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FEBRUARY 2021

# Tracking the Credit Health of San Francisco 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' credit 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 San Francisco 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 San Francisco, racial and economic inclusion is a key priority. San Francisco ranks 12th out of the 274 largest cities nationwide along key measures of economic inclusion and 28th along key measures of racial inclusion. San Francisco is notably worse than other cities, however, on income segregation and the racial homeownership gap.

# Key Takeaways

- **Credit health among San Francisco residents—measured by changes in credit scores, credit use, and delinquencies—improved after the Great Recession and into COVID-19 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 San Francisco residents in communities of color with subprime credit scores (12.5 percent) is 2.4 times higher than in majority-white communities in the city (5.3 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 San Francisco

*Pre-COVID-19*

San Francisco is a prosperous city with high housing costs. Similar to San Jose, Seattle, and Honolulu, San Francisco is doing well economically, with below-average unemployment rates and above-average labor force participation. Residents also have high credit health, with median credit scores in the prime range. However, San Francisco has among the highest share of low- and moderate-income residents who are burdened by housing costs.

**High housing costs** pose a challenge for city residents, making it difficult for them to save for financial emergencies and long-term investments, like a house or small business. Homebuyers may have to borrow a substantial amount, making them vulnerable to housing market downturns.

Among families in San Francisco, **47 percent (approximately 168,000 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 San Francisco, the estimated government cost of family financial insecurity from eviction and unpaid property taxes and utility bills is **$30 million to $70 million** out of a total annual budget of $10.1 billion.

# The Threat of COVID-19 for Resident Financial Health

America’s cities are showing the economic impact of the COVID-19 pandemic. In San Francisco, the unemployment rate went from 2.3 percent in February, its lowest since the Great Recession, to 12.6 percent in April. As of September, San Francisco's unemployment rate was 8.4 percent, far above its pre-pandemic level. Many small businesses closed in San Francisco because of COVID-19. Relative to other cities such as Los Angeles, New York, Chicago, or Dallas, San Francisco suffered a disproportionate number of closures, whether permanent or temporary. Wages for workers with low-wage jobs have fallen about 40 percent.

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.

# Resident Credit Health in San Francisco Improved after the Great Recession and into COVID-19

This section shows key credit metrics for San Francisco—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.

**San Francisco** is more financially healthy than many cities, as comparisons with California and US show. Still, there is room for improvement: about 1 in 10 San Franciscans have debt in collections. While only 1 in 50 San Francisco residents use high-cost nonbank loans, nearly 1 in 5 (17.3 percent) of those loans are 30 or more days past due.

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

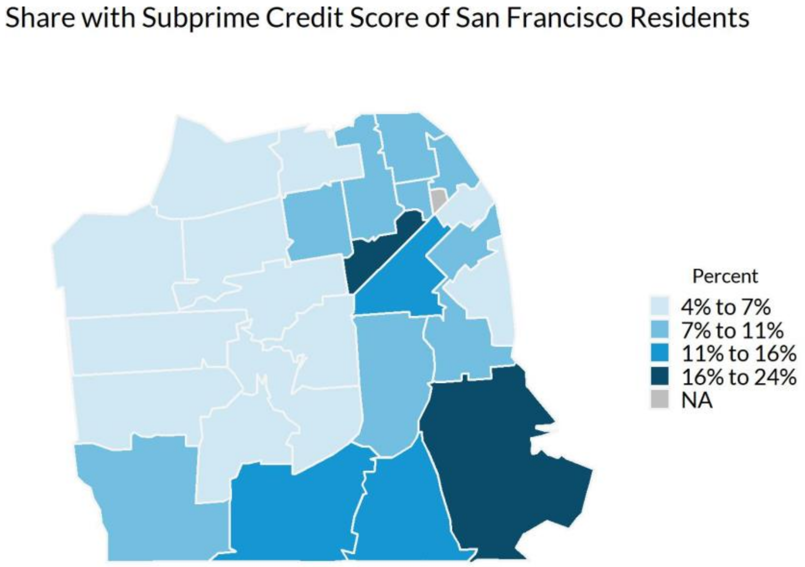
*Three ways to characterize financial health using credit data:*

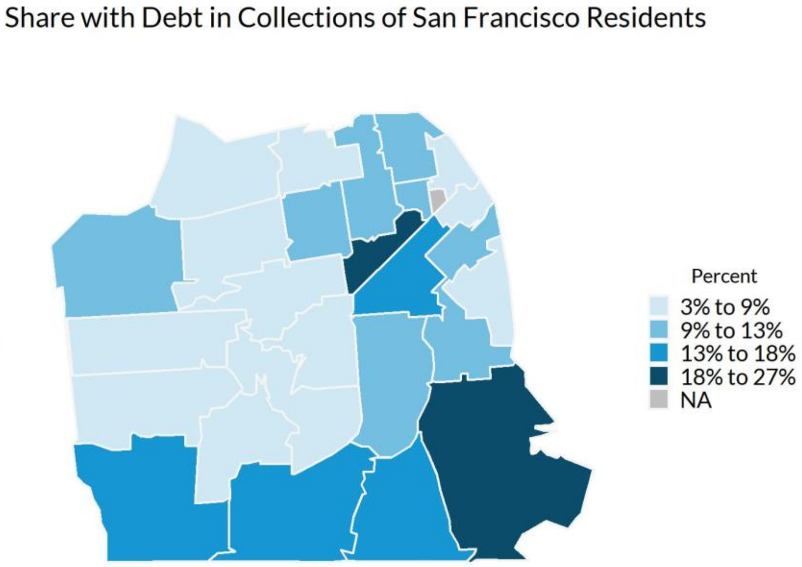
1) **Credit scores** are a composite indicator of overall financial health. Having a subprime credit score can limit access to credit and increase the cost of debt.
   - Scores range from 300 to 850; a score below 600 is subprime.

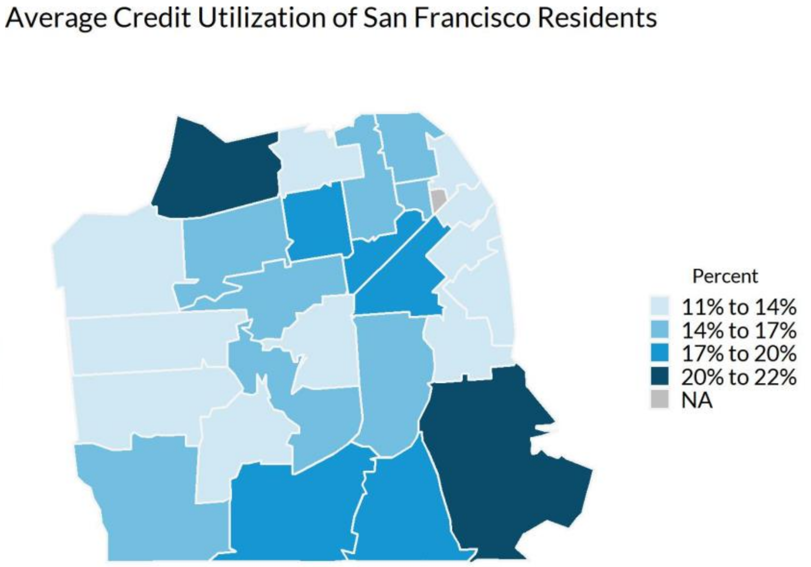
2) **Credit use** indicates access to credit, which families may use to meet their financial needs. The share of available credit used is a measure of debt burden. Higher debt burdens could signal financial distress.
   - Use of alternative financial service loans like payday loans can indicate emergency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

