Photo Credit: harry mtike/Shutterstock

FEBRUARY 2021

Tracking the Credit Health of Detroit Residents

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

URBAN INSTITUTE · ELEVATE · THE · DEBATE

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 Detroit 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 financial 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 Detroit, racial inclusion is a core strength, but the city's economic inclusion has room for improvement. Detroit ranks 16th out of the 274 largest cities nationwide along key measures of racial inclusion and 257th along key measures of economic inclusion. While Detroit has lower levels of income segregation and a smaller racial poverty gap, Detroit is notably worse than other cities on racial segregation and the share of residents who are rent-burdened.

Key Takeaways

- **Credit health among Detroit 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, who make up most of Detroit's population.** Despite modest improvements since 2010, the financial health of Detroit residents is weaker than in other cities in Michigan and the US. More than half of Detroit residents have a subprime credit score.

- **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 Detroit

Pre-COVID-19

Detroit is a city in economic recovery. Similar to Newark, Detroit has median credit scores in the subprime range (which limits access to credit), the highest share of residents with delinquent debt (which indicates that residents are having a hard time making ends meet), and the highest foreclosure rates.

Detroit has weathered several economic shocks over recent decades, creating a complicated landscape for the financial health of its residents and the city as a whole. Following population declines, job loss, and declines in property values, Detroit declared bankruptcy in 2013. The city lost revenue, residents experienced disruptions in services, and more homeowners went into foreclosure and lost equity. The economic recovery has been uneven, with falling foreclosures but scarce mortgage credit and stabilized job losses with high levels of unemployment.

The Threat of COVID-19 for Resident Financial Health

America's cities are showing the economic impact of the COVID-19 pandemic. In Detroit, the unemployment rate went from 7.6 percent in February to 39.4 percent in April. As of October, Detroit's unemployment rate was 13.8 percent. This rate is nearly double the national rate from the same month of 6.9 percent, but is on par with Newark, New Jersey (13.6 percent), which, like Detroit, is a city in economic recovery.

Small business revenue is down 48 percent as of November, and the Detroit metro area has lost nearly 124,000 low-income jobs since the beginning of the pandemic, about a third of which were in accommodation and food services.

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. And many households may face steep medical bills if family members required hospitalization for coronavirus infections.

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.

As a city with a majority-Black population and a history of residential segregation and systematic disinvestment in its community, Detroit may be especially vulnerable to pandemic-related financial distress.

Resident Credit Health in Detroit Remained Precarious after the Great Recession and into COVID-19

This section shows key credit metrics for Detroit—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. Data in Detroit are insufficient to break down communities into more defined racial and ethnic groups beyond all communities and communities of color. We recognize that financial health data aggregated by racial and ethnic groups often mask tremendous differences within groups.

Detroit faces challenges in supporting financially healthy residents compared with other cities, the US, and Michigan. Six in 10 Detroit residents have debt in collections, down from more than 7 in 10 in 2010. However, more than half of Detroit residents have a subprime credit score, and Detroit adults are twice as likely to have credit card or student loan delinquencies or use high-cost alternative financial service loans as US adults overall.

While credit health has improved among Detroit residents since August 2010 across many metrics that follow, the high levels of delinquent debt, subprime credit, and alternative financial services 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.

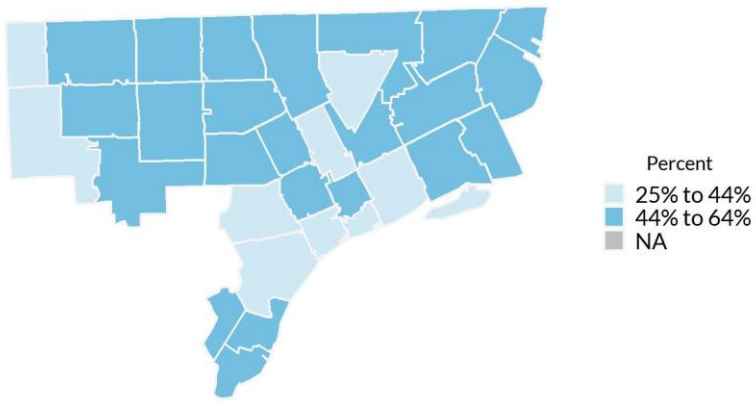
2) **Credit use** indicates access to credit, which families may use to meet their financial needs. The share of available credit used is a measure of debt burden. Higher debt burdens could signal financial distress.
   - Use of alternative financial service (AFS) loans like payday loans can indicate 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.

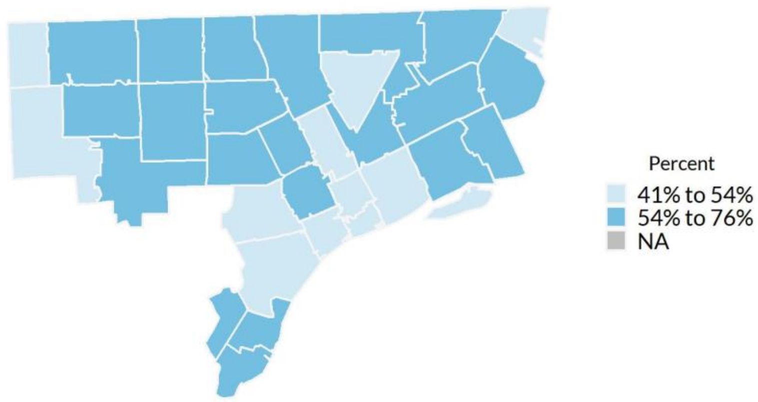
In Detroit, these credit health indicators are shown for communities of color and all communities. There are insufficient samples to show data for majority-white communities, reflecting the city's demographic makeup.

Financial Health Varies by Neighborhood

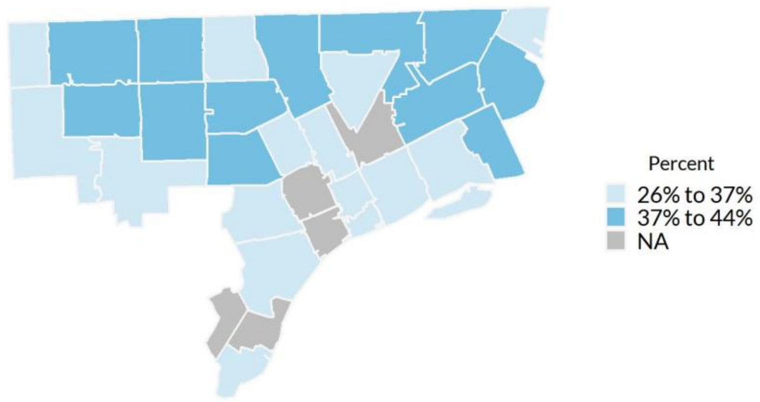
Share with Subprime Credit Score of Detroit Residents



