FEBRUARY 2021

Tracking the Credit Health of Chicago 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 Chicago 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 Chicago, racial and economic inclusion is a key priority. Chicago ranks 203rd out of the 274 largest cities nationwide along key measures of economic inclusion and 178th along key measures of racial inclusion. Chicago is notably worse than other cities in overall inclusion, but it has improved in most measures over time.

Key Takeaways

- **Credit health among Chicago 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 Chicago residents in communities of color with subprime credit scores (39.5 percent) is nearly 4 times higher than in majority-white communities in the city (10.9 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 Chicago

Pre-COVID-19

Chicago is a city with tenuous stability and uneven opportunities. Similar to Cincinnati, Pittsburgh, and Atlanta, financial security in Chicago is above average with prime median credit scores. However, sizeable racial disparities exist in credit health; Chicago is among cities with the largest disparity in median credit score between communities with majority-white residents and communities of color.

Ensuring that all residents are doing well financially could help **elevate the value of overlooked neighborhoods**, particularly neighborhoods which are predominantly made up of people of color. Doing so would increase the city's tax, consumer, and entrepreneurship base.

Among families in Chicago, **61 percent (approximately 644,000 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 Chicago, the estimated government cost of family financial insecurity from eviction and unpaid property taxes and utility bills is **$68 million to $157 million** out of a total annual budget of $10.4 billion.

The Threat of COVID-19 for Resident Financial Health

America's cities are showing the economic impact of the COVID-19 pandemic. In Chicago, the unemployment rate went from 3.4 percent in February to 17.5 percent in April. As of October, Chicago's unemployment rate was 7.8 percent. Chicago is also a city with large inequities in resident financial health, mainly between majority-white communities and communities of color. Since January 2020, employment rates among workers in the bottom wage quartile have decreased 33.5 percent whereas employment rates for middle-wage and high-wage workers have increased on average.

Small business revenue is down 34 percent as of November, and the Chicago metro area has lost nearly 186,000 low-income jobs since the beginning of the pandemic, many of which were in accommodation and food services or health care and social assistance.

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 Chicago Improved after the Great Recession and into COVID-19

This section shows key credit metrics for Chicago—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 data aggregated by racial and ethnic groups can mask tremendous differences within groups, where there is wide diversity of history, language, culture, nationality, and other important experiences.

Chicago is less financially healthy than many cities, as comparisons with Illinois and US show. There is much room for improvement: about 3 in 10 (34.1 percent) Chicagoans have debt in collections. While only 1 in 20 Chicago residents use high-cost alternative financial service loans, nearly 1 in 10 (10.3 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 credit health using credit data:

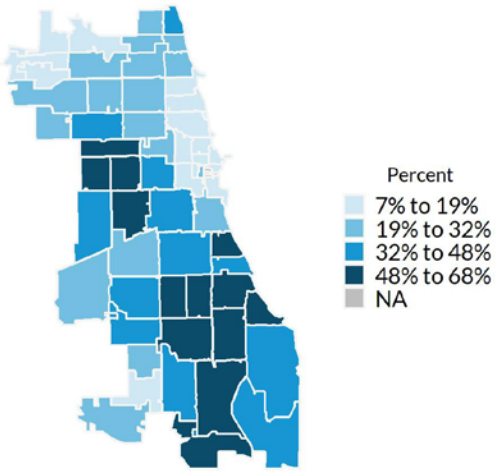
1) **Credit scores** are a composite indicator of overall credit health. Having a subprime credit score can limit access to credit and increase the cost of debt.
   - Scores range from 300 to 850; a score below 600 is subprime.

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.

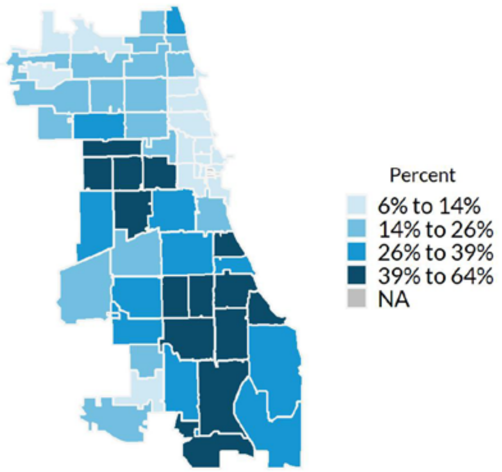
3) **Delinquent debt** data can show where support is needed to avoid foreclosures, bankruptcies, calls from debt collectors, and other hardships. Delinquent debt appears on credit reports, which are sometimes used by employers and landlords to assess job and rental applicants.
   - Delinquent debt is debt that is 30, 60, or more days past due or in collections.

Credit Health Varies by Neighborhood

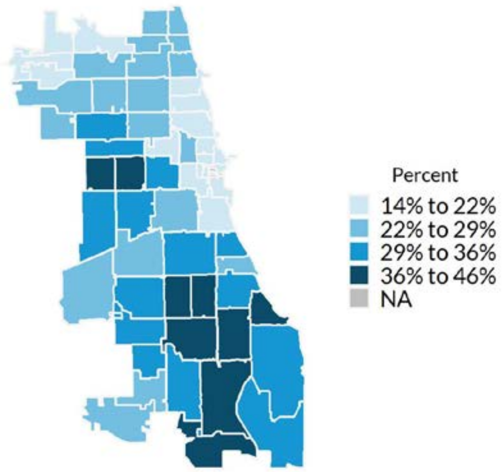
Share with Debt in Collections of Chicago Residents



Share with Subprime Credit Score of Chicago Residents



Average Credit Utilization of Chicago Residents



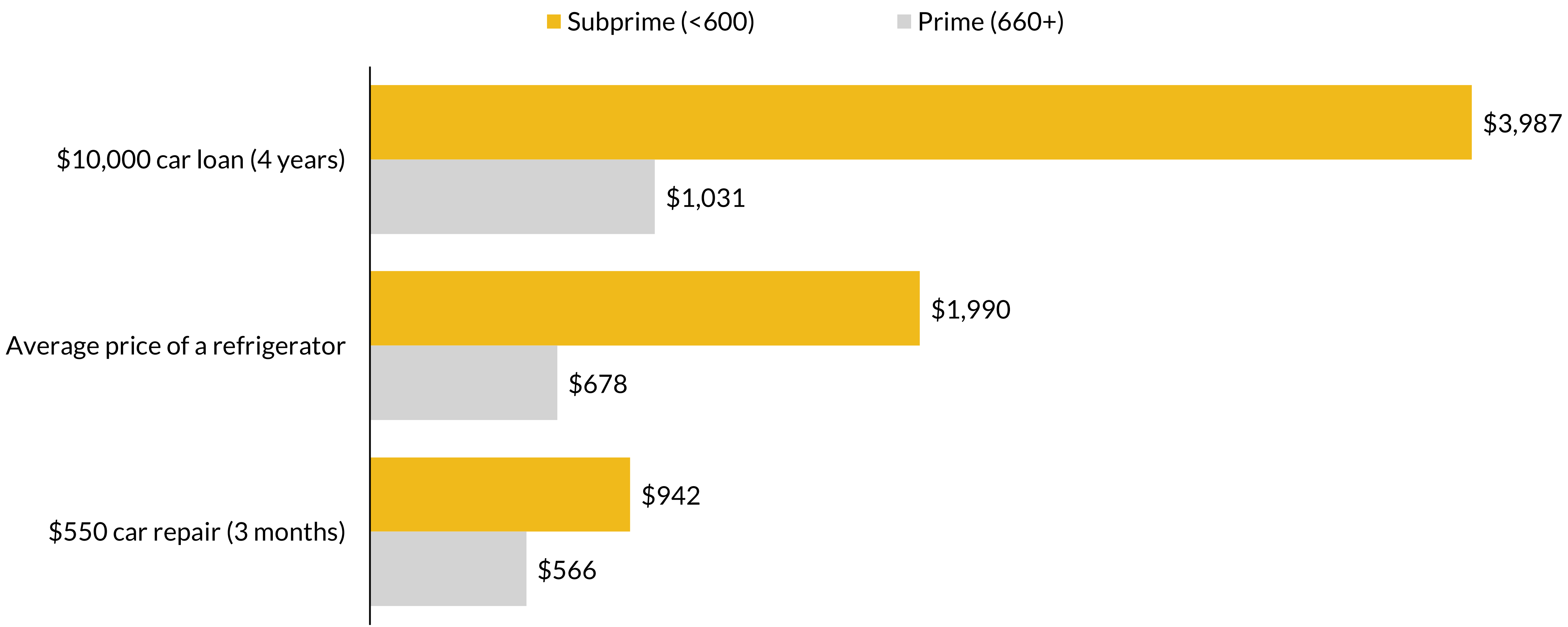
Like in most cities, resident financial health in **Chicago** varies by neighborhood. City leaders in government, business, philanthropy, and advocacy can examine differences in delinquencies, credit scores, and credit use to understand how to build a more inclusive recovery, including the targeting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