# Credit Health Varies by Neighborhood



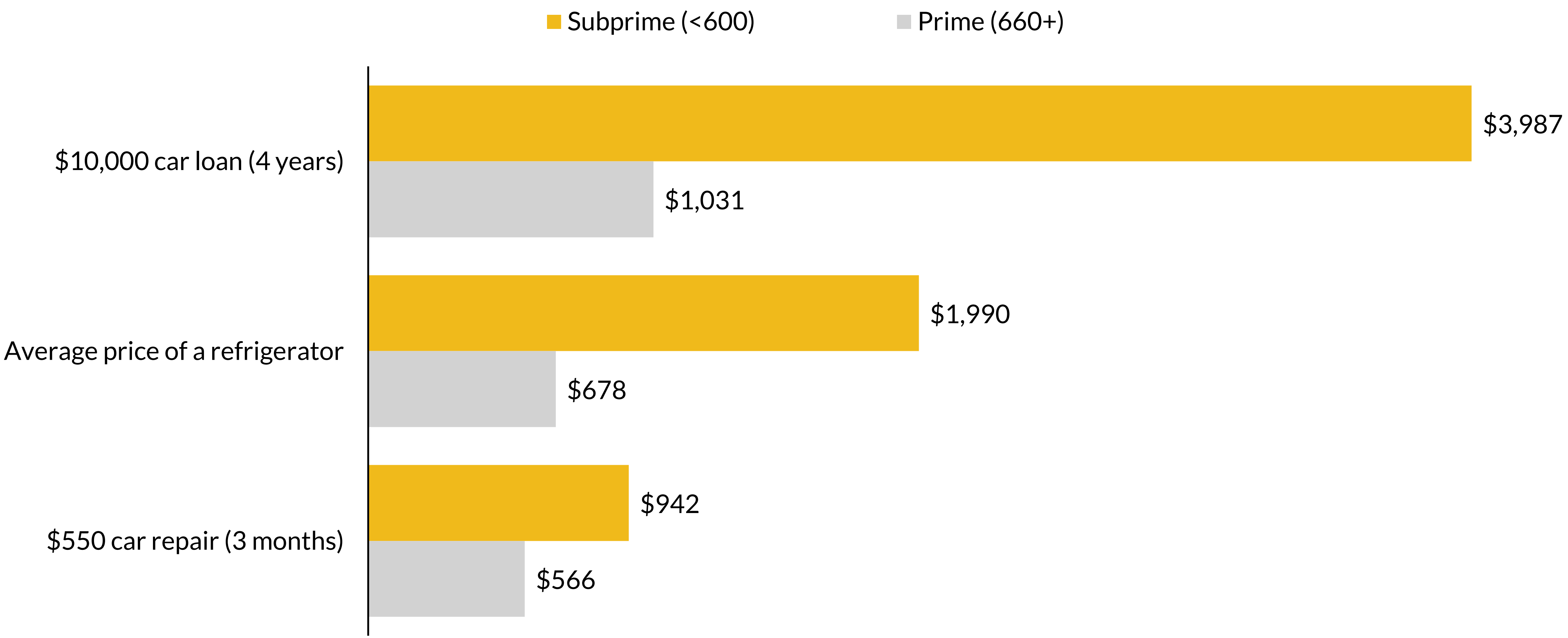

Like in most cities, resident credit health in **San Francisco** varies by neighborhood. City leaders in government, business, philanthropy, and advocacy can examine differences in delinquencies, credit scores, and credit use to understand how to build a more inclusive recovery, including the targeting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

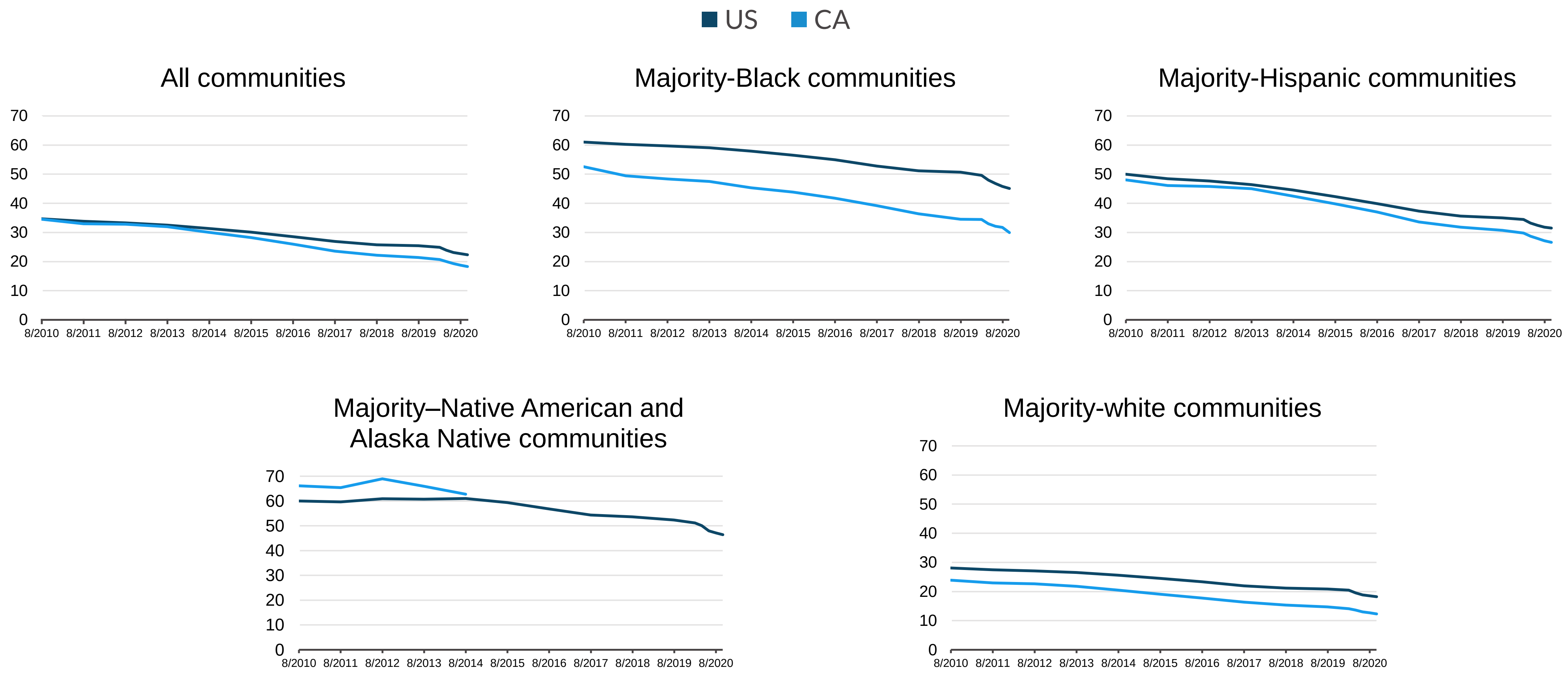
# Credit Health Affects Residents' Costs of Living

*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.