Share with Debt in Collections of Detroit Residents



Average Credit Utilization of Detroit Residents



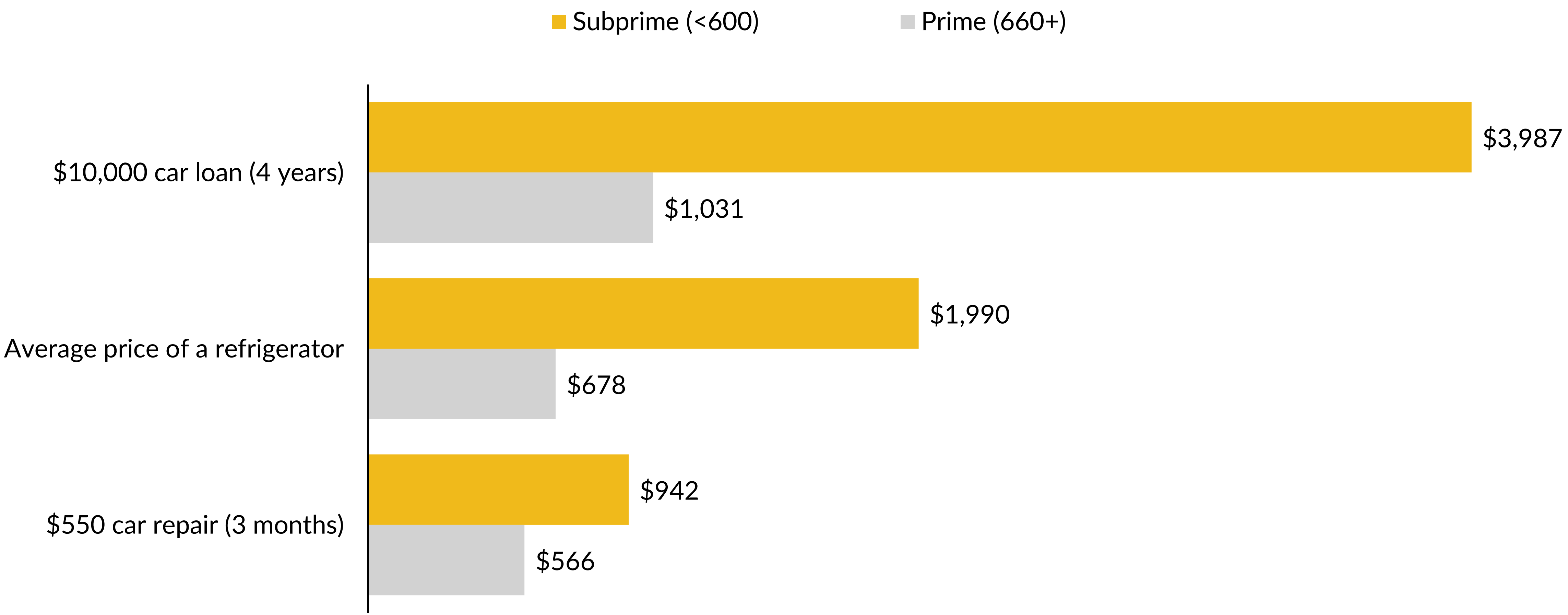
Like in most cities, resident financial health in **Detroit** varies by neighborhood. City leaders in government, business, philanthropy, and advocacy can examine differences in delinquencies, credit scores, and credit use to understand how to build a more inclusive recovery, including the targeting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

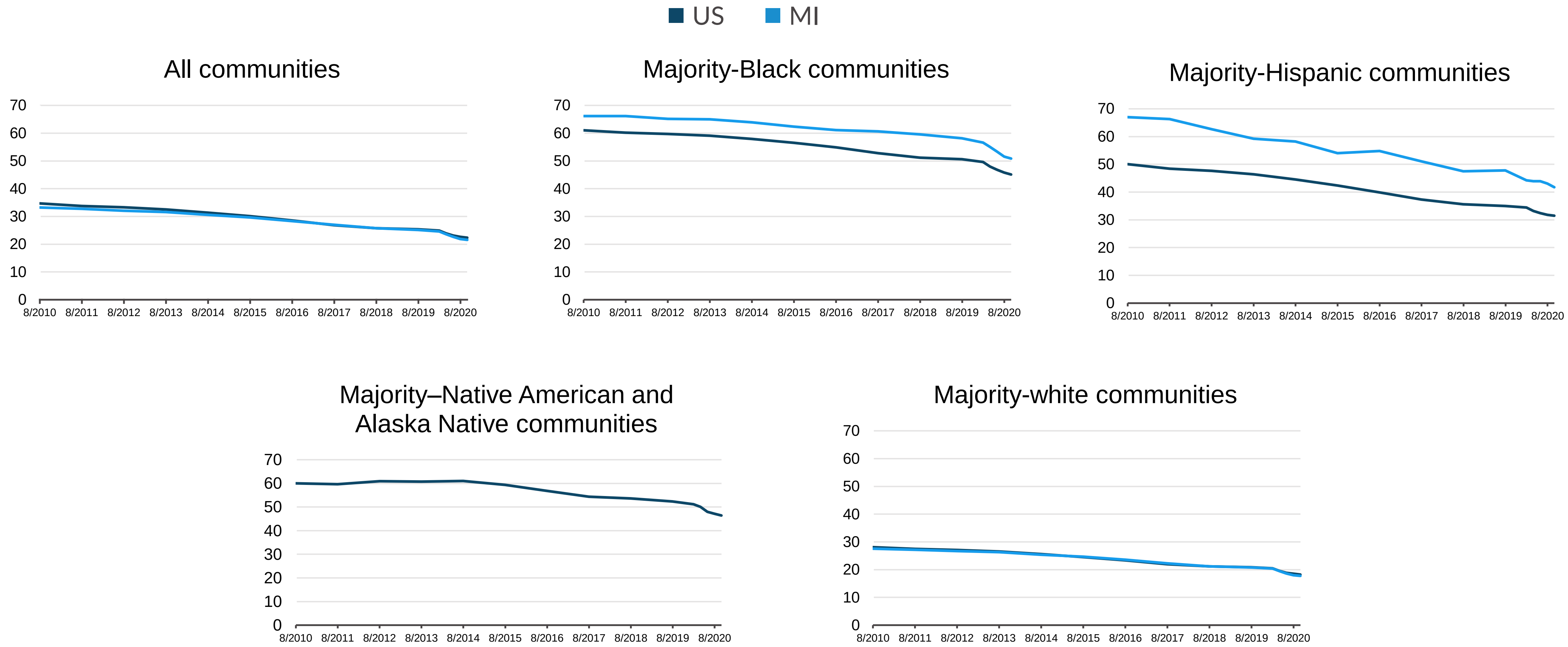
Credit Health Affects Residents' Costs of Living