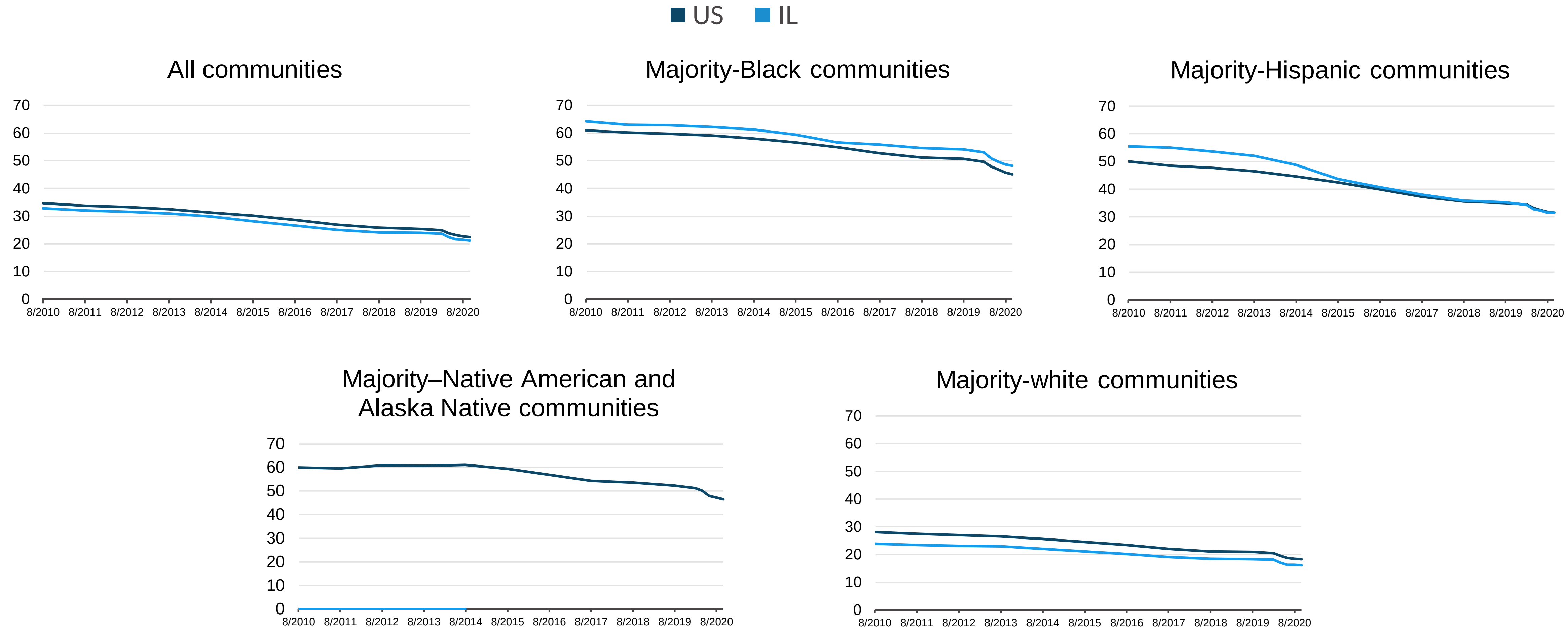
Credit Health Affects Residents' Costs of Living

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.

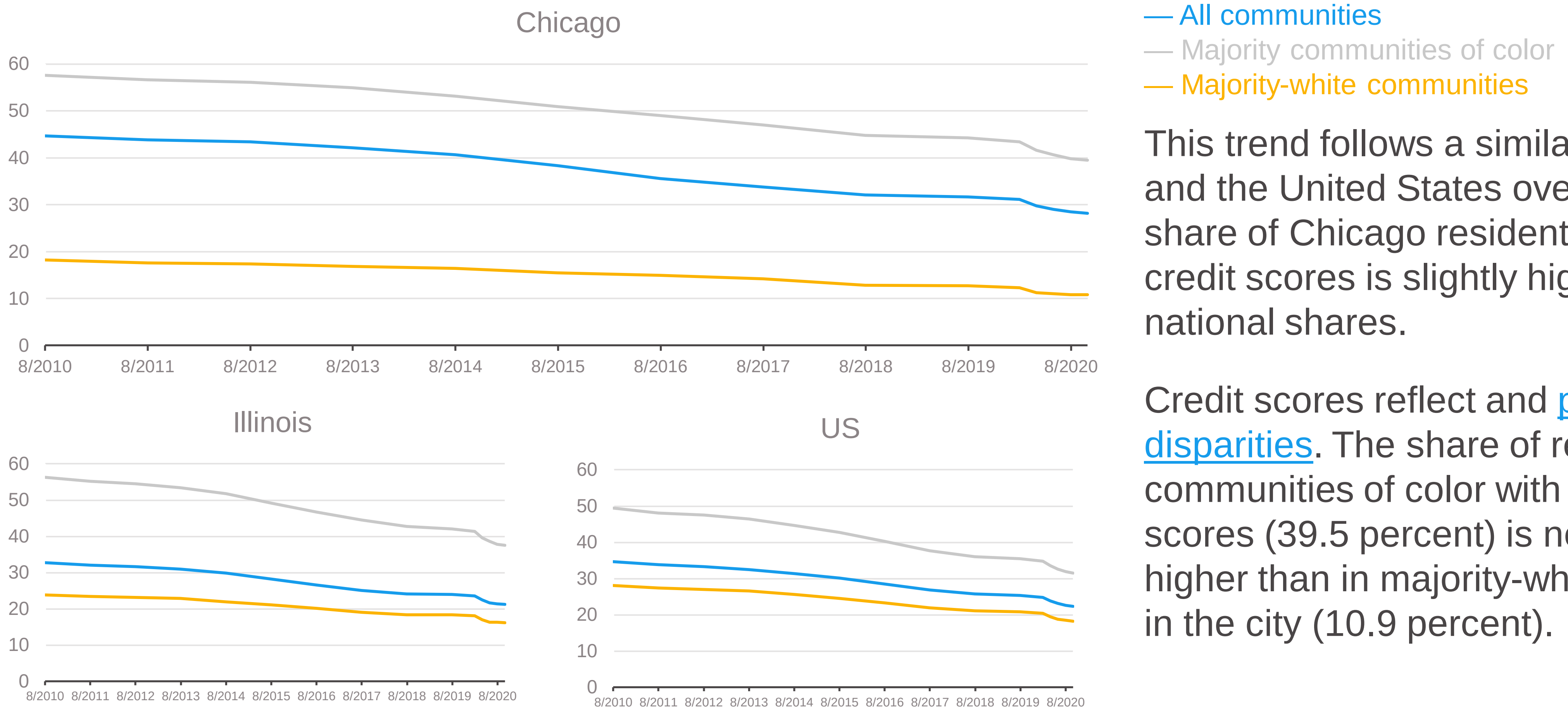
Nationally and in Illinois, the share of residents with a subprime credit score steadily declined after the Great Recession and into the pandemic, but racial disparities persisted.