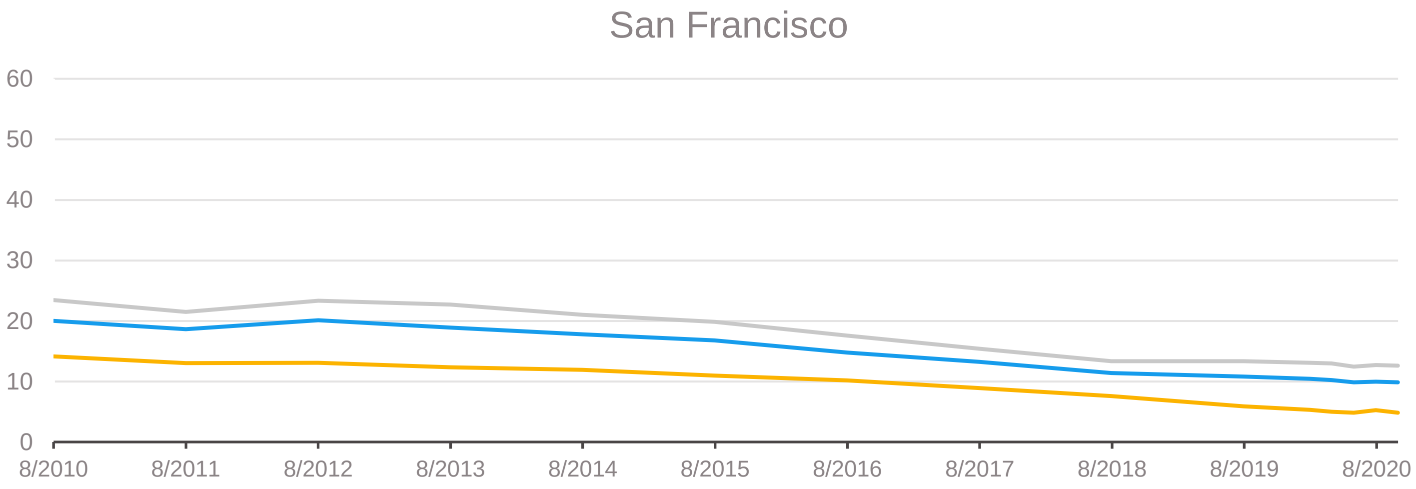
# Nationally and in California, the share of residents with a subprime credit score steadily declined after the Great Recession and into the pandemic, but racial disparities persisted.

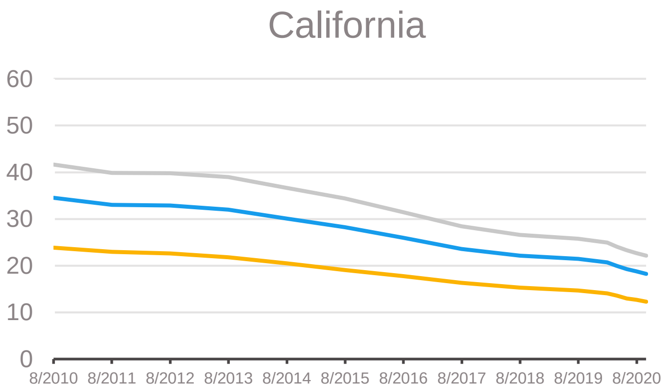


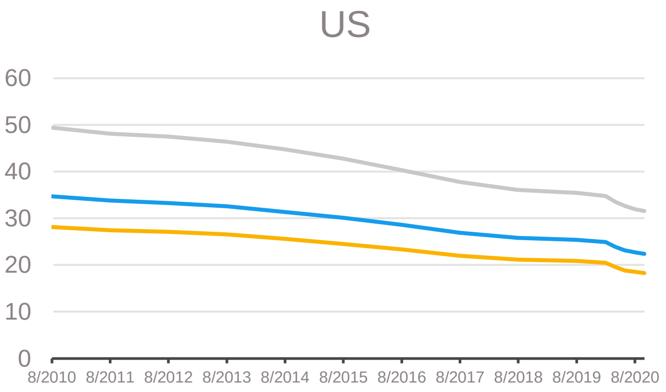

**Source:** Tabulations of Urban Institute credit bureau data.

**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 San Francisco residents with subprime credit scores declined from 20 percent in August 2010 to 9.9 percent in October 2020.




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

This trend follows a similar path to California and the United States overall, though the share of San Francisco residents with subprime credit scores is lower than the statewide and national shares.

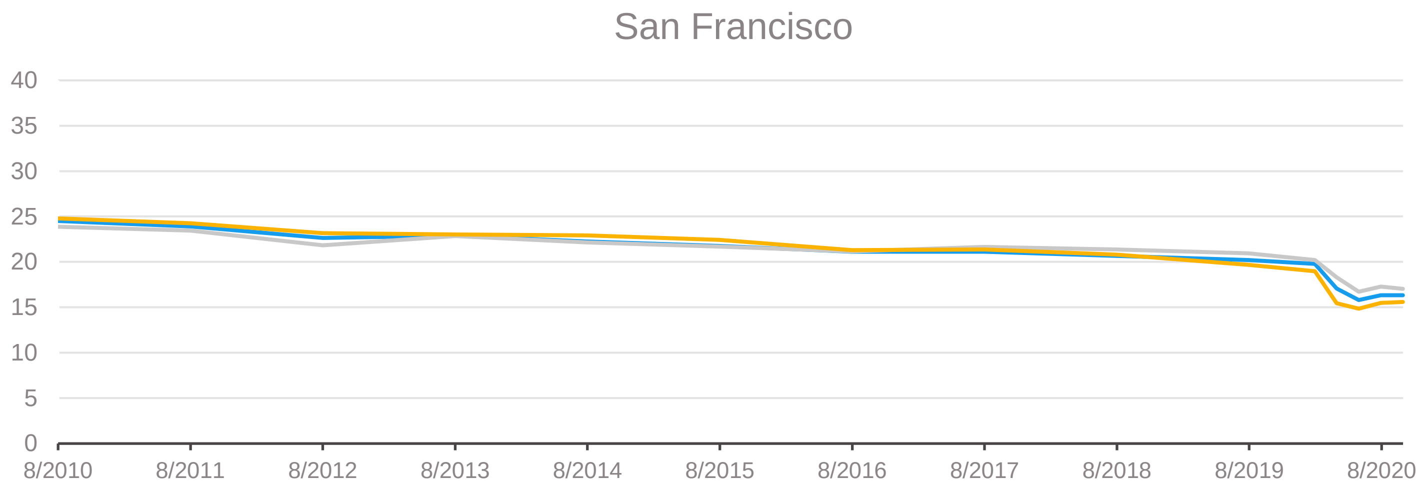
Credit scores reflect and perpetuate racial disparities, even in a relatively prosperous city like San Francisco. The share of residents in communities of color with subprime credit scores (12.5 percent) is 2.4 times higher than in majority-white communities in the city (5.3 percent).

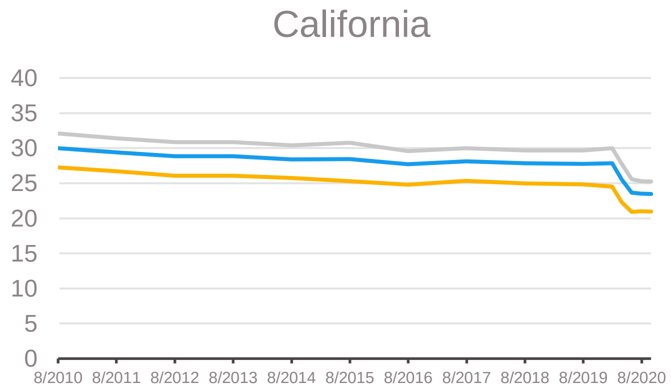
**Source:** Tabulations of Urban Institute credit bureau data.

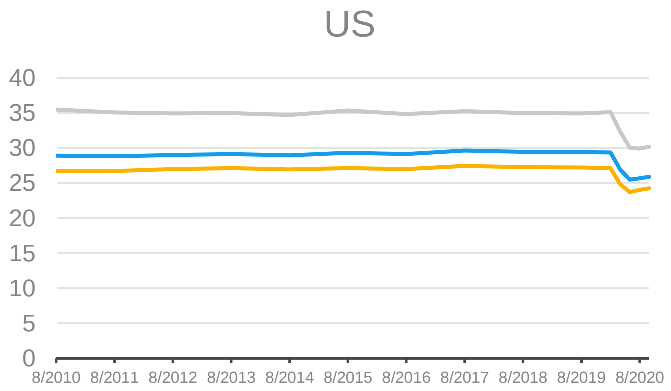
**Notes:** Subprime credit score is a VantageScore of 600 or below. White communities and communities of color are based on zip codes where most residents (at least 60 percent) are white or most residents (at least 60 percent) are people of color.