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

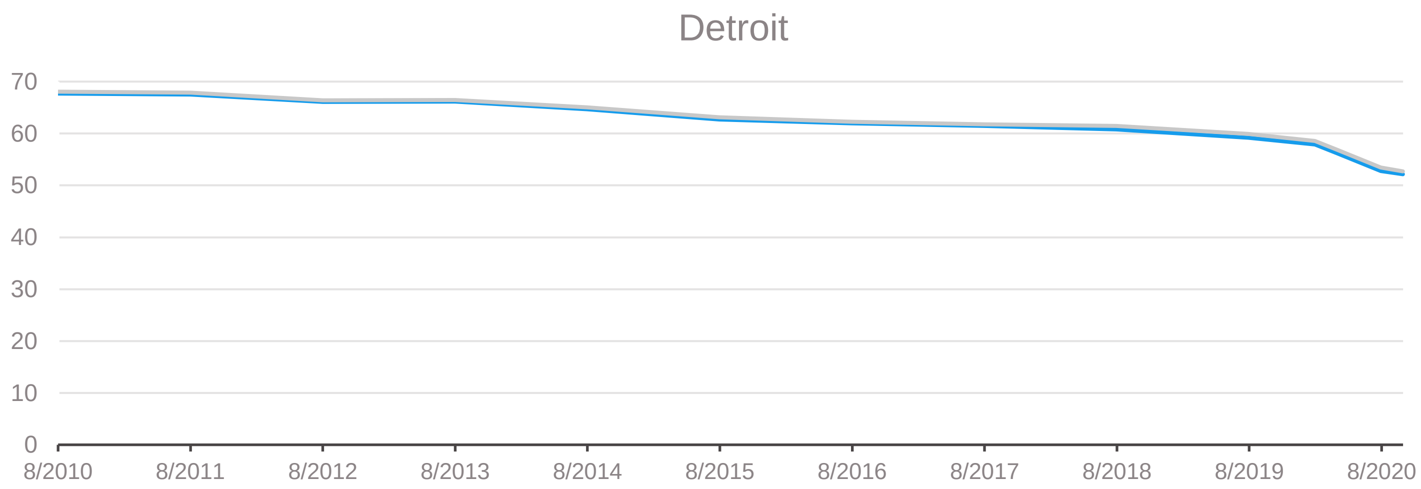


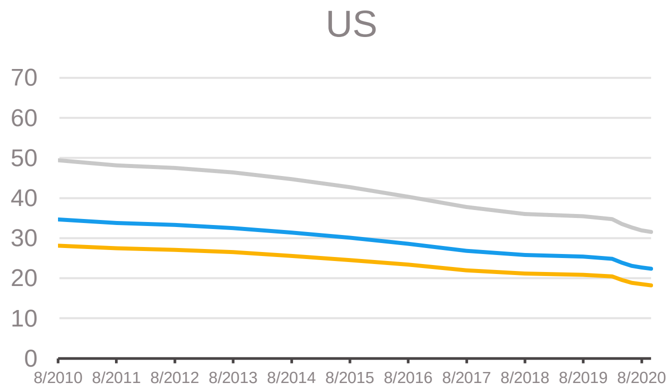
Source: Tabulations of Urban Institute credit bureau data.

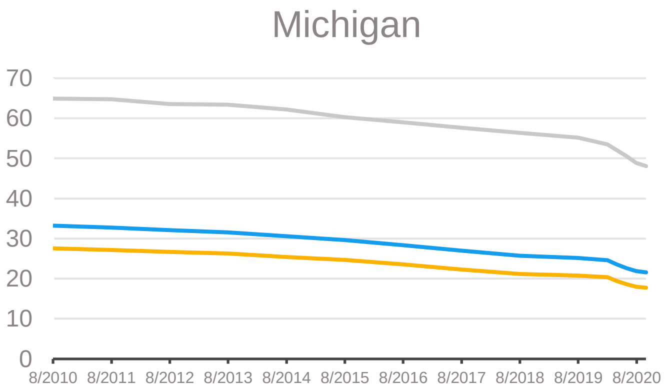
Notes: Subprime credit score is a VantageScore of 600 or below. Demographic estimates are based on zip codes where at least 60 percent of the population identifies as the given race or ethnicity. Because of limited sample sizes, state-level demographic estimates are not always available for all timespans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

The share of Detroit residents with subprime credit scores declined from 67 percent in August 2010 to 52 percent in October 2020.

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







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

Credit scores reflect and perpetuate racial disparities. The high share of Detroit residents with subprime credit scores may reflect the city's deep history with structural racism.

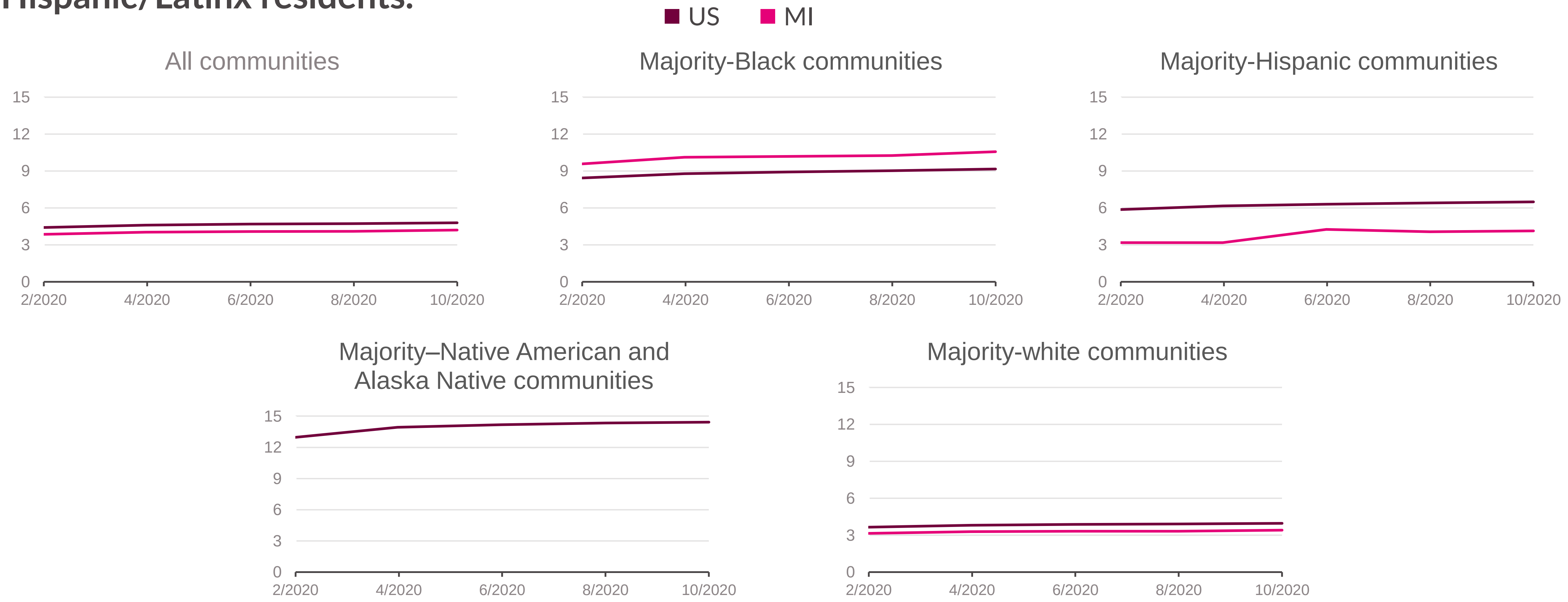
City demographic breakouts are not shown because of insufficient data.

Source: Tabulations of Urban Institute credit bureau data.

Notes: Subprime credit score is defined as 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

