June 2017

CFPB Data Point: Becoming Credit Visible

The CFPB Office of Research

cfpb Consumer Financial Protection Bureau

- Kenneth P. Brevoort

- Michelle Kambara

This is another in an occasional series of publications from the Consumer Financial Protection Bureau's Office of Research. These publications are intended to further the Bureau's objective of providing an evidence-based perspective on consumer financial markets, consumer behavior, and regulations to inform the public discourse.

Table of Contents

1. Introduction

In a previous *Data Point*, we estimated that 11 percent of adults in the United States, or about 26 million people, are "credit invisible," meaning that they do not have a credit record at one of the three nationwide credit reporting companies (Brevoort, Grimm, and Kambara 2015). Without a credit record, lenders will have a harder time assessing the creditworthiness of applicants. As a result, the credit invisible may have a harder time accessing credit.

The problem of credit invisibility has been portrayed as a "Catch-22" in which people without credit histories are denied credit, which prevents them from acquiring a credit history. Much of the effort to address the challenges faced by credit invisible consumers has focused on identifying sources of *alternative data* (such as rent, cell phone, or utility payments that are typically excluded from a traditional credit report) that might be used to assess the creditworthiness of credit invisible consumers, allow them to obtain credit, and help them transition out of credit invisibility.

Yet despite the very real challenges the credit invisible face in obtaining credit, millions of credit invisible consumers acquire credit records each year. Our earlier *Data Point* estimated that about 9 percent of adults aged 25 to 29 were credit invisible. Since no one is born with a credit record, and few have one before turning 18, this means that 91 percent of consumers in this age group acquired a credit record before they turned 30. So while credit invisibility may be a Catch-22 for some, others appear to make the transition.

In this *Data Point*, we build on our earlier work by exploring the means by which consumers were able to transition out of credit invisibility. Using a sample of de-identified credit records for over 1 million adults who made this transition, we document the types of information that led to the creation of their credit records and investigate how often these consumers may have relied on others (friends, family, etc.), to serve as cosigners for loans or as account holders who can extend authorized user status, to help them make this transition and also how often visibility is achieved through a collection item or public record rather than as the result of a loan. We also explore how these transitions differed across consumers of different ages and across neighborhood income levels and how the transitions have changed in recent years.

Like our earlier *Data Point* we use a fairly narrow definition of *credit invisibility* that includes only consumers who lack a credit record at one of the nationwide credit reporting companies. Other consumers, such as those who have records that cannot be scored by most credit scoring models, may face similar problems in accessing credit as the credit invisible but are excluded from this analysis. Furthermore, our analysis focuses exclusively on how consumers acquire a credit record without regard to whether it suggests they are a "good" or "bad" credit risk. We hope to investigate what happens to consumers once they acquire a credit record in future research.

Key findings from this report include:

- Most consumers who transition out of credit invisibility do so at young ages. Of the transitions out of credit invisibility that we observe in our sample, almost 80 percent occur before age 25. Consumers in low- and moderate-income neighborhoods who make this transition do so at older ages than consumers in middle- or upper-income neighborhoods.

- Across all age groups and income levels, credit cards trigger the creation of consumer credit records more frequently than any other product. Student loans are the next most frequent, though this almost entirely reflects the patterns of young consumers. Consumers in lower-income neighborhoods are more likely than consumers in higher-income neighborhoods to acquire a credit record from non-loan items, such as third-party collection accounts or public records.

- About 15 percent of consumers opened their earliest reported credit account with a co-borrower. The credit records of an additional 9.6 percent of consumers were created when the consumer became an authorized user on someone else's credit account. This implies that about 1-in-4 consumers first acquire their credit history from an account for which others were also responsible. The use of co-borrowers and authorized user account status is notably less common in lower-income neighborhoods.

- The frequency with which credit cards trigger the creation of a credit record has been growing rapidly in recent years, except among consumers younger than 25. Among these young consumers, the share of credit records that were created as the result of a credit card has been declining. While some of this decline results from the growth in student loans, the difference between consumers younger than 25 and consumers who transition out of credit invisibility at later ages appears to reflect other factors, including the Credit Card Accountability Responsibility and Disclosure Act.