# Credit Use

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

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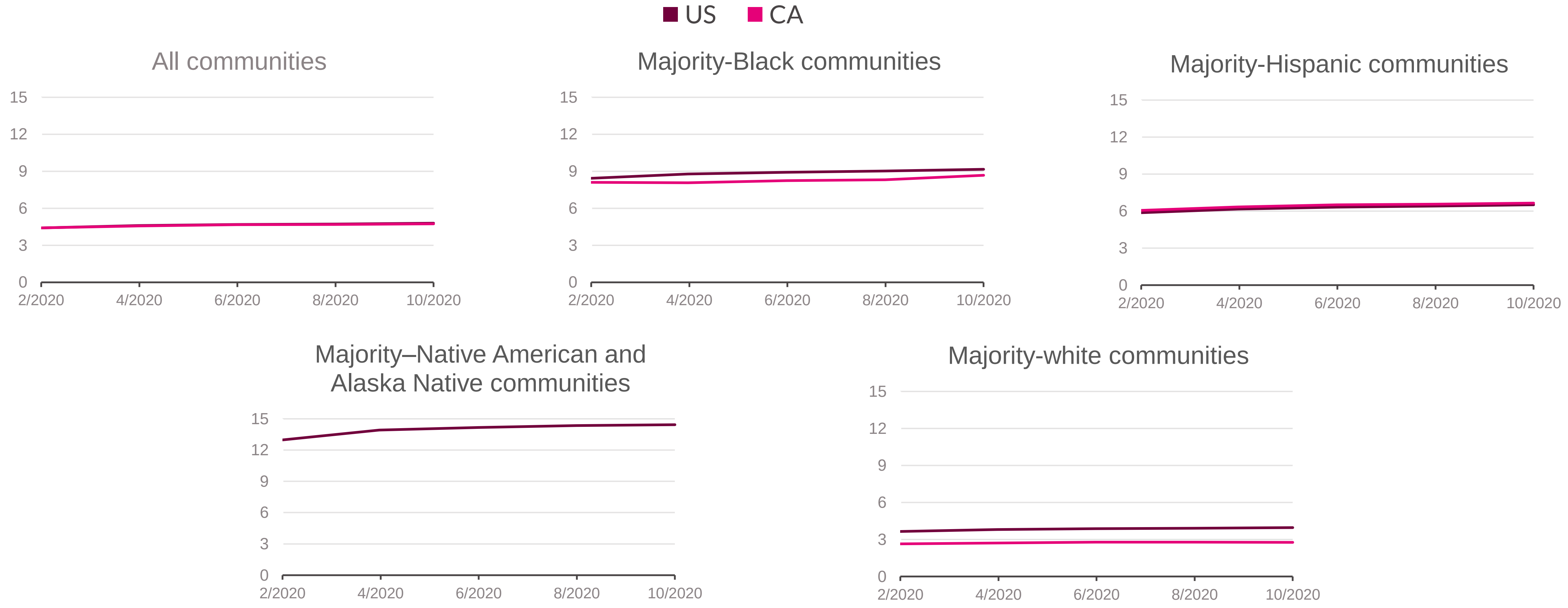
Utilization fell to 15.8 percent in June 2020 before increasing to 16.3 percent in August.

Average credit card utilization is lower in San Francisco than in California and nationwide.

**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.

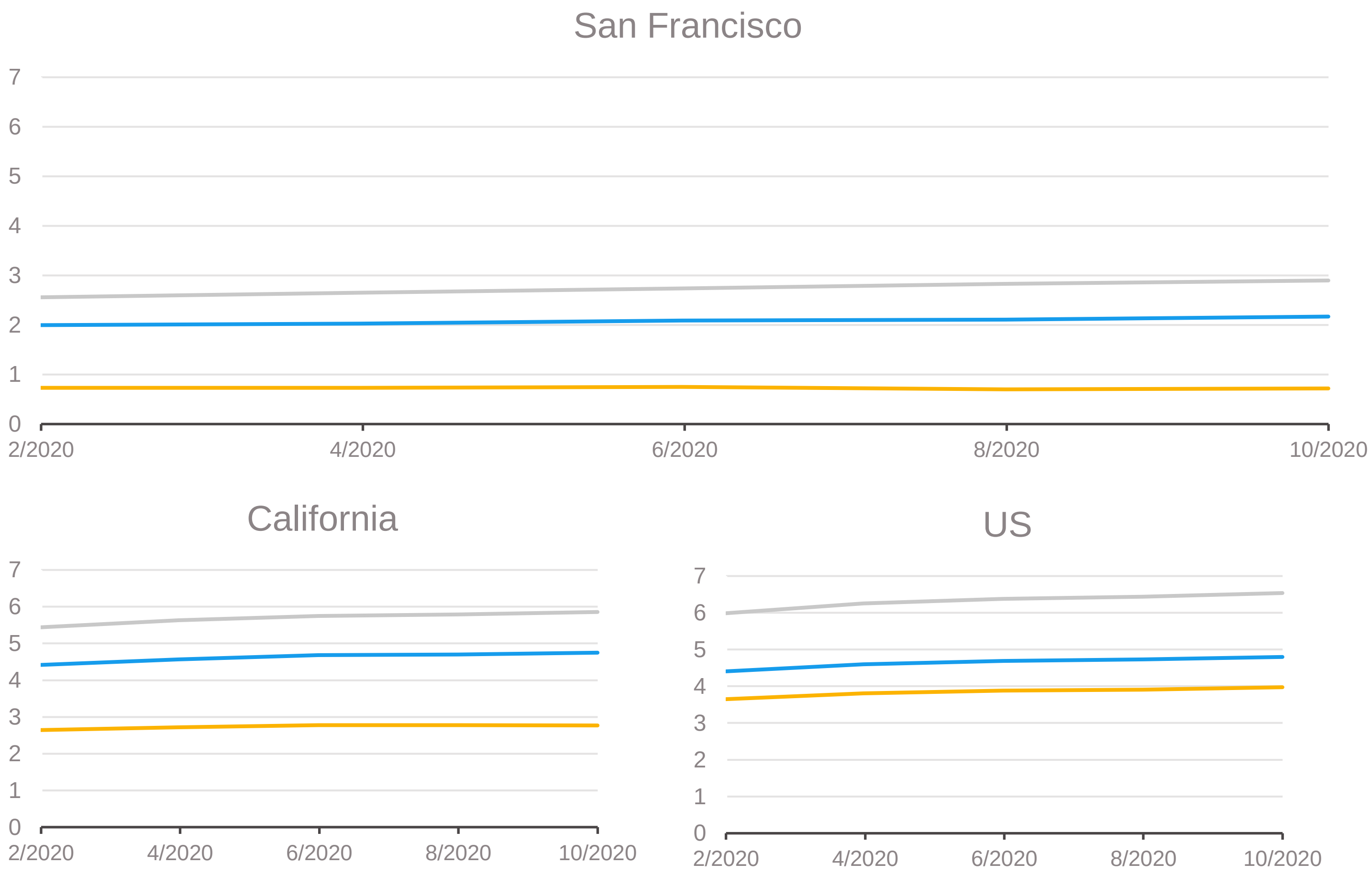
# The share of residents using alternative financial service credit, such as payday loans, increased slightly after February 2020. The share is highest in neighborhoods with majority-Black, Hispanic/Latinx, and Native American and Alaska Native residents.




**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.

# The share of residents using credit from alternative financial services since the start of the COVID-19 pandemic has remained around 2 percent in San Francisco since February 2020.




Alternative financial service (AFS) loan use is lower in San Francisco than it is in California and nationwide.