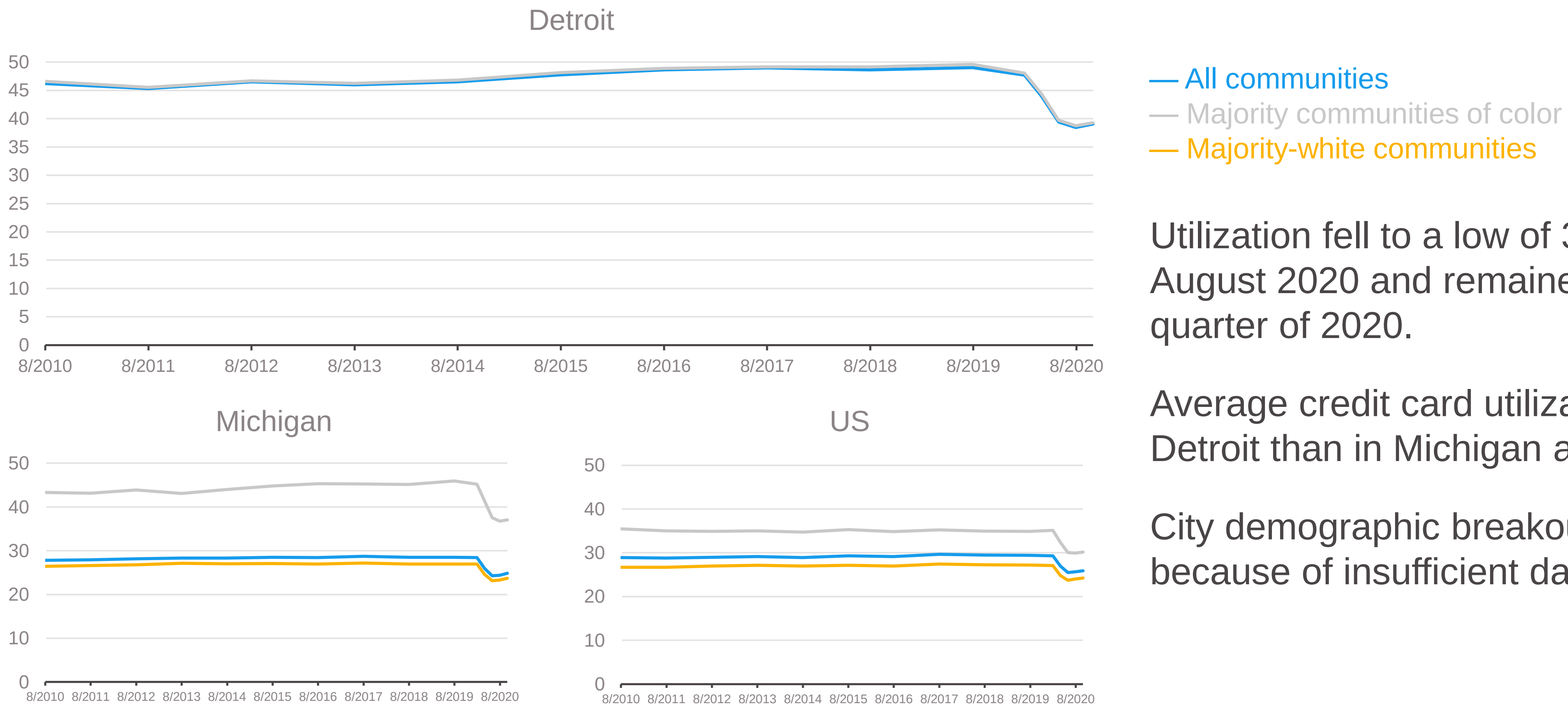
The share of residents using alternative financial service credit, such as payday loans, increased slightly after February 2020. The share is highest in neighborhoods with majority-Black and Hispanic/Latinx residents.



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 Detroit declined slightly between August 2010 and February 2020, then steeply in the first months of the pandemic.



Utilization fell to a low of 38.4 percent in August 2020 and remained low in the last quarter of 2020.

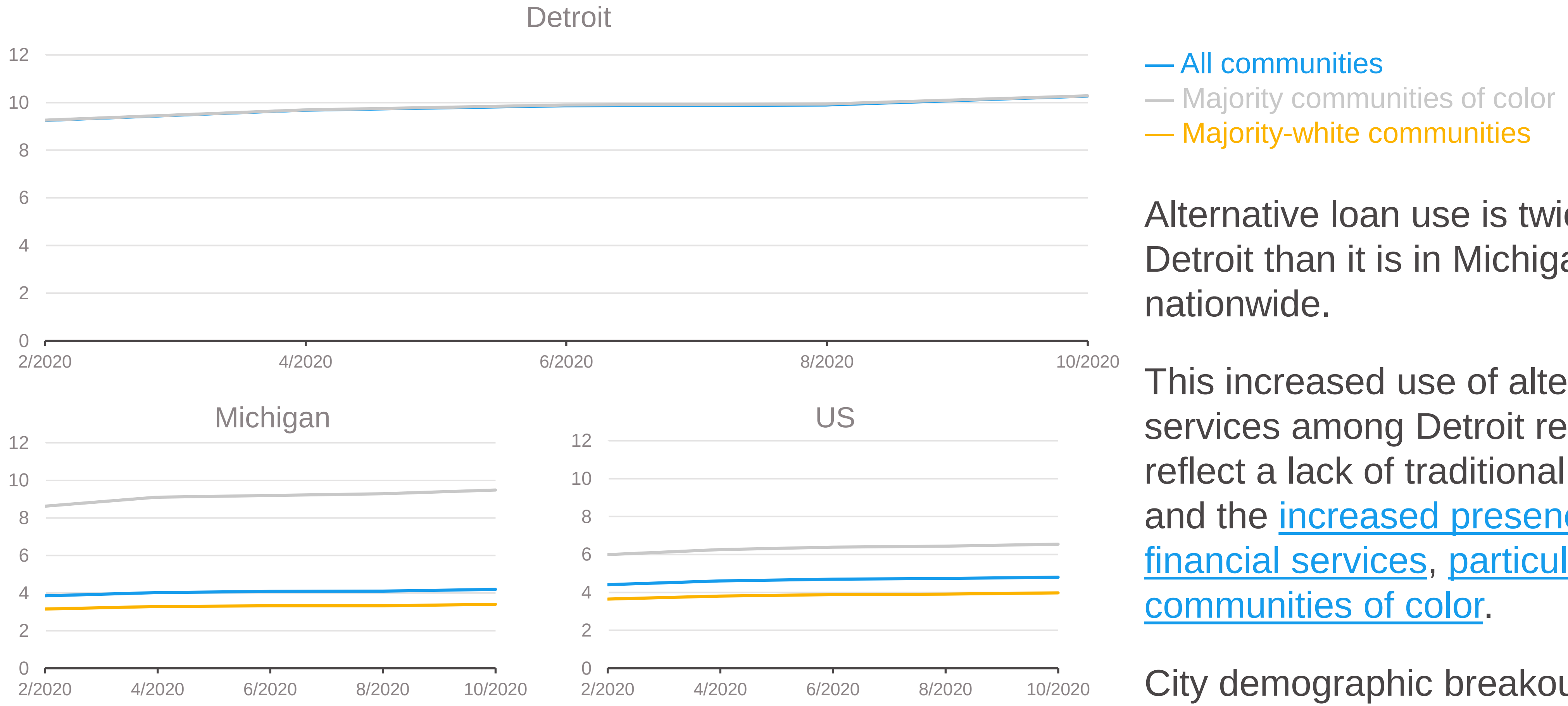
Average credit card utilization is higher in Detroit than in Michigan and nationwide.

City demographic breakouts are not shown because of insufficient data.

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 increased slightly in Detroit since February 2020.



Alternative loan use is twice as high in Detroit than it is in Michigan and nationwide.

This increased use of alternative financial services among Detroit residents may reflect a lack of traditional access to capital and the increased presence of alternative financial services, particularly in communities of color.