2. Data and Empirical Approach

The data used in this study come from the Consumer Financial Protection Bureau's Consumer Credit Panel (CCP), a 1-in-48 random sample of de-identified credit records drawn from the archives of one of the three nationwide credit reporting companies (NCRCs). The CCP is comprised of quarterly archive files and we use the archives from the last month of each year from 2006 to 2016. Each archive provides the credit records of consumers as they existed when the archive was created. The archives are de-identified, however, so anything that would directly identify the consumer (such as a name, address, or Social Security number) is excluded.

To enhance the anonymity of the CCP, the archives also exclude dates of birth; however, the year of birth is provided and we use it to determine each consumer's age at the time the end-of-year archives were drawn. This allows us to analyze the patterns for different age groups separately and to conduct separate analyses for consumers in different birth-year cohorts. A birth-year cohort analysis is important for our analysis because we are studying data from a turbulent period. Consumers transitioning out of credit invisibility before housing prices collapsed around 2006 may have exhibited very different patterns in how they acquired credit histories than did consumers who turned 18 after the collapse, who faced the challenge of acquiring a credit history amid the tighter underwriting standards that prevailed after the Great Recession.

Each credit record in the CCP archives reflects the consumer's credit history up to the date the archive was drawn (and only to the extent that the consumer's credit

experiences are reported to the NCRC).[1] However, the records provide an incomplete picture of the consumer's credit history for older accounts. For example, because negative information can only remain on a credit report for 7 years in most cases under the Fair Credit Reporting Act (FCRA), accounts that went delinquent more than 7 years before the archive was created will generally not be reflected in that archive's data. So we use each archive only to study the most recent 5-7 years of activity.

A challenge in identifying the credit records of consumers who transitioned out of credit invisibility is that the CCP data do not indicate the date on which a credit record was first created. Without this, we cannot reliably distinguish credit records that were created in the last 7 years from those that are older.[2] We get around this problem by looking at specific age ranges in the following manner.

We start by selecting the credit records of consumers who turned 24 during the year the archive was created. We assume that none of these consumers had credit records before they were 18 (or, if they did, that none of their earliest accounts migrated off of their credit records before December of the year they turned 24). We use these de-identified credit records to determine for each consumer which of the items on their credit record was reported first, which should be the item that originally triggered the creation of their credit record. Because we have archives from 2006-2016, we can examine the transition patterns of consumers younger than 25 for the 1982 to 1992 birth-year cohorts. For example, selecting the credit records of consumers who were 24 at the time the 2016 year-end archive was created, gives us a credit record sample for consumers born in 1992 that we use to determine when those consumers first became credit visible.

---

[1] Some credit products, particularly non-traditional products like payday or auto-title loans, are typically not reported by lenders to the NCRCs (though they may be reported as collection accounts by third-party debt collectors if the consumer defaults on the loan). Increased reporting of on-time payments made for payday or auto-title loans, for example, whether to the NCRCs or to other credit reporting agencies, could serve as a form of alternative data to alleviate the problems associated with credit invisibility.

[2] If a credit record contains an account that is more than 7 years old, we can reasonably infer that the credit record is at least that old. However, if none of the accounts are at least 7 years old, we cannot determine from the information in the archive alone whether the record was created in the last 7 years or whether there was older information that migrated off of the credit record.