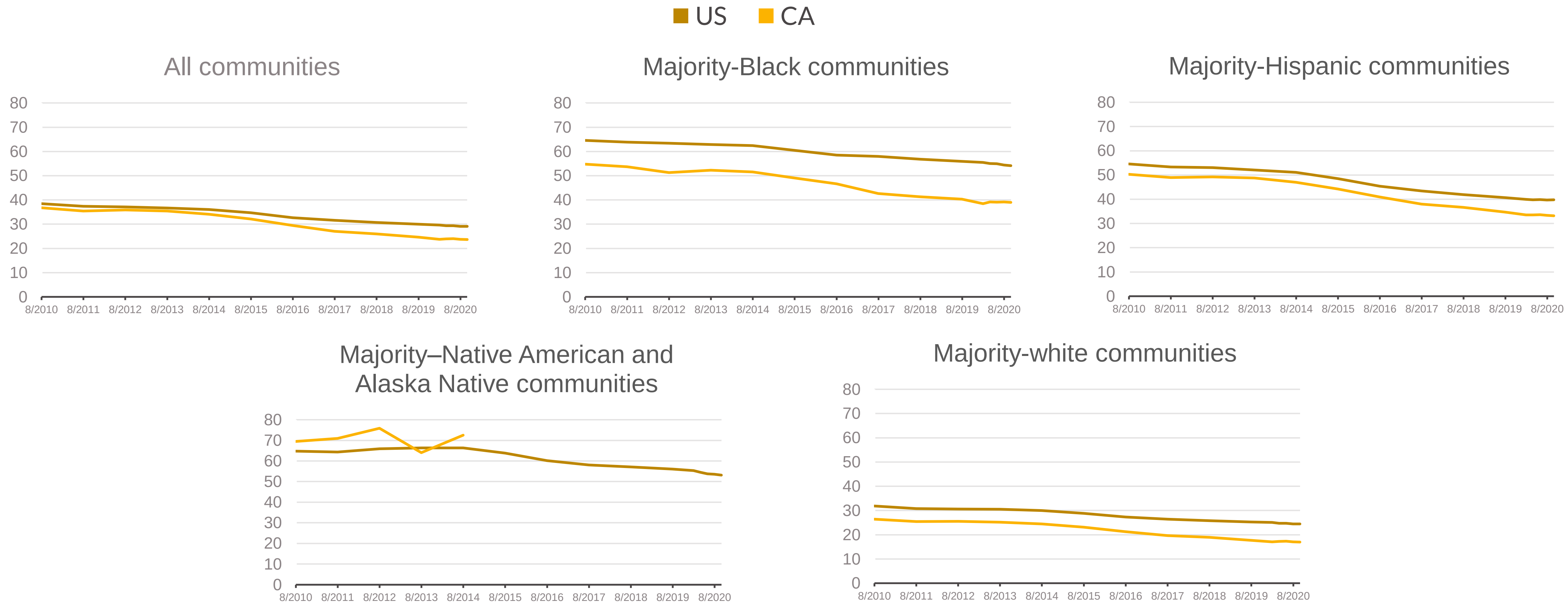
AFS loan use is about four times higher in communities of color than it is in majority-white communities in San Francisco.

**Source:** Tabulations of Urban Institute credit bureau data.

**Notes:** Alternative financial service 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

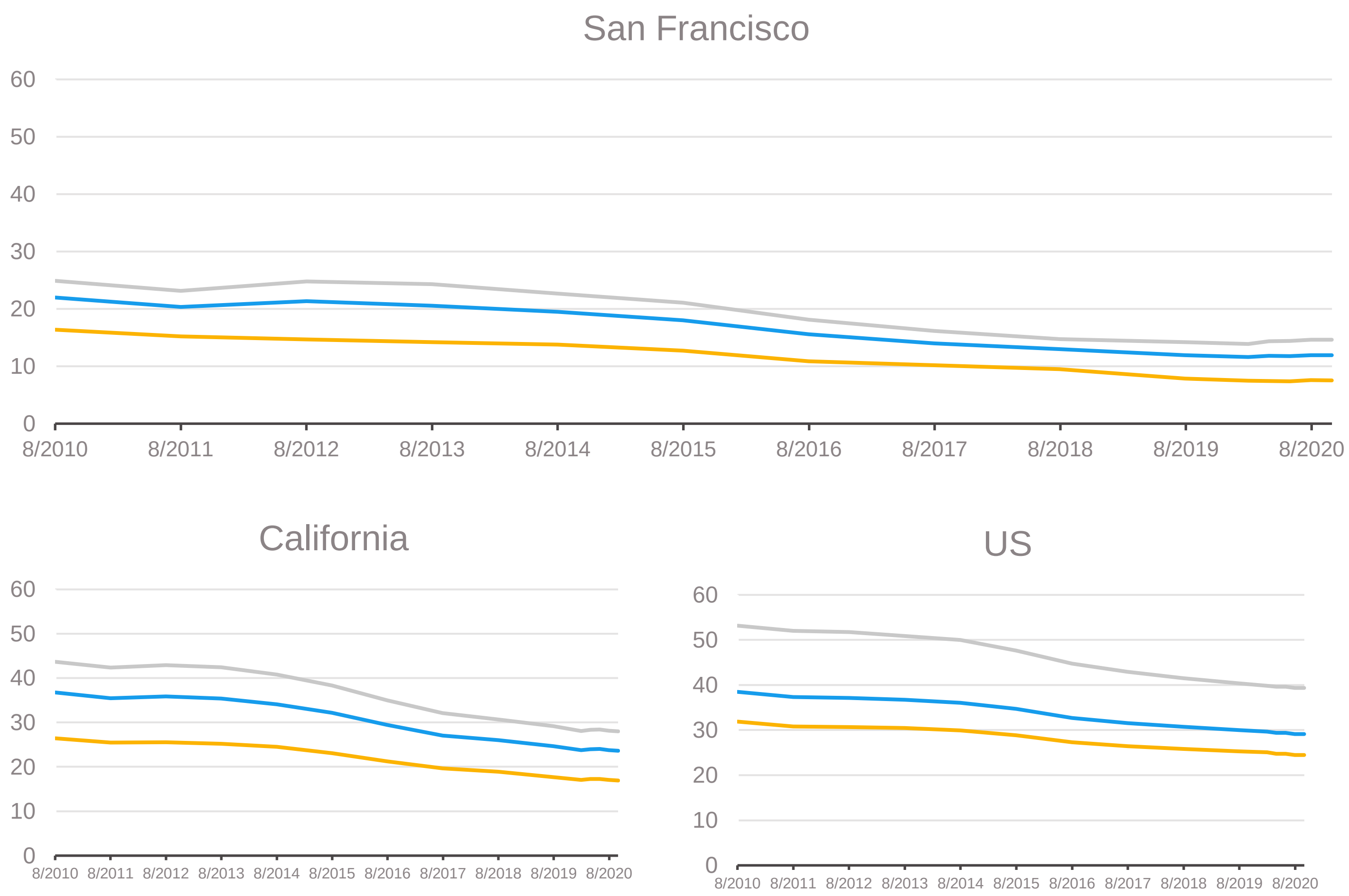
# The share of residents with debt in collections also declined after the Great Recession. Nearly 1 in 3 (29.1 percent) US adults with a credit file, and 1 in 4 Californians, had debt in collections in August 2020. Overall, racial disparities have continued.




**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.

# 11.9 percent of San Franciscan adults with credit files had debt in collections in October 2020.




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

This number is down from 22 percent in 2010 but slightly up from 11.7 percent in February 2020, when COVID-19 began spreading in the US.