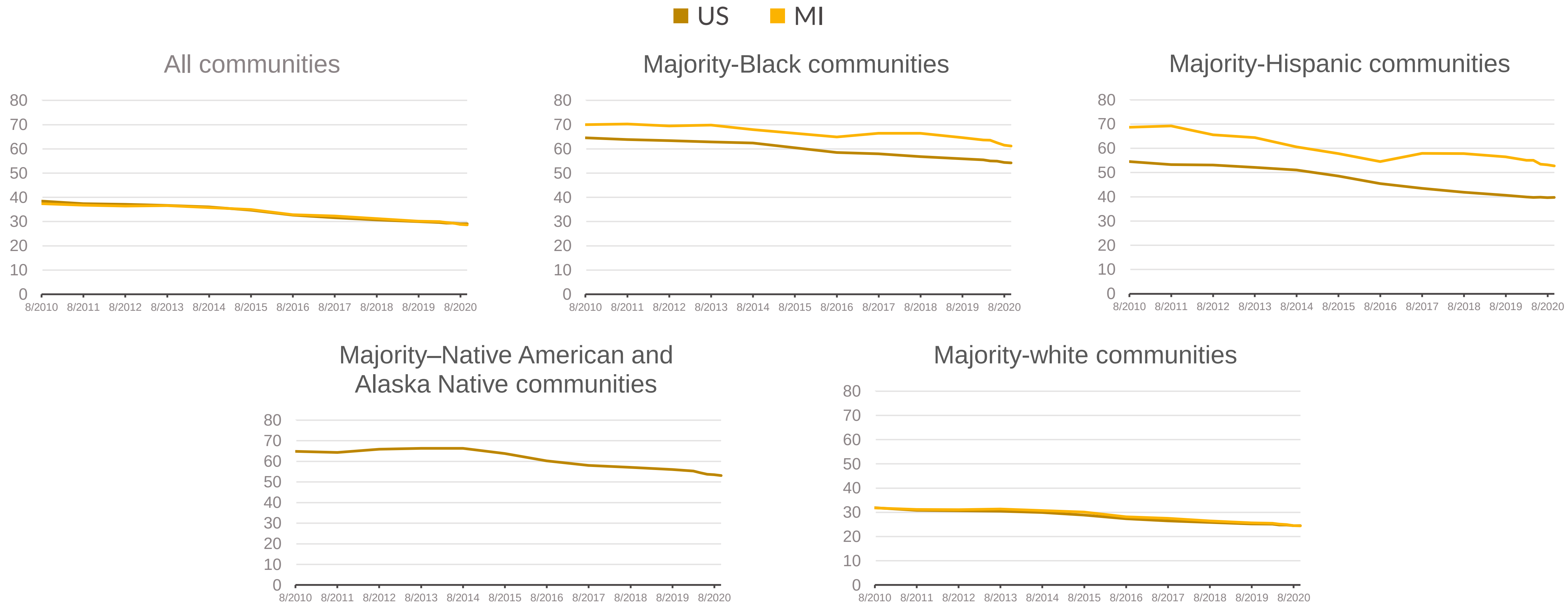
City demographic breakouts are not shown because of insufficient data.

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

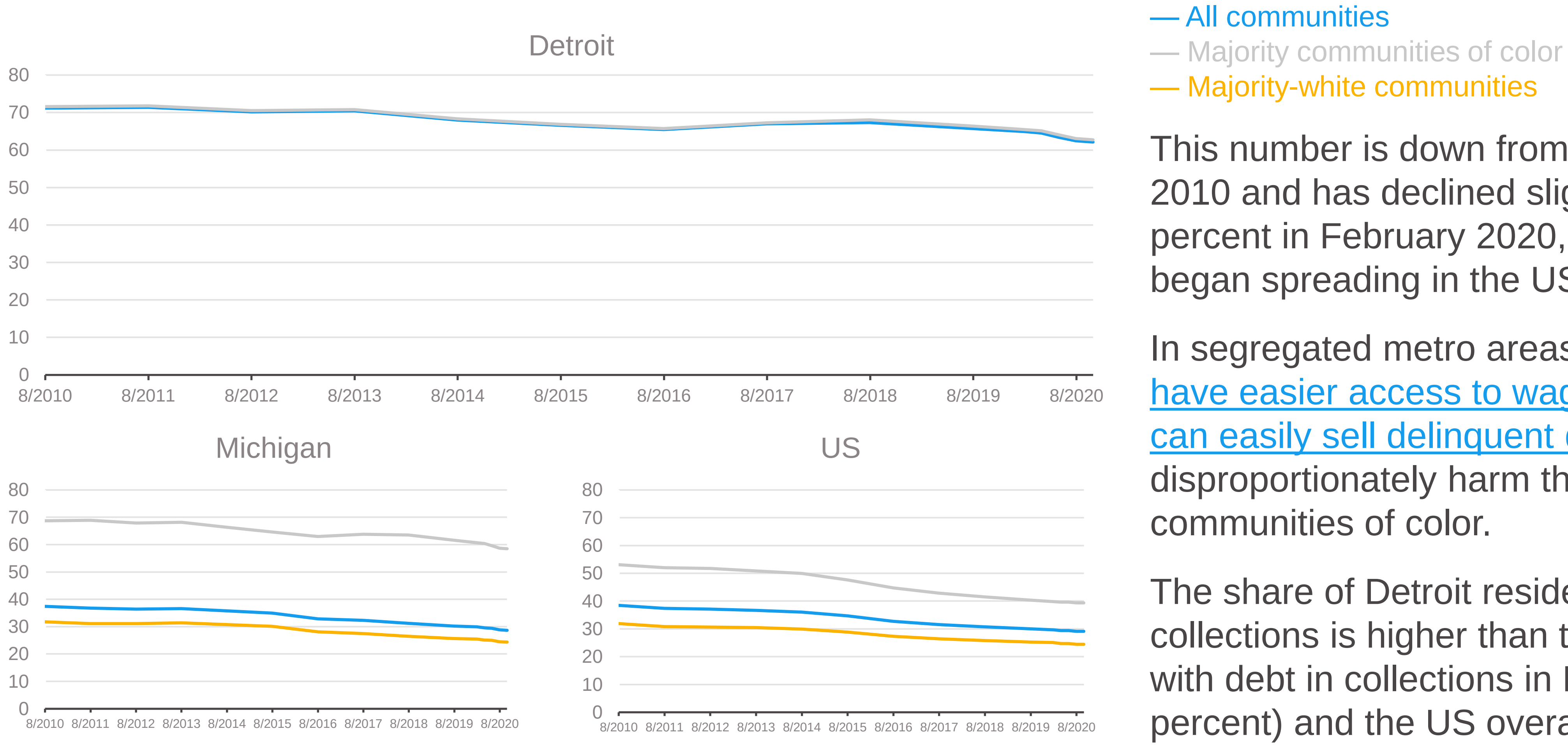
The share of residents with debt in collections also declined after the Great Recession. Nearly 1 in 3 US (29.1 percent) and Michigan (28.7 percent) adults with a credit file had debt in collections in October 2020. Overall, racial disparities have continued.



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.

62.2 percent of Detroit adults with credit files had debt in collections in October 2020.



This number is down from 71 percent in 2010 and has declined slightly from 65 percent in February 2020, when COVID-19 began spreading in the US.

In segregated metro areas, creditors may have easier access to wage garnishment or can easily sell delinquent debt, which can disproportionately harm the credit health of communities of color.