TABLE 1:   SAMPLE SUMMARY STATISTICS

Age Range	Observations	Mean Age	Birth-Year Cohort Range
Under 25	843,186	19.9	1982-1992
25-29	70,044	27.1	1977-1987
30-34	48,407	32.2	1972-1982
35-39	35,869	37.2	1967-1977
40-44	27,579	42.2	1962-1972
45-49	21,851	47.1	1957-1967
50-54	16,597	52.1	1952-1962
55-59	12,816	57.1	1947-1957
60-64	9,296	62.1	1942-1952
65-69	6,559	67.1	1937-1947
Total	1,092,204	24.1	1937-1992

To identify consumers who transitioned out of credit invisibility at later ages, we modify this approach slightly. In each archive we identify the consumers who transitioned out of credit invisibility during 5-year age ranges starting with 25-29 and continuing through ages 65-69. Using the 25-29 age group as an example, we identify all consumers who were 29 years old when an archive was created. From this group, we exclude consumers whose credit record existed in any of the archives created at least 5 years prior.[3] The remaining records provide our sample of consumers in that single birth-year cohort who transitioned out of credit invisibility when they were 25-29. We follow this same process to identify consumers who transitioned out of credit invisibility during each of the other 5-year age ranges. Because each archive provides data on a single birth-year cohort for each age range, this provides data on 11 birth-year cohorts for each age range.

Table 1 provides summary statistics about our sample. In total our analysis examines the experiences of about 1.09 million consumers who transitioned out of

---

[3] The CCP data include December archives going back to 2004 and September archives going back to 2001. Our analysis starts with 2006 because this is the earliest year for which the CCP data contain an archive that is at least 5 years old.

credit invisibility across the different age groups. The number of observations declines with age and the number of observations for people younger than 25 is particularly large (even after adjusting for the wider 18-24 age span). This decline is consistent with the estimates of the number of credit invisibles across these age groups from our previous *Data Point* (Brevoort, Grimm, and Kambara 2015). Moreover, it highlights the extent to which most consumers who make this transition appear to do so by the time they turn 25. In our data, 77 percent of consumers who transition out of credit invisibility do so before they turn 25.

Our previous *Data Point* also found significant differences in credit invisibility across neighborhood income levels. We continue to explore these differences in this study. For each consumer, we categorize the income level of the Census tract in which they reside based on that tract's *relative income*. Relative income is defined as the ratio of the median family income of the tract to the median family income of either the Metropolitan Statistical Area for urban tracts or the non-metropolitan area of the state for rural tracts. Tracts are considered low, moderate, middle, or upper income if their relative income is below 50 percent, 50 to 79 percent, 80 to 119 percent, or 120 percent or higher.

3. Entry Products

A credit record will be created for a consumer when a tradeline, collection account, or public record is reported to an NCRC.[4] In this section, we explore the earliest reported item of information on each consumer's credit record, which should have been what triggered the creation of the consumer's credit record. We categorize each consumer's earliest credit record item into the following eight groups, which we refer to as *entry products*:

- Automobile loans and leases
- Credit cards
- Mortgages
- Personal or other loans
- Retail loans (includes department store cards)
- Student loans
- Collection accounts reported by third-party debt collectors
- Other non-loans (includes public records, delinquent utility bills, child support payments, etc.)

---

[4] A credit record will also be created whenever a lender or other institution requests the credit report of a credit invisible consumer. However, consumers with such inquiry-only files are still essentially credit invisible. In this report, as in our earlier *Data Point* we exclude inquiry-only files from our analysis and treat consumers with inquiry-only files as though they were credit invisible.

The first six of these are types of traditional loans (or leases) that the consumer has opened. The last two are non-loan items.[5] Table 2 shows the share of consumers whose entry product was of each of these different types. In determining each consumer's entry product, we exclude experiences in which the consumer was an *authorized user* on someone else's account and look solely at debts for which the consumer was contractually liable.[6] We focus on the role of authorized user account status in triggering the creation of a credit record in the next section.

---

[5] In some cases, third-party collection accounts will be reported for defaulted loans, though this is unusual. Most third-party collection accounts are for unpaid medical or cell phone bills.

[6] In some cases, all of the items on a consumer's credit report will be authorized user accounts. In these instances, which amount to 2.5 percent of our observations, the consumer does not have an entry product.