Source: Tabulations of Urban Institute credit bureau data.

Notes: Subprime credit score is defined as 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 Chicago residents with subprime credit scores declined from 45 percent in August 2010 to 28 percent in October 2020.



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

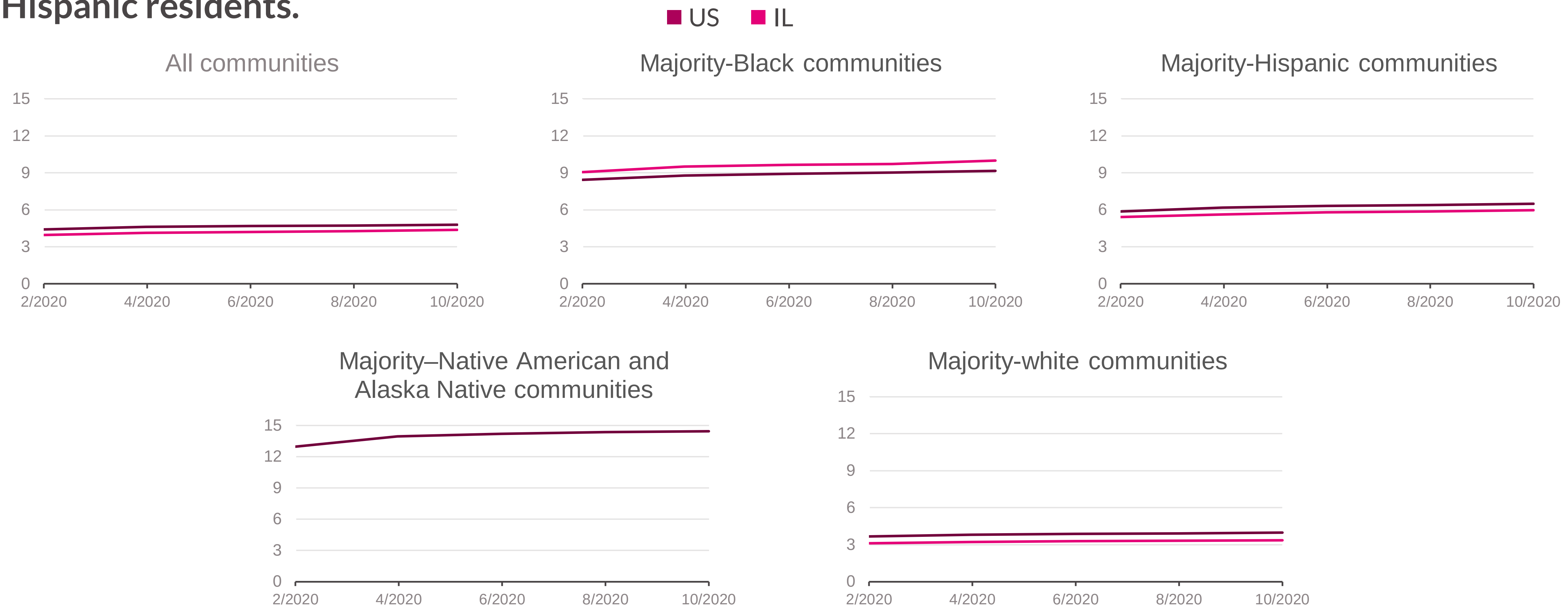
Credit scores reflect and [perpetuate racial disparities](). The share of residents in communities of color with subprime credit scores (39.5 percent) is nearly 4 times higher than in majority-white communities in the city (10.9 percent).

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

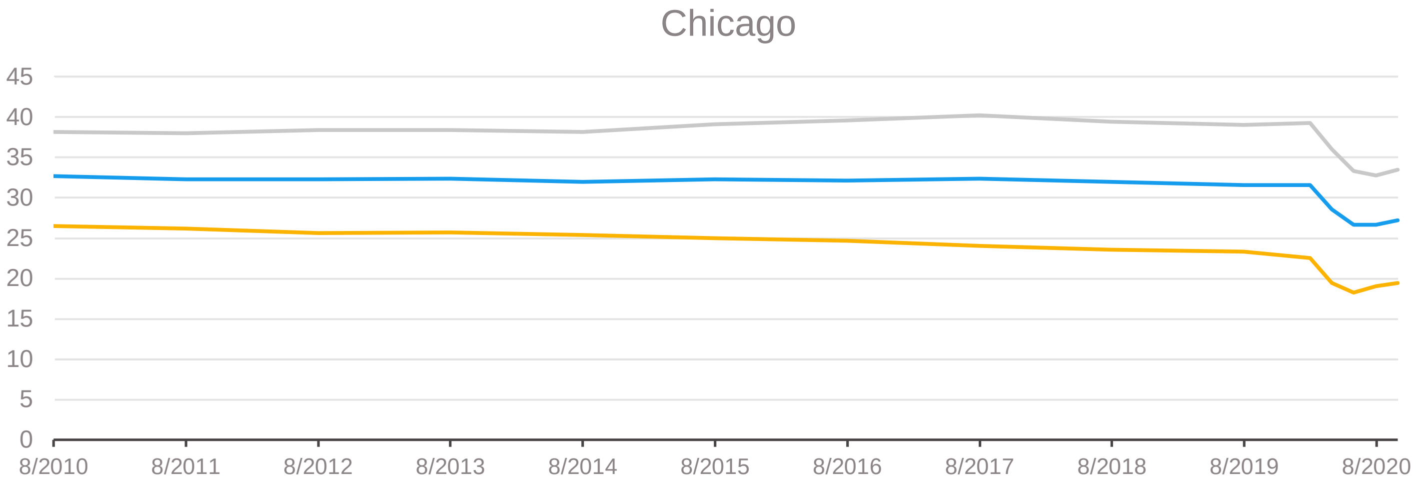
The share of residents using alternative financial service credit, such as payday loans, increased slightly after February 2020. The share is highest in neighborhoods with majority-Black and Hispanic residents.