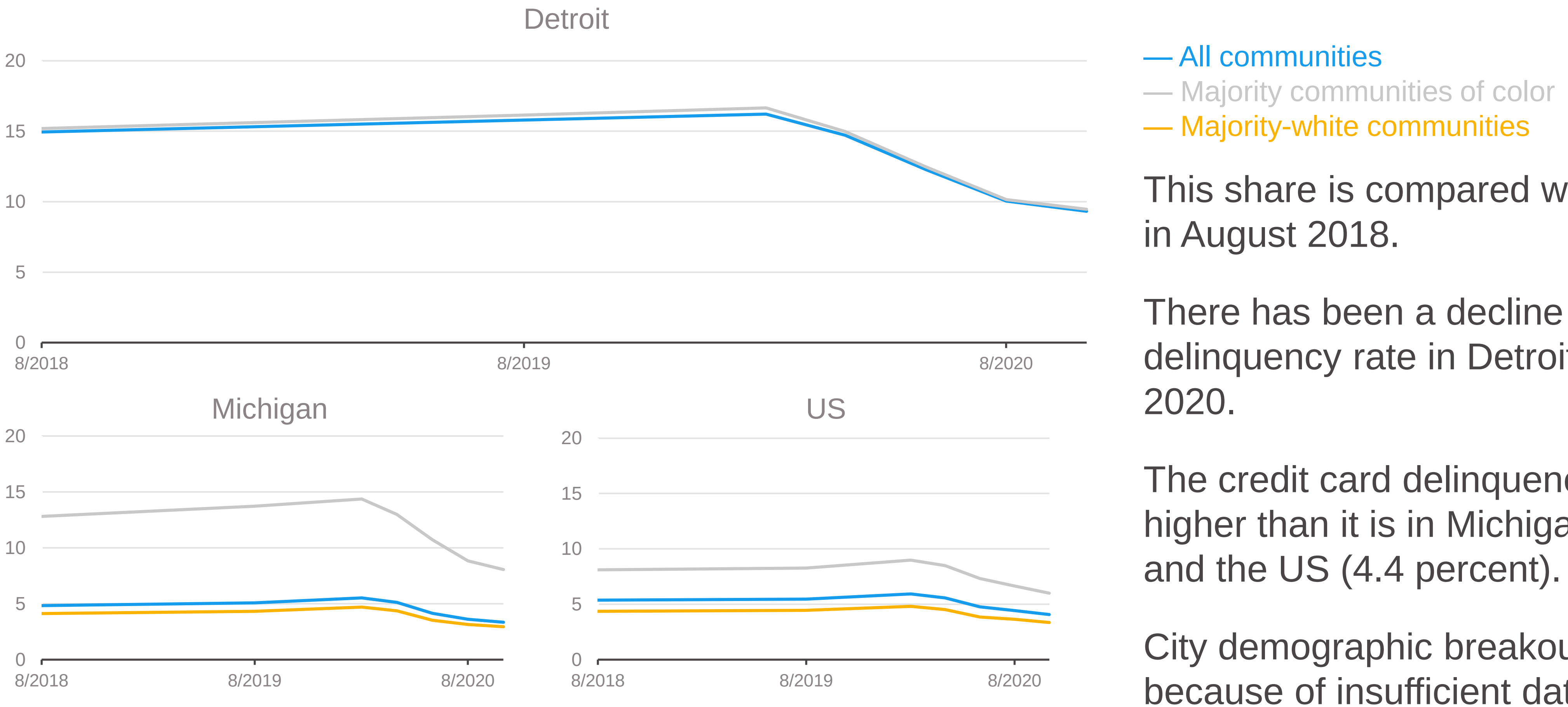
The share of Detroit residents with debt in collections is higher than the share of adults with debt in collections in Michigan (28.7 percent) and the US overall (29.1 percent).

City demographic breakouts are not shown because of insufficient data.

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.

The credit card delinquency rate in Detroit was 9.3 percent in October 2020.



This share is compared with 14.9 percent in August 2018.

There has been a decline in the credit card delinquency rate in Detroit since February 2020.

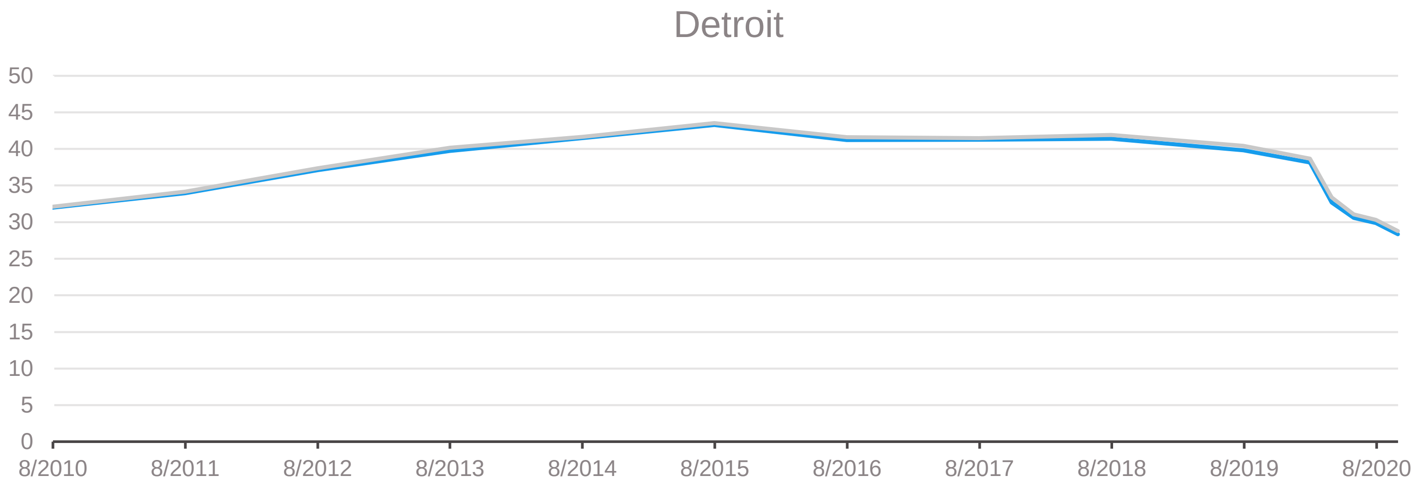
The credit card delinquency rate Detroit is higher than it is in Michigan (3.6 percent) and the US (4.4 percent).

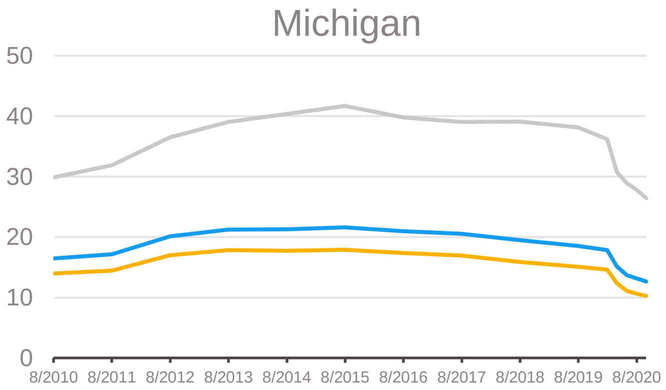
City demographic breakouts are not shown because of insufficient data. Data before August 2018 are unavailable.

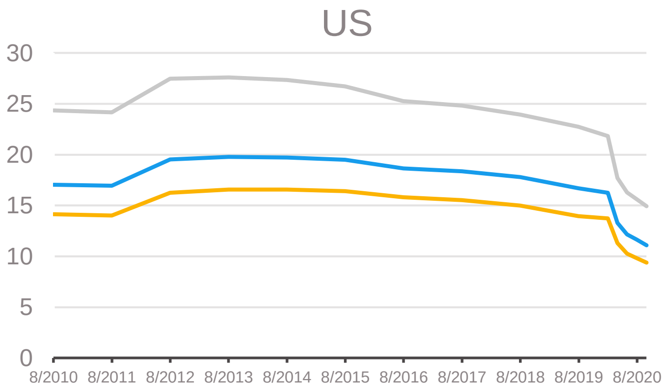
Source: Tabulations of Urban Institute credit bureau data.

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 Detroit was 28.4 percent in October 2020.







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

This rate is down from 32.0 percent in August 2010 and 38.1 percent in February 2020. Student loan delinquencies are higher in Detroit than in Michigan (12.7 percent) and the US overall (11.1 percent).