TABLE 2: DISTRIBUTION OF ENTRY PRODUCTS BY AGE GROUP

Age Range	% Auto	% Credit Cards	% Mortgages	% Personal	% Retail	% Student	% Collections	% Other
Under 25	9.0	35.6	0.5	5.3	13.7	19.9	12.4	2.6
25 - 29	9.1	47.0	1.7	4.9	13.4	2.5	11.3	3.6
30 - 34	8.6	46.7	2.2	4.8	14.6	1.3	10.4	3.9
35 - 39	8.5	44.7	2.9	5.1	15.4	1.2	10.3	4.4
40 - 44	8.4	43.8	3.5	5.7	15.4	1.2	10.2	4.3
45 - 49	8.2	41.6	3.5	6.0	15.9	1.5	10.7	4.6
50 - 54	7.9	40.4	4.0	6.0	15.9	1.3	9.8	4.9
55 - 59	7.5	38.7	4.1	6.0	16.7	1.1	9.7	4.5
60 - 64	7.6	35.5	4.2	7.2	20.6	0.7	8.4	4.2
65 - 69	7.2	33.7	4.5	7.0	22.5	0.6	8.1	4.7
Total	8.9	37.6	1.0	5.3	14.1	15.8	12.0	3.0

Table 2 reveals several facts about the entry products that trigger the creation of consumer credit records.[7] Credit cards are the most common entry product across all of the age groups in the table. Student loans are the next-most common overall, though this is entirely driven by the transitions of consumers younger than 25. Student loans are rarely the entry product for older consumers. The only other loan type that was a more frequent entry product for younger consumers than for older consumers was auto loans, though the decline by age is minimal. Mortgages, personal loans, and retail loans are more frequently entry products for older consumers. Of these, retail loans are notably more often the entry product.

Among the two non-loan items, third-party debt collections are the entry product for a larger share of consumers. Younger consumers are more likely to acquire a credit record as the result of third-party debt collection accounts than older consumers. Across all age groups, third-party debt collection accounts are most likely the result of unpaid medical bills followed by debts for cable or cellular service. Only about 3 percent of credit records are created from other non-loan items.

As stated earlier, we are not differentiating in this study between entry products that convey to a prospective lender that the consumer is either a "good" or "bad" credit risk. Nevertheless, it should be noted that most of these non-loans would likely be exclusively in the latter category. As an estimate, we classified the types of information about the non-loans into those that almost always convey negative information about the consumer's likelihood of repaying future debts on time (such as collection accounts or public records) and those that can convey either positive or negative information depending on the payment status of the account (such as rent, utility, or cell phone bills). Our estimates suggest that 87 percent of non-loans serving as entry products are the type of accounts that appear to be uniformly negative. So a significant majority of the consumers who acquire a credit history from one of these non-loans likely diminish their access to credit.

The frequency with which credit cards are the entry product for previously credit invisible consumers owes in part to the use of secured credit cards. Unlike traditional credit cards, which are unsecured loans, secured credit cards require

---

[7] The shares in Table 2 do not add to 100 because consumers whose credit records contain only authorized user accounts do not have an entry product. We discuss these consumers in the next section.

TABLE 3:   DISTRIBUTION OF SECURED AND UNSECURED CREDIT CARDS BY AGE GROUP

Age Range	Credit Cards	Unsecured	Secured	% Secured
Under 25	35.6	34.7	0.9	2.5
25 - 29	47.0	40.7	6.3	13.5
30 - 34	46.7	39.6	7.1	15.3
35 - 39	44.7	37.7	7.0	15.6
40 - 44	43.8	37.1	6.7	15.2
45 - 49	41.6	35.6	6.0	14.4
50 - 54	40.4	35.2	5.2	12.8
55 - 59	38.7	34.6	4.1	10.6
60 - 64	35.5	32.3	3.2	8.9
65 - 69	33.7	31.1	2.6	7.7
Total	37.6	35.5	2.1	5.6

consumers to make a cash deposit that they lose if they fail to repay their balance. This deposit reduces the losses to the lender should the borrower default. As a result, some consumers who appear riskier to lenders, which could include the credit invisible, may only be able to obtain credit cards that have been secured.

