 pandemic and longer-term solutions supported by research.

Potential Areas of Short-Term Focus for Houston

Houston leaders can take action to ensure an inclusive recovery from COVID-19 and build a stronger, more equitable economy for its residents. City leaders will need to consider whether temporary measures enacted in response to COVID-19 need to be extended, or if certain groups need additional protections or supports. The table below describes some steps Houston and Texas have already taken to protect financial health during the pandemic, and points to ways to build upon these efforts.

Area	Existing measures	Possible future measures
Income supports		• Continued stimulus relief to support low-income workers who have lost jobs since the pandemic hit (additional stimulus payments to PUA recipients occurring in Washington, DC) • Grants to low-income households that have lost work or had extra medical or child care expenses because of COVID-19 (Los Angeles)
Small business supports	• Small Business Economic Relief Program--$10 million funding that provided grant assistance to small businesses and chambers of commerce that have been impacted by the COVID-19 pandemic	• Deferral of licensing fees (existing policy in San Francisco) • Prioritization of small business grants to those with five or fewer employees and from areas identified as high risk of displacement/highly disadvantaged (existing policy in Seattle)
Debt protection		• Relief for student loan borrowers not covered by CARES act (existing policy in New York City) • Cross-departmental reductions in response to the crisis to alleviate the burden of fines, fees, financial penalties, and collections (existing policy in San Francisco)
Housing stability	• HOME Tenant Based Rental Assistance will be made available to Texans experiencing housing challenges because of COVID-19 • Texas Supreme Court has issued an order in support of the CDC's nationwide temporary eviction moratorium for certain tenants	• Permitting rent payment plans and mediation services (existing policies in Seattle; Washington, DC) • Extend eviction moratorium through December 2021 or at least beyond March 31, 2021 (extensions exist in San Francisco and New York City)

Potential Areas of Long-Term Focus for Houston

As leaders in Houston begin to look beyond relief efforts and into recovery, leaders can also consider the following evidence-based long-term strategies to meet the financial needs of their residents:

- **Provide financial coaching, counseling, and innovative uses of technology** to help residents save, manage their debt and daily finances, and build credit scores. Having good credit enhances residents' ability to borrow, especially at a reasonable price, and could even help them secure a job or a place to live.
- **Assess city employment practices and take steps to boost city employees' financial security**. Forgoing credit checks in the hiring process could be beneficial to prospective employees who are struggling financially.
- **Work to expand health insurance coverage**. City leaders and local stakeholders in states like Texas that did not expand Medicaid could help state leaders better understand the broader implications of having a high share of uninsured residents. Also, expanding program outreach to increase health insurance enrollment among the most-vulnerable populations would benefit both residents' physical health and their long-term financial health and that of the cities in which they live.
- **Integrate financial and savings interventions into existing programs and platforms** (e.g., housing, employment, community colleges, tax preparation, and public utilities) to reach more residents and meet people where they are. This can include elements that help residents manage their debt and daily finances, build credit scores, and save.
- **Help residents save through savings programs with incentives like the Credit Coalition's Individual Development Accounts**. These programs provide incentives such as matching funds that can be used to build an emergency savings cushion or save for long-term investments, such as a first home or a child's education. Savings and assets can build residents' economic security and provide a pathway to economic mobility, which can, in turn, benefit the economic and financial health of their cities.

To meet resident needs with limited resources, local leaders may consider leveraging community partnerships with businesses, nonprofits, and philanthropy; or enacting measures like regulations that don't require additional spending.

Additional Resources

- Tracking Resident Credit Health during COVID-19
- Debt in America: An Interactive Map
- Financial Health of Residents Dashboard: A City-Level Dashboard
- Cost of Eviction and Unpaid Bills of Financially Insecure Families for City Budgets
- Thriving Residents, Thriving Cities
- Making the Case: The Link between Residents' Financial Health and Cities' Inclusive Growth
- Developing Solutions: Strategies to Improve Resident Financial Health and Propel Inclusive Growth

Tracking the Financial Health of Houston Residents

How can city leaders support an inclusive recovery and help residents build financial health?

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