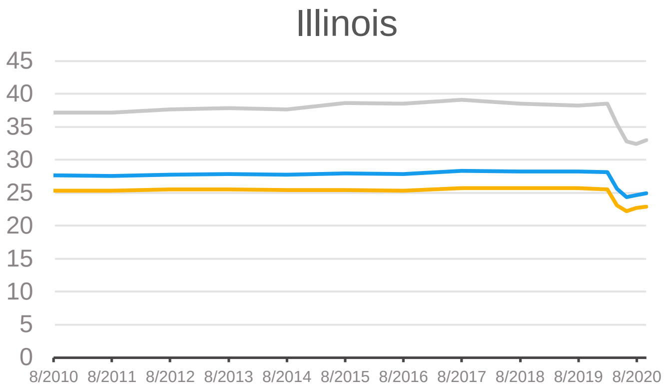


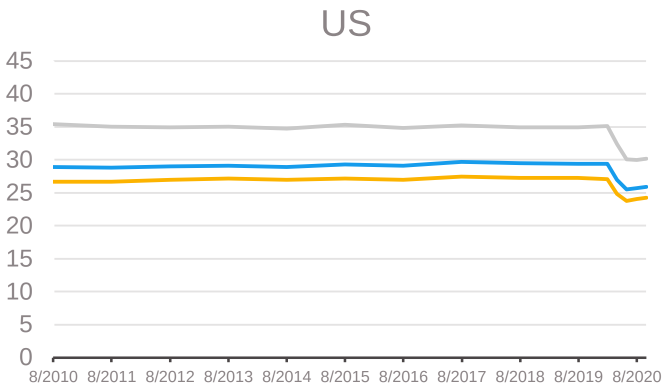
Source: Tabulations of Urban Institute credit bureau and alternative financial service data.

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







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

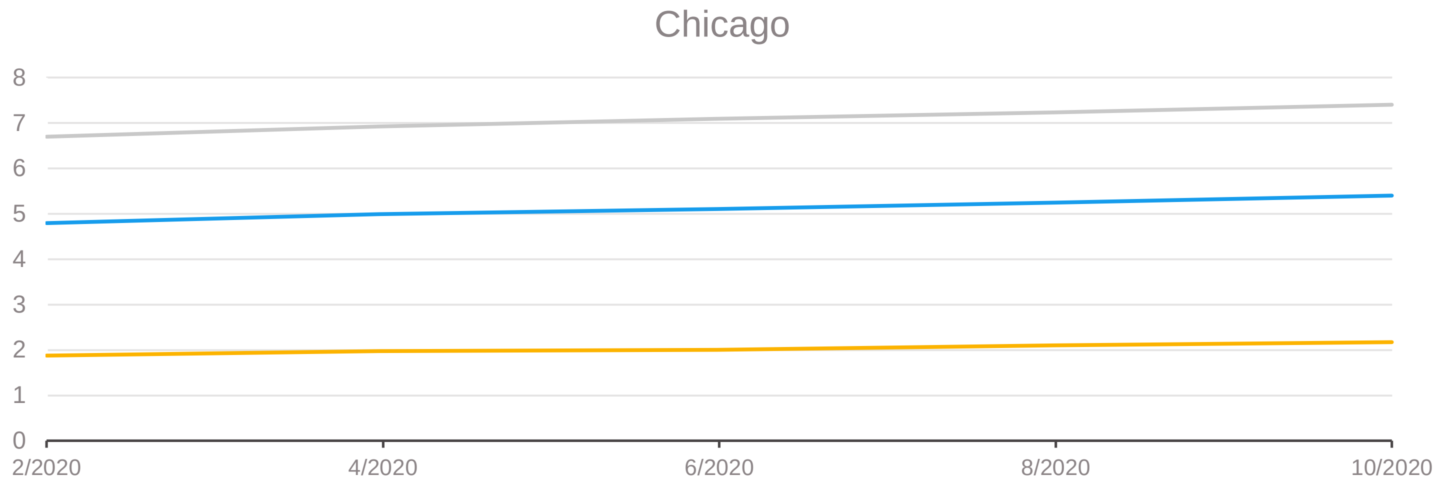
Utilization fell to 26.6 percent in June 2020 and only slightly increased to 27.2 percent in October.

Average credit card utilization is higher in Chicago than in Illinois 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 since the start of the COVID-19 pandemic has remained around 2 percent in Chicago since February 2020.



— All communities
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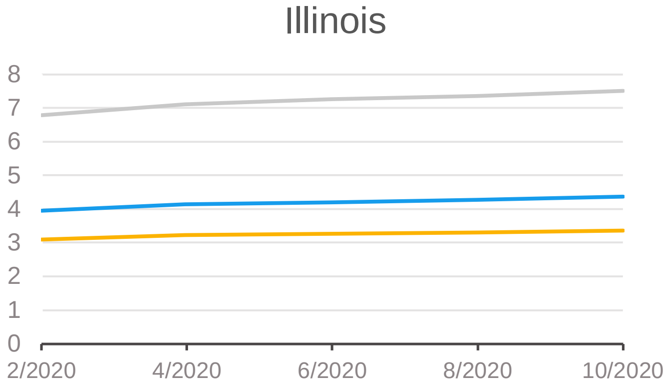
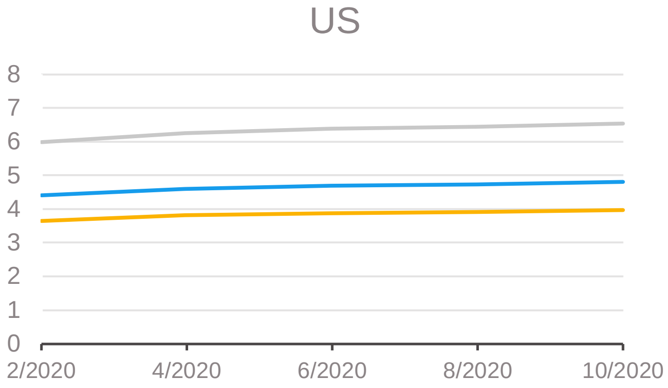
Alternative financial service (AFS) loan use is higher in Chicago than it is in Illinois and nationwide.

AFS loan use is about three and a half times higher in communities of color than it is in majority-white communities in Chicago.