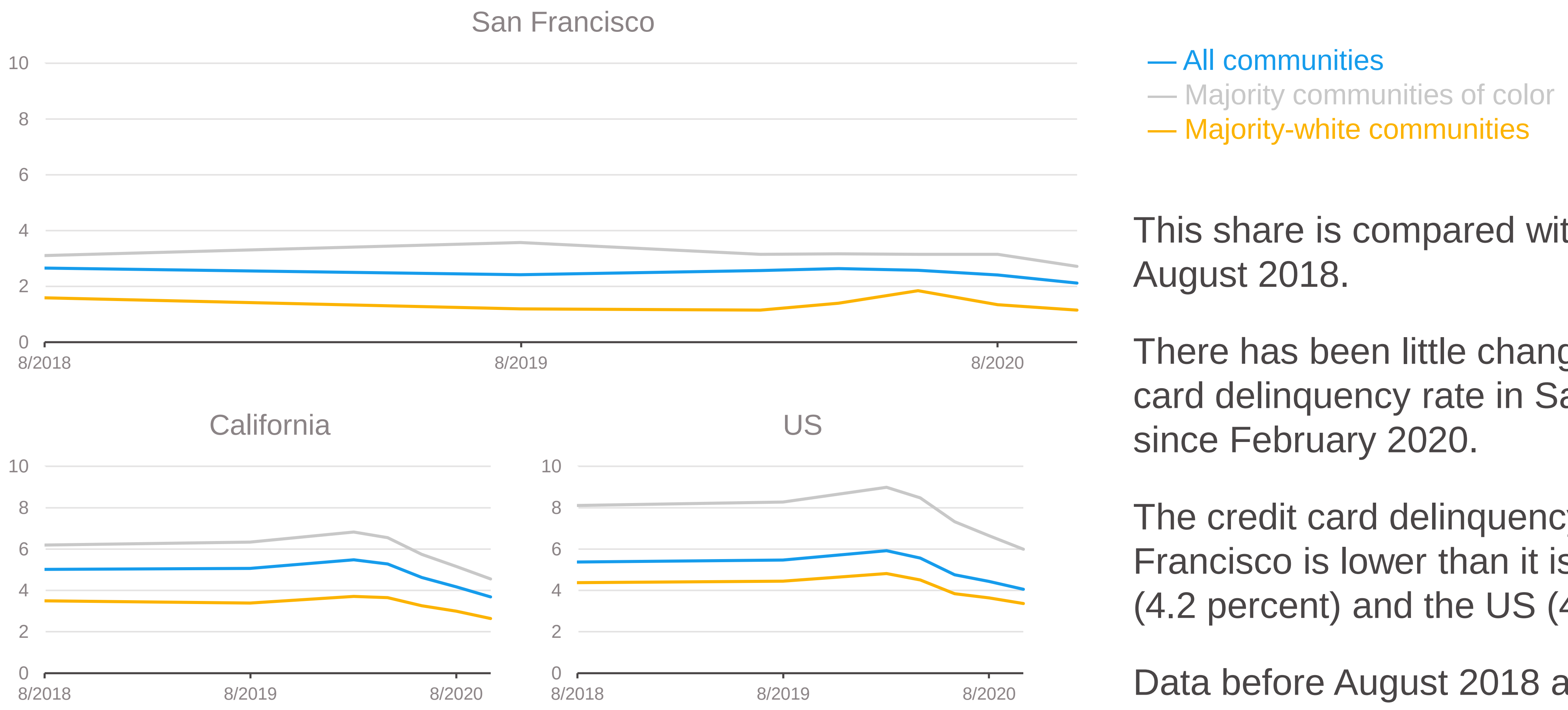
The share of San Franciscans with debt in collections is lower than the share of adults with debt in collections in California (23.8 percent) and the US overall (29.1 percent).

San Francisco residents living in communities of color are **nearly twice as likely** to have debt in collections as residents living in majority-white communities (14.7 percent compared with 7.6 percent).

**Source:** Tabulations of Urban Institute credit bureau data.

**Notes**: Share with any debt in collections: 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 San Francisco was 2.1 percent in October 2020.




This share is compared with 2.7 percent in August 2018.

There has been little change in the credit card delinquency rate in San Francisco since February 2020.

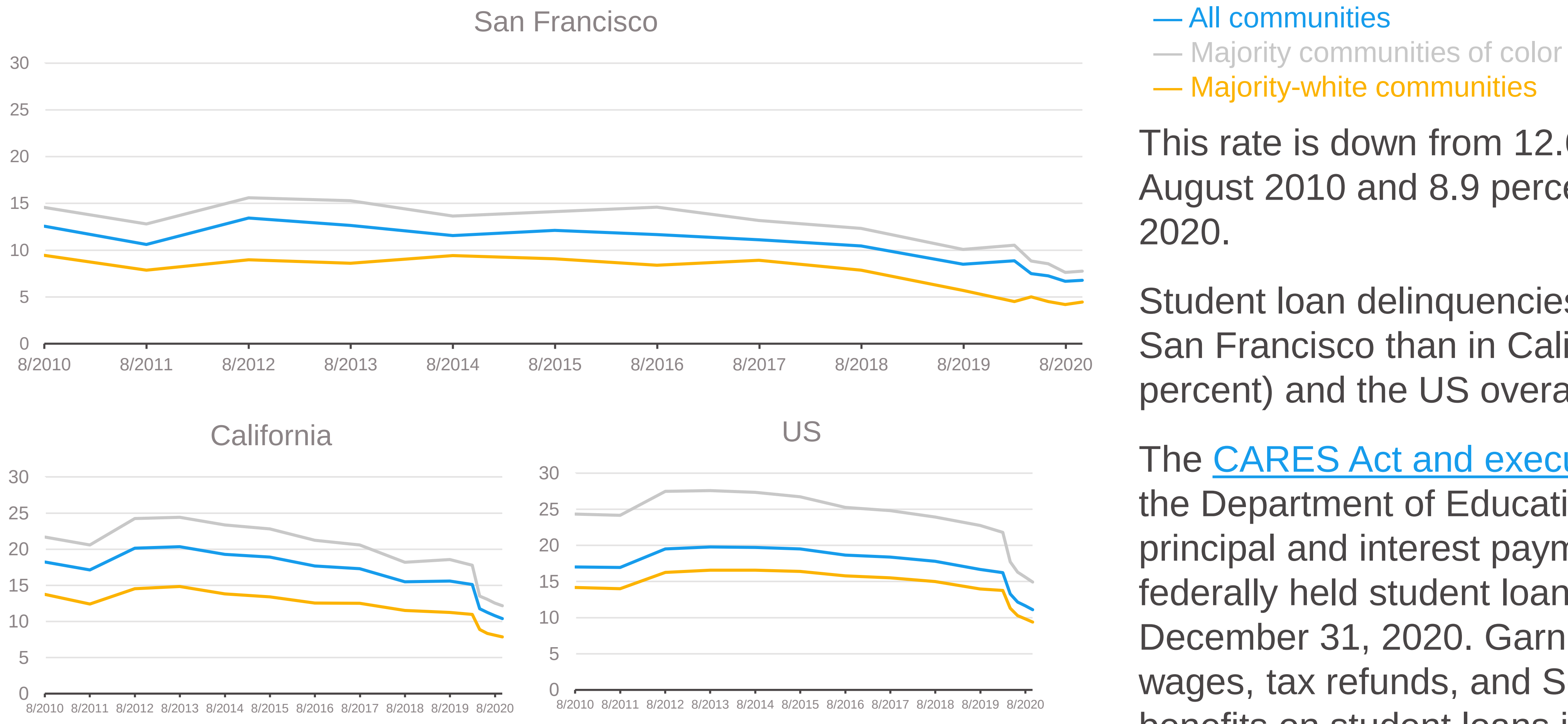
The credit card delinquency rate in San Francisco is lower than it is in California (4.2 percent) and the US (4.4 percent).

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 San Francisco was 6.8 percent in October 2020.