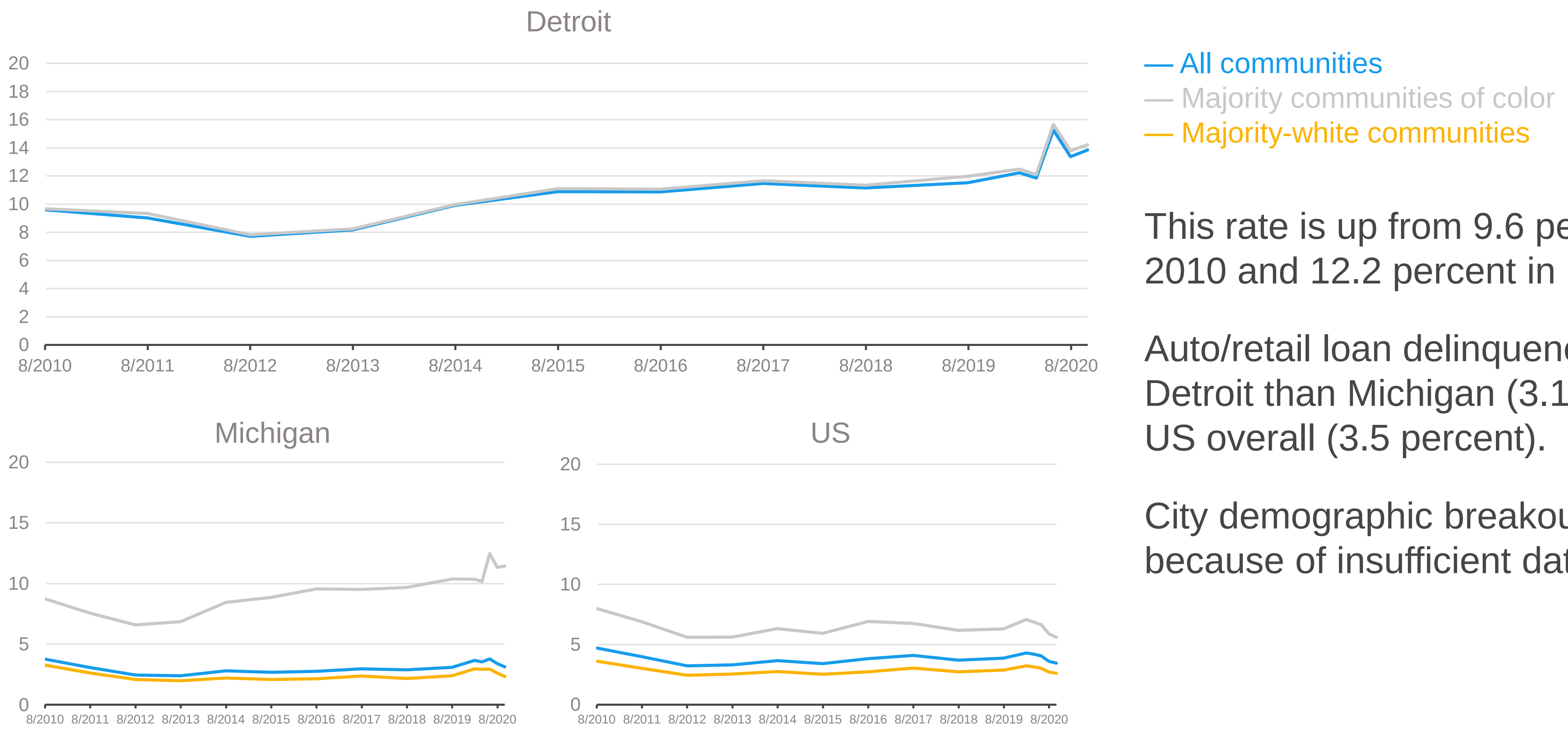
The CARES Act and executive actions by the Department of Education suspended principal and interest payments on federally held student loans through December 31, 2020. Garnishments of wages, tax refunds, and Social Security benefits on student loans in default were also suspended.

City demographic breakouts are not shown because of insufficient data.

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 Detroit was 13.9 percent in October 2020.



This rate is up from 9.6 percent in August 2010 and 12.2 percent in February 2020.

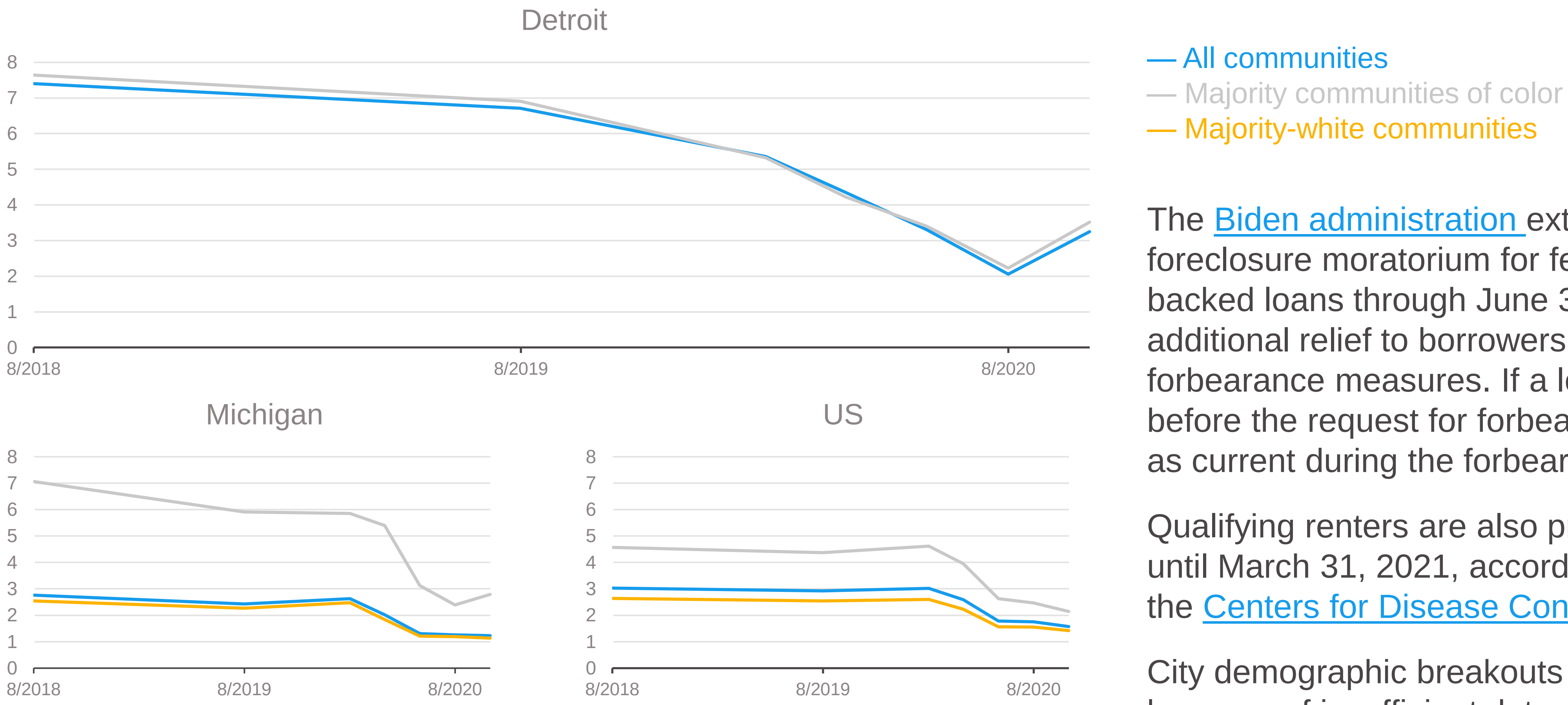
Auto/retail loan delinquencies are higher in Detroit than Michigan (3.1 percent) and the US overall (3.5 percent).

City demographic breakouts are not shown because of insufficient data.

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.

Three percent of people with mortgages in Detroit are 30 or more days past due.



Source: Tabulations of Urban Institute credit bureau data.