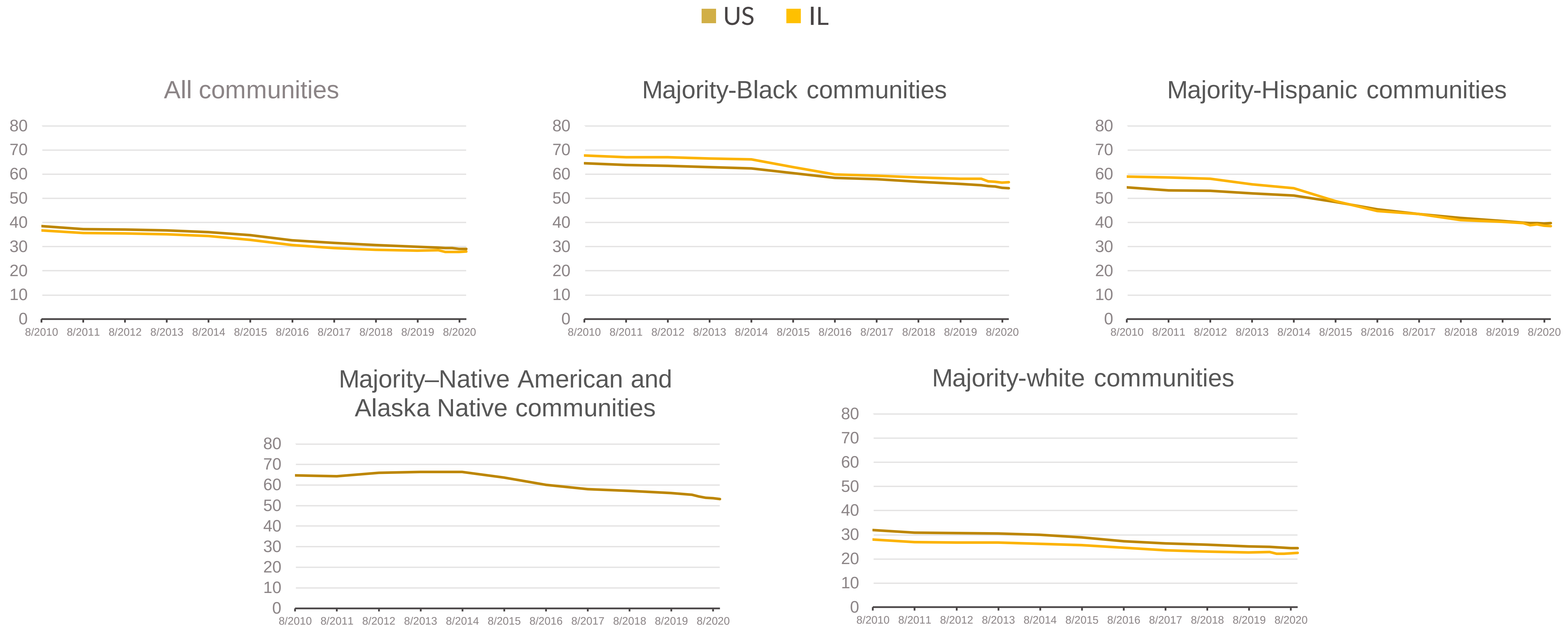


Source: Tabulations of Urban Institute credit bureau data.

Notes: Alternative financial service credit 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

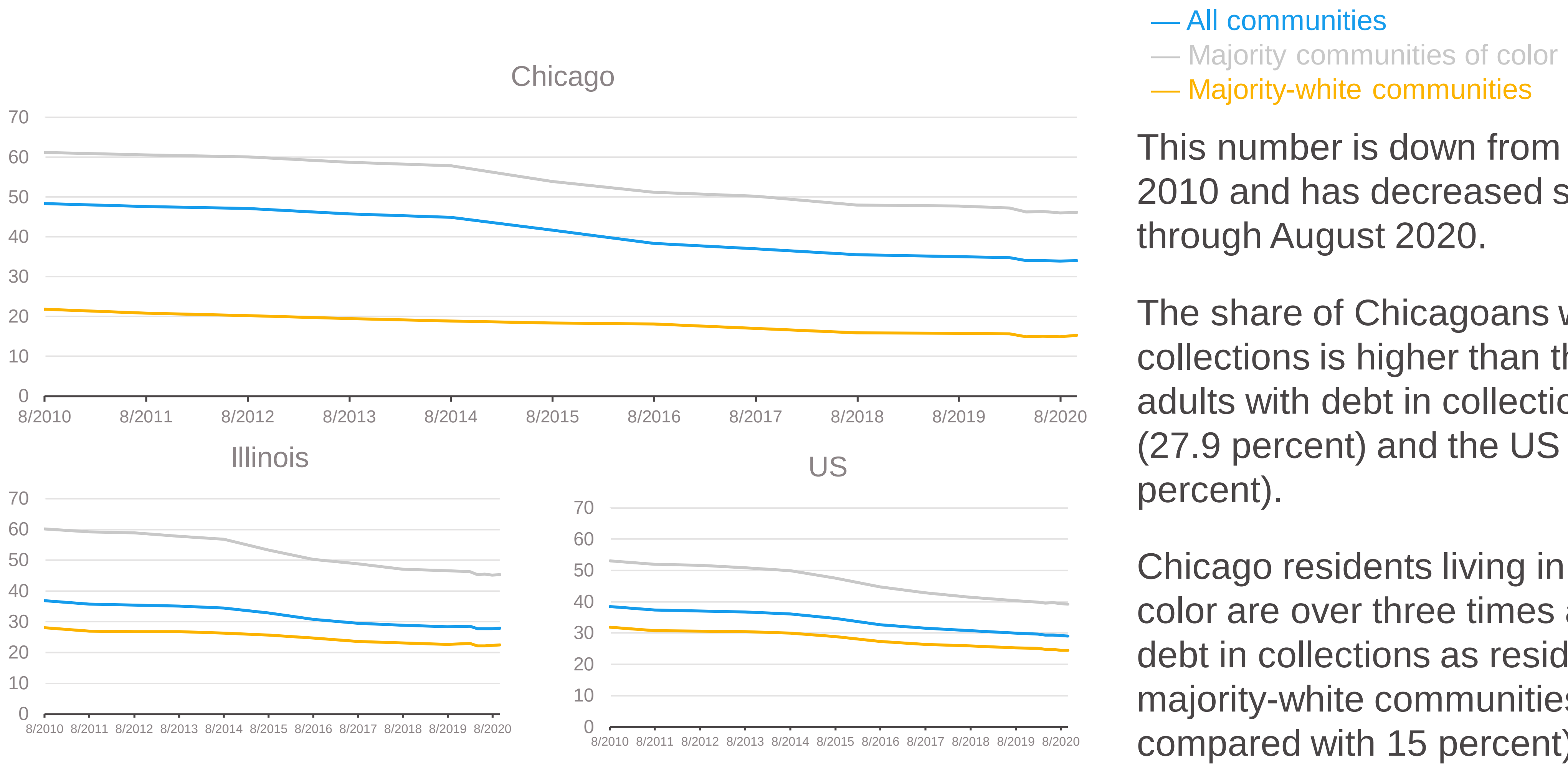
The share of residents with debt in collections also declined after the Great Recession. Nearly 1 in 3 (29.1 percent) US adults with a credit file, and more than 1 in 4 (27.9 percent) Illinoisans, had debt in collections in October 2020. Overall, racial disparities have continued.



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.

34.1 percent of Chicago adults with credit files had debt in collections in October 2020.



This number is down from 48.4 percent in 2010 and has decreased slowly over time through August 2020.