**Source:** Tabulations of Urban Institute credit bureau data.

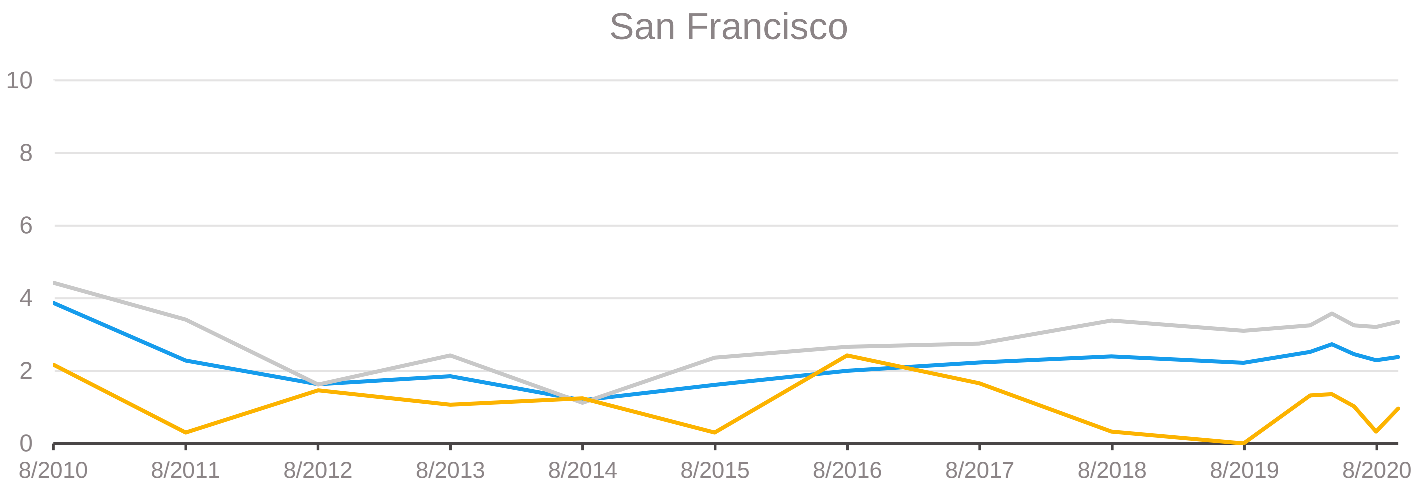
**Notes:** Student loan debt delinquency rate is the share of people with student loans who are 60 or more days delinquent. White communities and communities of color are based on zip codes where most residents (at least 60 percent) are white or most residents (at least 60 percent) are people of color.

This rate is down from 12.6 percent in August 2010 and 8.9 percent in February 2020.

Student loan delinquencies are lower in San Francisco than in California (10.8 percent) and the US overall (9.8 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.

# The auto/retail loan delinquency rate in San Francisco was 2.4 percent in October 2020.




— All communities
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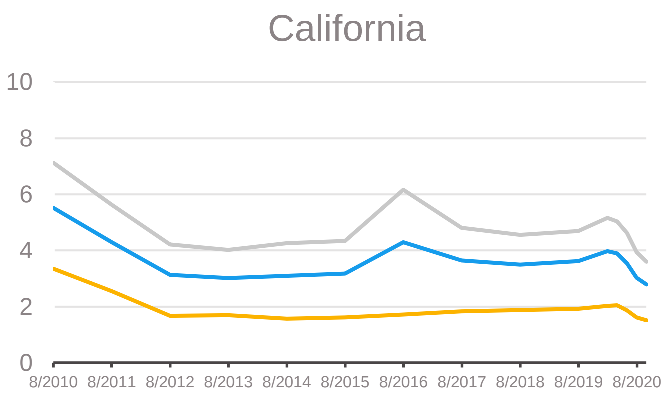
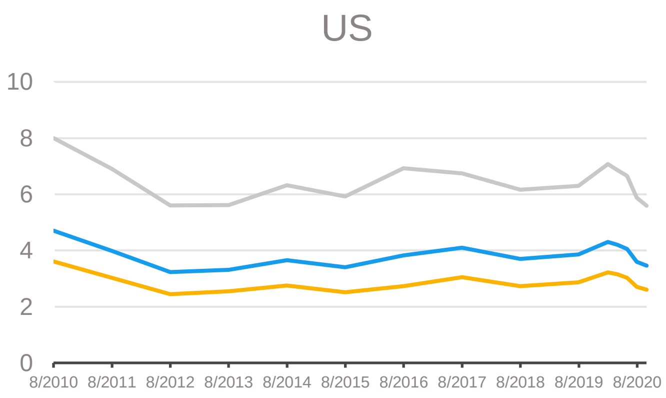


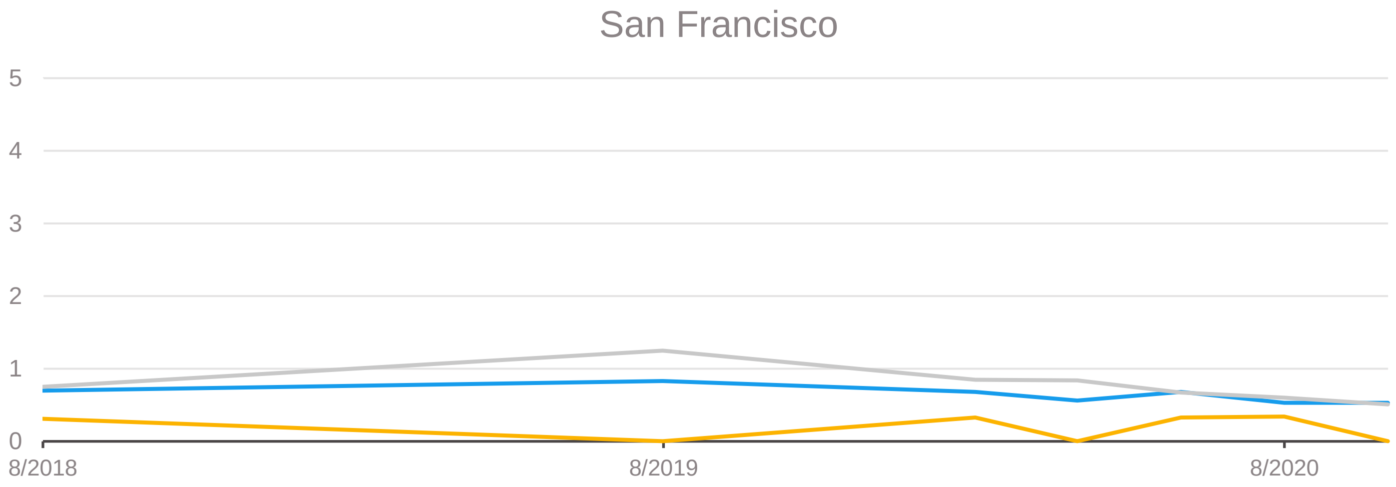

This rate is down from 3.9 percent in August 2010 and 2.5 percent in February 2020.

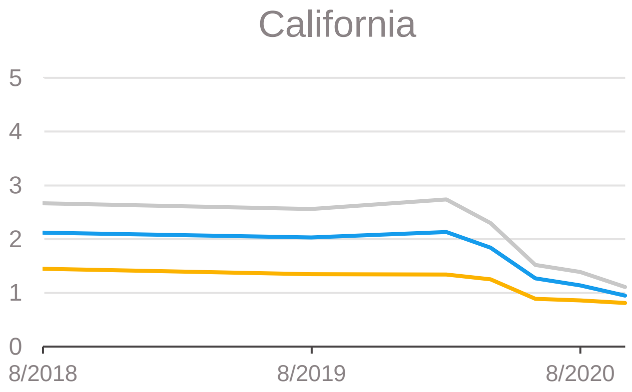
City demographic breakouts are not shown because of insufficient data.

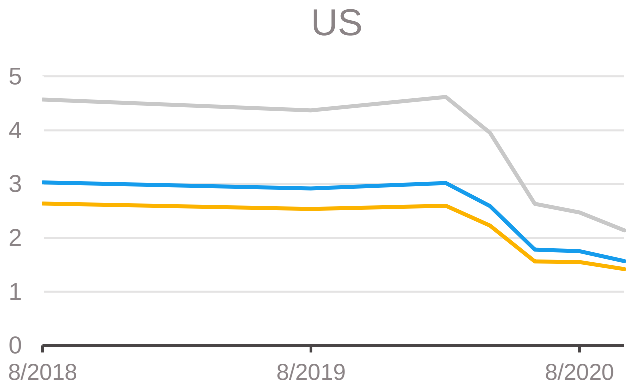
**Source:** Tabulations of Urban Institute credit bureau data.