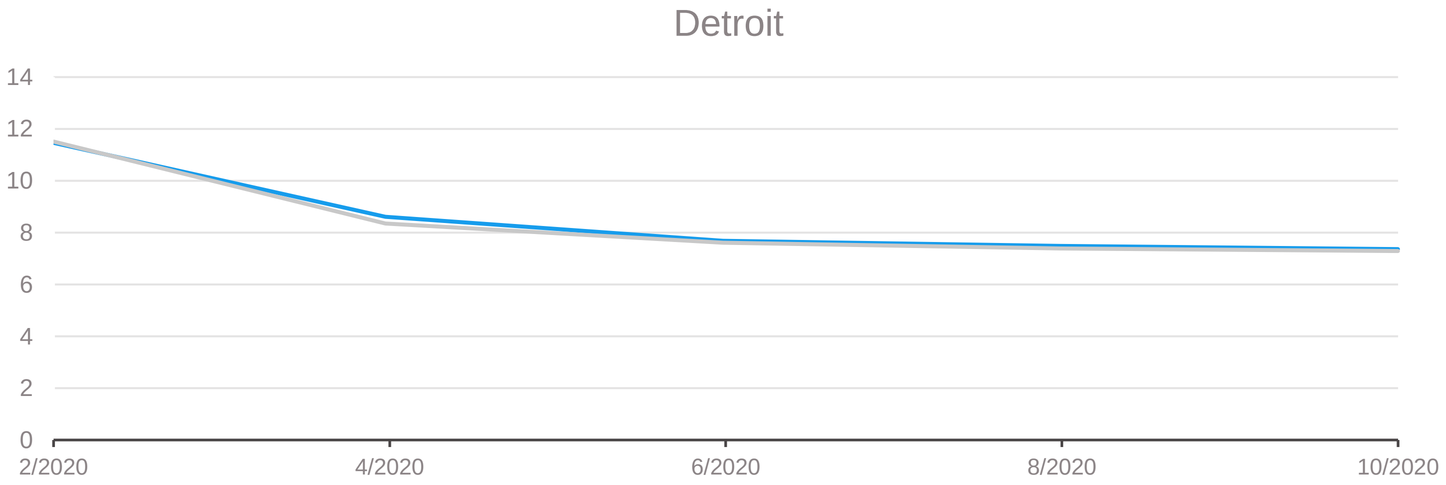
Notes: Mortgage delinquency rate is the share of people with a mortgage who are 30 or more days delinquent. White communities and communities of color are based on zip codes where most residents (at least 60 percent) are white or most residents (at least 60 percent) are people of color.

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.

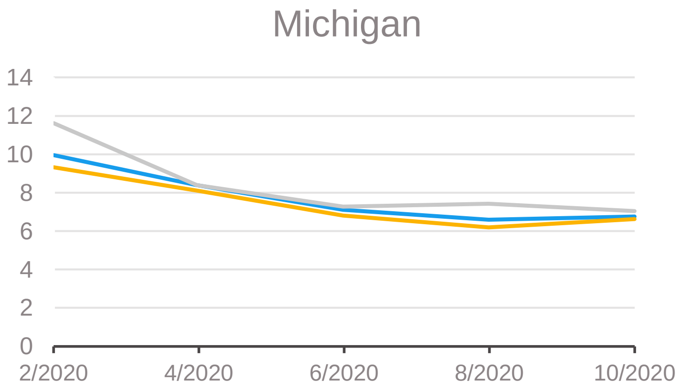
City demographic breakouts are not shown because of insufficient data. Data before August 2018 are unavailable.

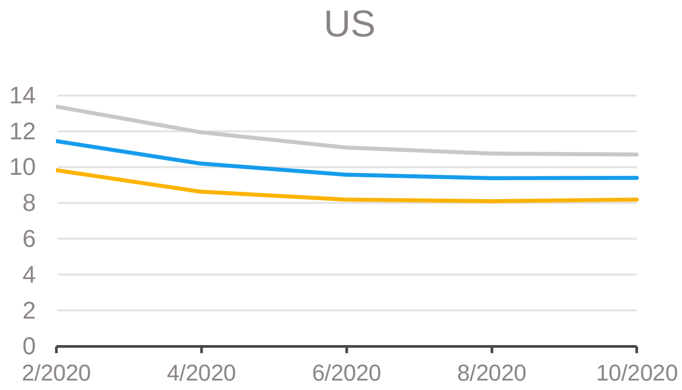
The share of alternative financial services loans 30 or more days past due in Detroit was 7.4 percent in October 2020.



This rate has declined from 11.5 percent in February 2020.

City demographic breakouts are not shown because of insufficient data.





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 Detroit

Detroit 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 Detroit and Michigan 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	• Relaxes requirements to allow the Unemployment Insurance Agency to process unemployment claims • MI SB 690, among other things, mandates a hospitality relief fund shall be used to provide grants of up to $500 to individuals who were employed in the hospitality industry in Michigan for applicants who have been financially negatively impacted by COVID-19 • MI SB 886 extends unemployment benefits for Michiganders who have lost work as a result of the COVID-19 pandemic from 20 to 26 weeks until the end of 2020	• Continued stimulus relief to support the low-income workers who have lost jobs since the pandemic hit • 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	• Restaurant winterization grants • Small business grants from the Economic Development Corporation of the City of Detroit (EDC) • HR assistance for City of Detroit small business owners	• 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	• Enhanced restrictions on price gouging • Investing more than $1 million and will contact more than 1 million Michiganders to help those who may have lost health insurance during the COVID-19 pandemic get covered • Michigan Department of Insurance and Financial Services created the MI Mortgage Relief Partnership with over 200 of Michigan's financial institutions to provide affected borrowers with a 90-day grace period for all mortgage payments, relief from mortgage-related late fees and charges for 90 days, forgo new foreclosures for 60 days, refrain from reporting adverse credit scoring information based on the borrower's accessing relief, and work with borrowers on their specific needs or concerns	• Relief for student loan borrowers not covered by CARES Act (existing policy in New York City and Washington, DC) • Banning of new collection lawsuit by a creditor or debt collector during the pandemic (existing policy in DC)
Housing stability	• Under Michigan's Eviction Diversion Program, the state can make full or partial rent assistance payments to landlords on behalf of tenants up to 100 percent of area median income who have fallen behind on rent since March 1, 2020 (money runs out at the end of 2020)	• Permitting rent payment plans and mediation services (existing policies in Seattle and Washington, DC) • Eviction moratorium extensions beyond March 31, 2021 (existing policy in CA)

Potential Areas of Long-Term Focus for Detroit

As leaders in Detroit 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:

- **Support the future workforce by investing in youth and young adults**, such as through paid internships and apprenticeships. In Michigan, these could include further suspension of youth work permit in-person application requirements. As an additional step, youth should be connected with a safe, low-cost account (e.g., bank or credit union account) for receiving, spending, and saving their earnings.
- **Assess city debt collection practices and provide constructive options for families to repay city debts**, such as city-owned utility debts and city-imposed fines or fees. This can be a fruitful way for cities to boost residents' financial health, as well as their own. Reforming policies around city-levied fees and fines, like Michigan did for people with criminal justice involvement, could particularly benefit families of color, who are disproportionately harmed by fees and fines.
- **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.
- **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.

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 Detroit Residents

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

FEBRUARY 2021

PROJECT TEAM

Caleb Quakenbush, Madeline Brown, Kassandra Martinchek, Breno Braga, Signe-Mary McKernan, Oriya Cohen, Shamoiya Washington, and Alexander Carther

Acknowledgments

This research is funded by a grant from JPMorgan Chase. 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.

The authors thank Courtney Jones and Joseph Schilling for guidance and advice and Fiona Blackshaw for design and editorial work.