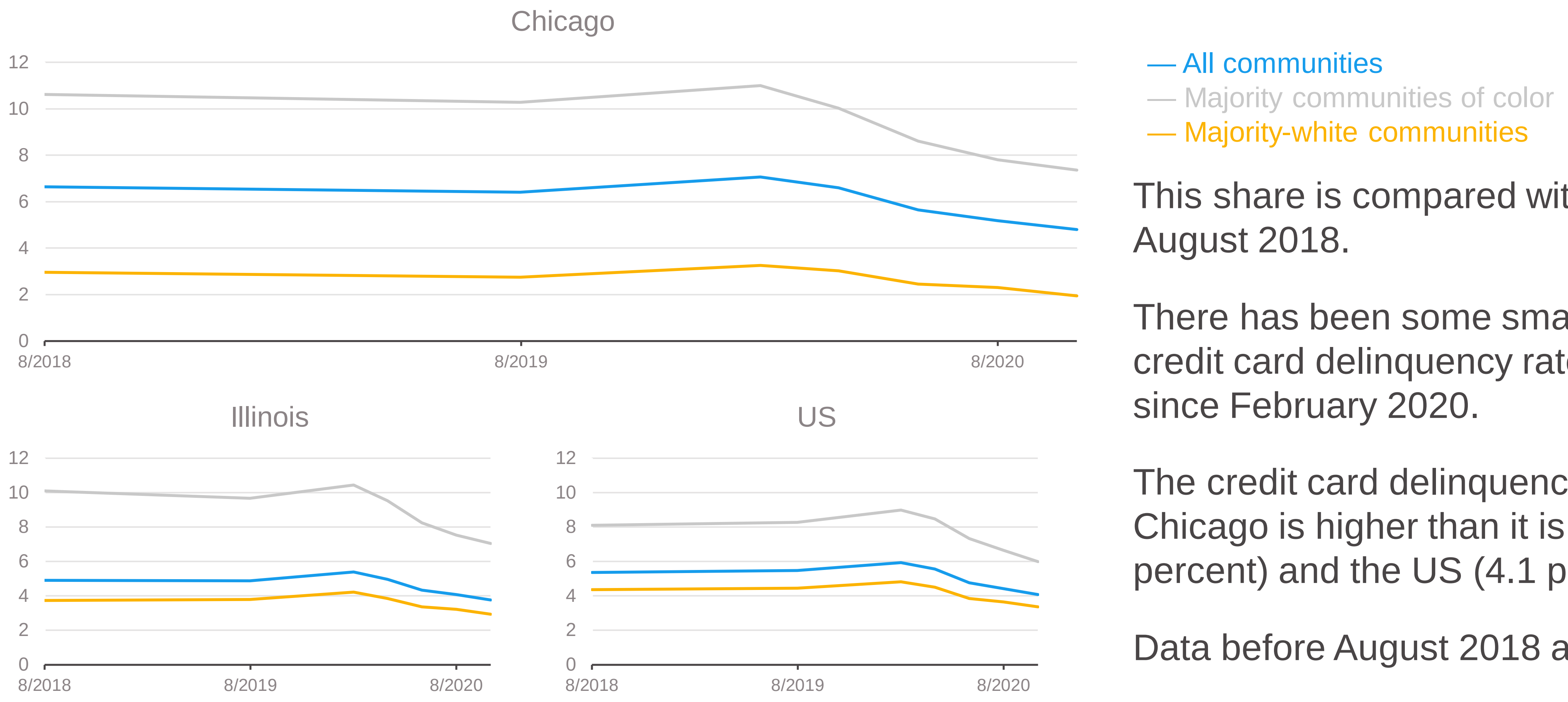
The share of Chicagoans with debt in collections is higher than the share of adults with debt in collections in Illinois (27.9 percent) and the US overall (29.1 percent).

Chicago residents living in communities of color are over three times as likely to have debt in collections as residents living in majority-white communities (46 percent compared with 15 percent).

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 Chicago was 4.8 percent in October 2020.



This share is compared with 6.6 percent in August 2018.

There has been some small variation in the credit card delinquency rate in Chicago since February 2020.

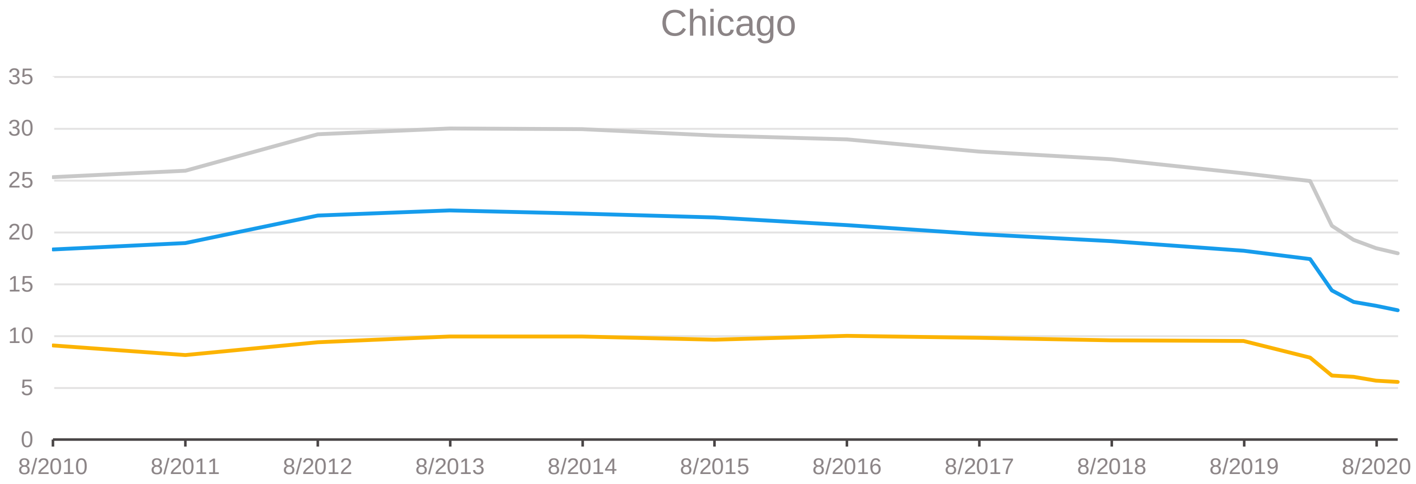
The credit card delinquency rate in Chicago is higher than it is in Illinois (3.8 percent) and the US (4.1 percent).

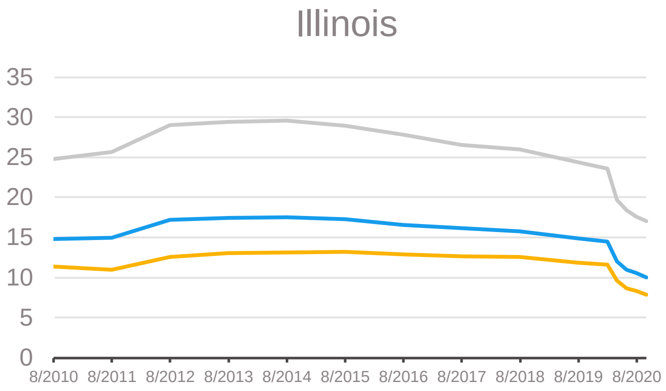
Data before August 2018 are unavailable.

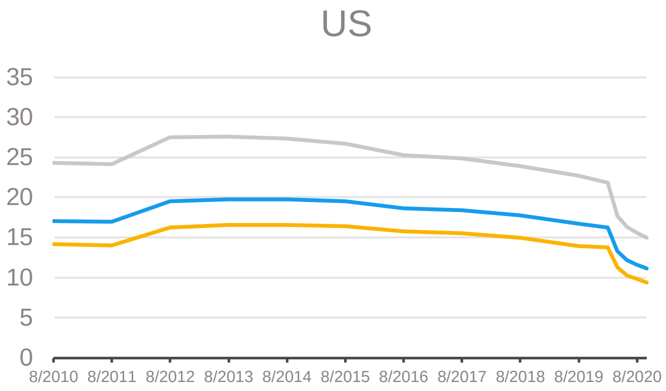
Source: Tabulations of Urban Institute credit bureau data.

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 Chicago was 12.5 percent in October 2020.







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

Source: Tabulations of Urban Institute credit bureau data.