**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.

# Less than 1 percent of people with mortgages in San Francisco are 30 or more days past due.

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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.

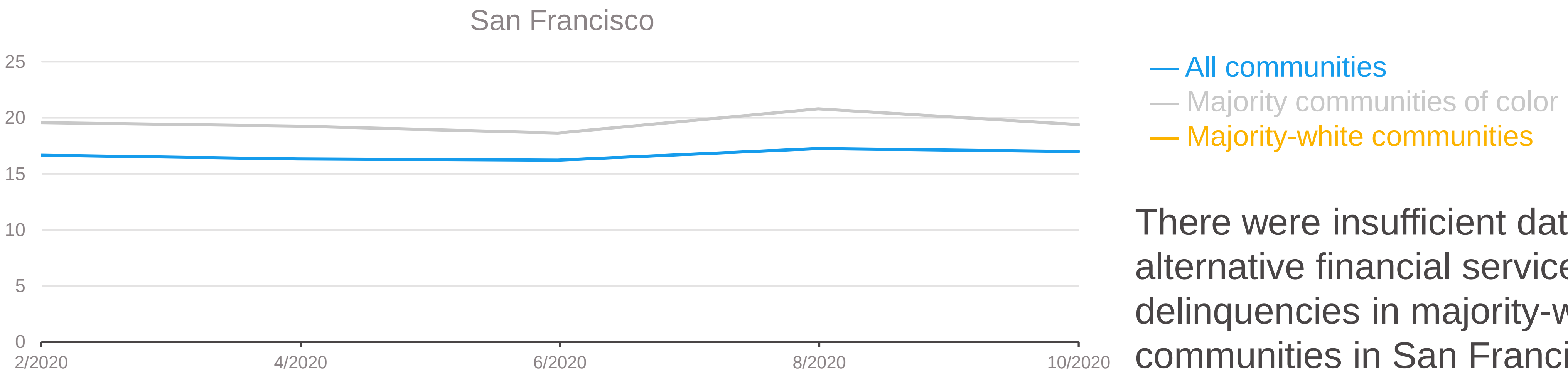
Qualifying renters are also protected from eviction until March 31, 2021, according to an order from the Centers for Disease Control and Prevention.

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

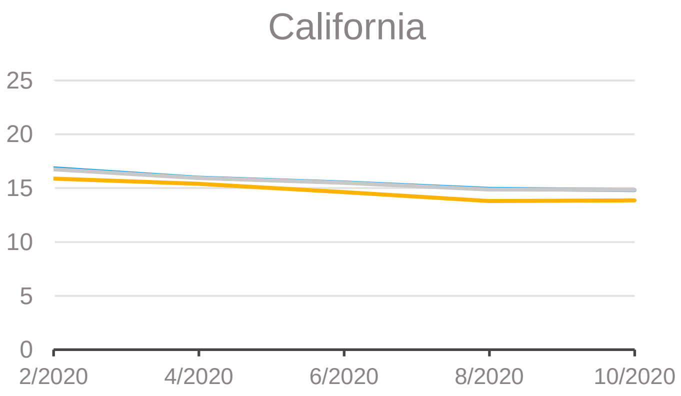
**Source:** Tabulations of Urban Institute credit bureau data.

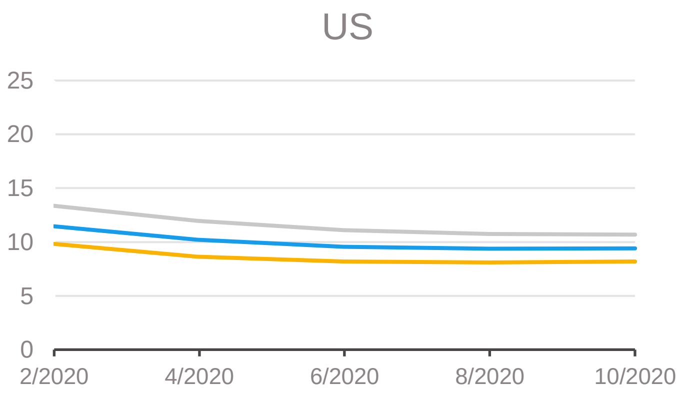
**Notes:** Mortgage delinquency rate is the share of people with a mortgage who are 30 or more days delinquent. White communities and communities of color are based on zip codes where most residents (at least 60 percent) are white or most residents (at least 60 percent) are people of color.

# The share of alternative financial services loans 30 or more days past due in San Francisco was 17.0 percent in October 2020.




There were insufficient data to calculate alternative financial services loan delinquencies in majority-white communities in San Francisco.




**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, especially forbearance measures that affect credit reporting, 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 San Francisco

San Francisco 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 San Francisco and California 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 | • Right to reemployment for certain employees laid off because of the COVID-19 pandemic if their employer fills the same position previously held by a laid-off worker, or a substantially similar position<br>• CA AB 2196 creates a pilot program for increased access to responsible small dollar loans | • Continued stimulus relief to support the estimated 24,000 low-income workers who have lost jobs since the pandemic hit<br>• 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 | • On April 4, 2020, SF BOS passed emergency ordinance 58-20, which addressed the CARES Act gap in coverage mandates for employers and provided necessary additional protection for employees of businesses with 500 or more employees, and thereby helped contain the spread of COVID-19<br>• San Francisco Latino Small Business Fund, which includes $3.2 million to expand the San Francisco Hardship and Emergency Loan Program (SF HELP) that will provide zero-interest loans of up to $50,000 to approximately 80 small businesses<br>• Deferral of Unified License Fee for 2020 until October 31, 2021; Deferral of property tax penalties until May 6, 2021 | |
| Debt protection | • Moratorium on utility shut-offs imposed by San Francisco Public Utilities Commission; payment plans available for utilities<br>• Cross-departmental reductions in response to the crisis to alleviate the burden of fines, fees, financial penalties, and collections | • Relief for student loan borrowers not covered by CARES Act (existing policy in New York City) |
| Housing stability | • Emergency ordinance to temporarily prohibit rent increases that would otherwise be permitted under the Administrative Code, because of the COVID-19 pandemic<br>• CA AB 3088 imposes a state eviction moratorium extension until February and anti-foreclosure protections | • Permitting rent payment plans and mediation services (existing policies in Seattle and Washington, DC)<br>• Expanding rental assistance: administering California's and San Francisco's share of the Treasury relief program quickly and equitably<br>• Extending eviction moratorium through December 2021 (proposed in CA legislature) |

# Potential Areas of Long-Term Focus for San Francisco

As leaders in San Francisco 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:

- **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. Given the high share of residents who are housing-cost burdened, this integration could be particularly beneficial in programs that help with affordable housing and homeownership.

- **Help residents save through savings programs with incentives; expand programs like the Smart Money Coaching program**. 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. Safe bank accounts can help facilitate speedy delivery of relief checks (Example: Bank On).

- **Continue to expand strategies that preserve and produce affordable housing across the income spectrum.** Specific local strategies include the following:
  - Adopt & support aggressive affordable rental housing strategies that boost supply, deepen affordability, preserve existing stock and protect tenants (existing initiatives include the CASA Compact , and community real estate)
  - Take a comprehensive approach to planning that combines multiple strategies, enlists diverse stakeholders, and serves residents across the entire housing market, including continued work on accelerating approval of Accessory Dwelling Units

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 San Francisco Residents

**How can city leaders support an inclusive recovery and help residents build financial health?**
FEBRUARY 2021

**PROJECT TEAM**
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