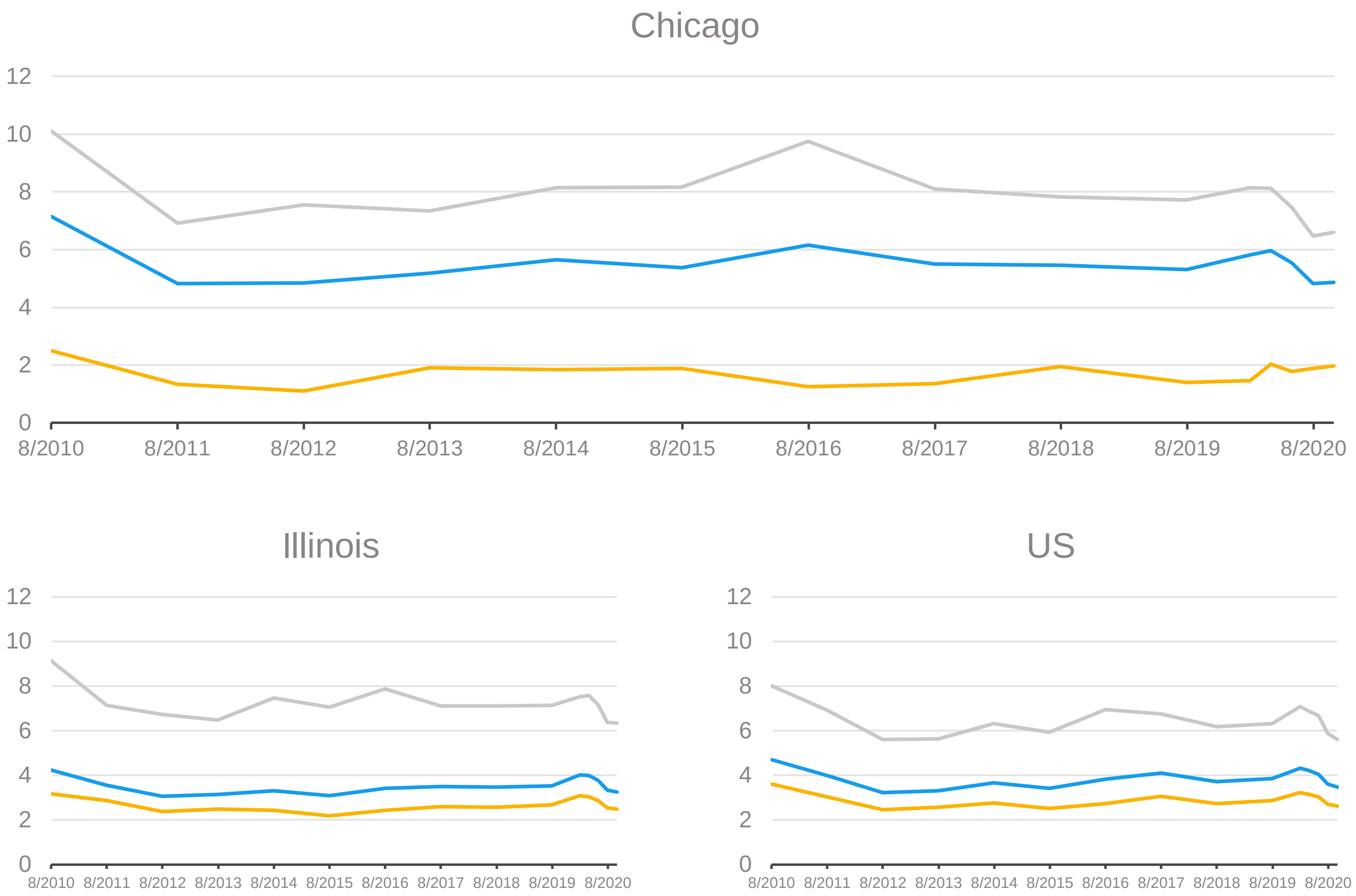
Notes: Student loan debt delinquency rate: share of people with student loans who are 60 or more days delinquent. White communities and communities of color are based on zip codes where most residents (at least 60 percent) are white or most residents (at least 60 percent) are people of color.

This rate is down from 18.3 percent in August 2010 and 17.4 percent in February 2020.

Student loan delinquencies are higher in Chicago than in Illinois (10 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.

The auto/retail loan delinquency rate in Chicago was 4.9 percent in October 2020.



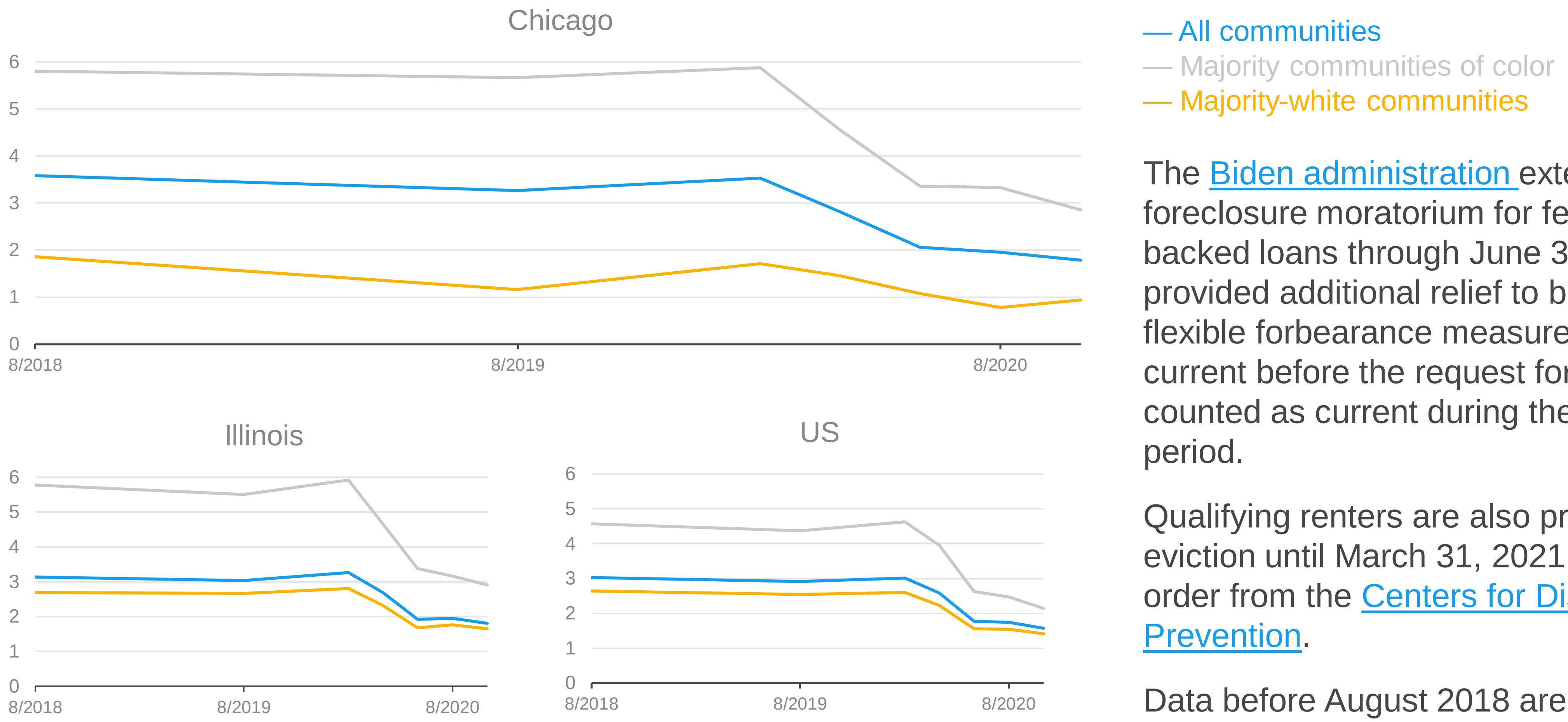
— All communities
— Majority communities of color
— Majority-white communities

This rate is down from 7.2 percent in August 2010 and 5.8 percent in February 2020.

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.

1.8 percent of people with mortgages in Chicago 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.

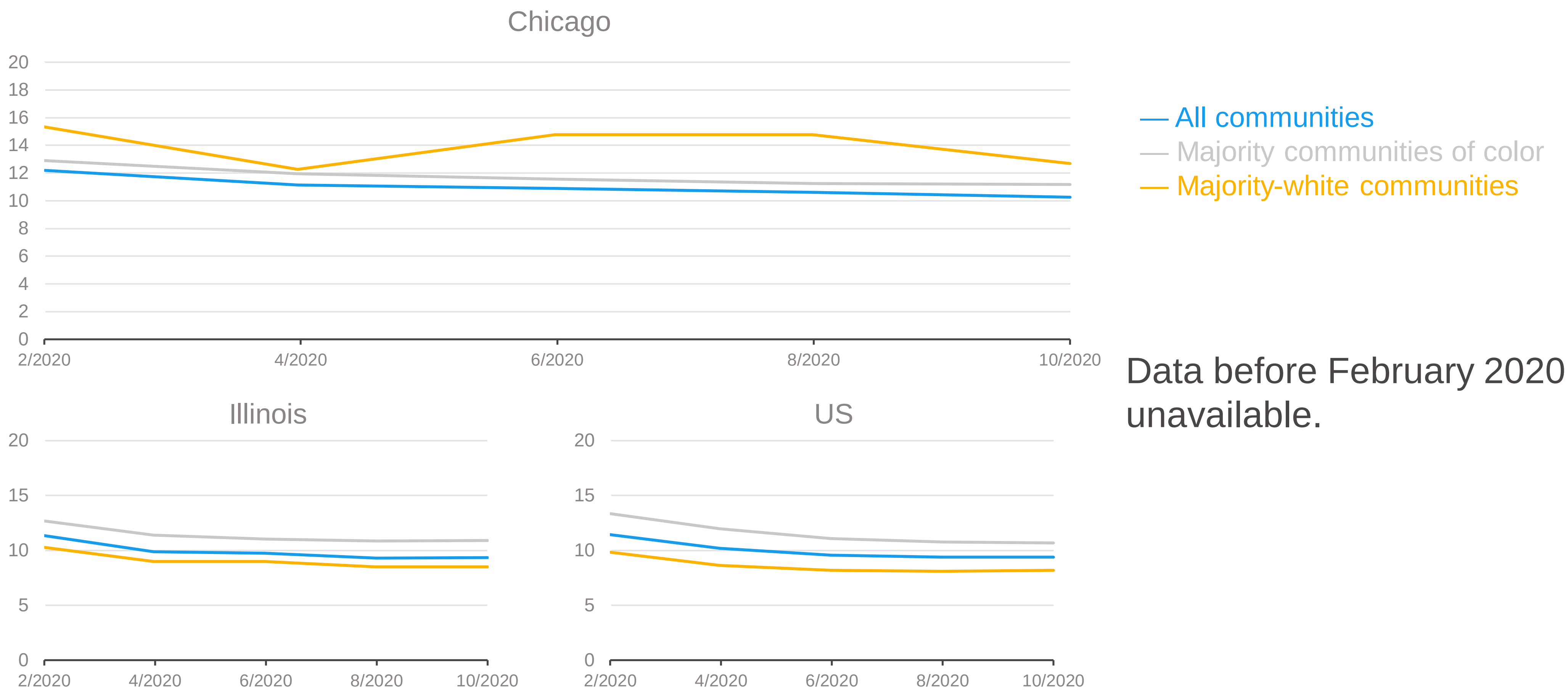
Qualifying renters are also protected from eviction until March 31, 2021, according to an order from the Centers for Disease Control and Prevention.

Data before August 2018 are unavailable.

Source: Tabulations of Urban Institute credit bureau data.

Notes: Mortgage delinquency rate 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 Chicago was 10.3 percent in October 2020.



Data before February 2020 are unavailable.

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 Chicago

Chicago 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 Chicago and Illinois 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	• IL HB2455, among other things, provides that the Illinois Secure Choice Savings Board may establish deadlines for payment of payroll deductions to the Fund and enter agreements to permit residents of other states to participate in the program • Illinois Department of Commerce and Economic Opportunity will distribute $16.M for 1,300 Illinoisans who lost their jobs during the COVID-19 pandemic to be rehired for pandemic job response	• 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 • "Together Now," a $15 million fund and partnership between the city and philanthropy (including $10 million from the City of Chicago) is expected help more than 2,500 small businesses • The Business Interruption Grants Program will provide $220 million to businesses that have experienced losses or business interruption because of the COVID-19 crisis	• 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	• Suspending laws that permit the service of a garnishment summons, wage deduction summons, or a citation to discover assets as part of consumer debt collection proceedings • Illinois Housing Development Authority announced the opening of the state's new Emergency Mortgage Assistance program to assist homeowners who have seen their income decline because of the COVID-19 pandemic • Illinois Legislature capped the interest rate for most consumer loans at 36 percent • Water bill debt protection for qualified Chicago residents who make less than 150% to 200% of the federal poverty guidelines	• 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 Washington, DC)
Housing stability	• Regulate landlord requirements for just cause evictions, tenant relocation assistance and notice requirements for evictions and rental rate increases • Waived late fees on property tax payments • Illinois Department of Human Services will allocate $18 million in funding for housing and utility assistance for families in need, $4.5 million will be used to support employment and job training services • Eviction moratorium through January 2021	• Permitting rent payment plans and mediation services (existing policies in Seattle and Washington, DC) • Support the preservation of affordable housing through efforts like The Preservation Compact

Potential Areas of Long-Term Focus for Chicago

As leaders in Chicago 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, all of which could be targeted toward specific neighborhoods to prioritize Chicagoans who were most impacted by the pandemic:

- **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 large racial disparity in credit scores, consider assessing the racial wealth gap and integrating interventions into programs and platforms that would most directly benefit families of color. Many cities have implemented financial inclusion programs, projects, and offices to help all residents access wealth-building and financial opportunities.

- **Protect consumers** from unfair, deceptive, or abusive business practices by enforcing municipal consumer protection regulations such as Chicago's cap on third party food-delivery (implemented November 23, 2020), collecting consumer complaints, and educating businesses and consumers.

- **Assess city debt collection practices and provide constructive options for families to repay city debts**, such as programs like Chicago's "Fresh Start" Parking Ticket Debt Payment Plan. Such programs 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, as some cities are doing, 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. Target such services in neighborhoods with the most need. 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**. Establishing a partnership with a financial institution to provide small-dollar emergency loans to city employees, along with safe products that make it easy for employees to save, can enhance employees' financial security and improve their credit scores as they successfully repay the loan. This leadership role can be used to encourage other local employers to implement strategies to boost employees', and thus residents', financial health.

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 Chicago Residents

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

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PROJECT TEAM

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