Table 3 shows the frequency with which the credit cards that served as entry products were secured. As mentioned earlier, overall, credit cards have been the entry product for 37.6 percent of newly credit visible consumers. Of these only 5.6 percent, or 2.1 percent of all consumers in our sample, used a secured credit card as their entry product. The frequency with which secured credit cards were entry products was particularly small for consumers younger than 25, less than 1 percent of whom's entry product was a secured credit card. But across all age ranges, secured credit cards appear to account for a small portion of entry products. The use of credit cards as entry products, therefore, appears to primarily involve unsecured credit cards.

One of the strongest relationships reported in our earlier *Data Point* related to differences in the incidence of credit invisibility across neighborhood income levels.

TABLE 4:   SAMPLE CHARACTERISTICS BY NEIGHBORHOOD INCOME LEVEL

Income Level	Share	Average Age at Visibility	% Visible at 25	% of Invisibles
Low	7.5	25.4	69.5	14.3
Moderate	24.5	24.7	72.8	32.4
Middle	42.2	23.3	79.7	43.2
Upper	25.0	23.5	77.3	10.0
All	100.0	23.9	76.5	100.0

The incidence of credit invisibility declined from 28.9 percent in low-income neighborhoods to 3.6 percent in upper-income neighborhoods.

Table 4 shows some characteristics of our sample broken down by neighborhood income level.[8] The right-most column shows the distribution of the population of credit invisible consumers from our previous *Data Point*. The share of consumers who we observe transitioning out of credit invisibility in our sample from low- or moderate-income neighborhoods is notably below the share of the population of credit invisibles that lives in these neighborhoods, which is consistent with their higher-incidence of credit invisibility. In contrast, the share of transitioners in middle-income neighborhoods is similar to share of the credit invisible population and the share of transitioners from upper-income neighborhoods is substantially above their share of the credit invisible population, which is consistent with the lower incidence of credit invisibility in these neighborhoods.

The statistics in Table 4 also indicate that, among those who transition out of credit invisibility, consumers in low- or moderate-income neighborhoods transition at later ages than consumers in middle- or upper-income neighborhoods. The average age at which consumers in low- and moderate-income neighborhoods acquire their credit history is about 2 years or 1 year older, respectively, than the average age in middle- and upper-income neighborhoods. Moreover, while over 75 percent of consumers in the middle- or upper-income neighborhoods acquired credit histories before they turned 25, the share was notably lower in low- and moderate-income neighborhoods.

---

[8] A small number of observations in our data, 0.8 percent, could not be categorized based on their neighborhood income level. These observations are included in the reported totals. As a result, the shares reported for each income level do not sum to 100 percent.

TABLE 5: DISTRIBUTION OF ENTRY PRODUCTS BY NEIGHBORHOOD INCOME LEVEL

Income Level	% Auto	% Credit Cards	% Mortgage	% Personal	% Retail	% Student	% Collection	% Other
Low	5.8	33.8	0.6	5.0	13.2	12.7	21.5	5.6
Moderate	8.1	35.0	1.0	5.7	14.8	13.5	16.2	3.9
Middle	10.1	35.9	1.1	5.9	14.2	16.6	11.2	2.7
Upper	8.5	44.0	1.0	3.6	13.5	17.7	6.3	1.6
Total	8.9	37.6	1.0	5.3	14.1	15.8	12.0	3.0

The frequency of the different entry products differs across income levels. Perhaps most notably, consumers in lower-income areas are much more likely to have their credit record created as the result of a third-party debt collection account or some other non-loan item, including a public record. In low-income neighborhoods, 27.1 percent percent of consumers have credit records created from these non-loan experiences. In contrast, non-loans are the entry products for only 8 percent of consumers in upper income neighborhoods. This means that consumers in low-income neighborhoods are 3 times as likely to acquire their credit history from a non-loan. Since these experiences are generally treated as derogatory events, this suggests that consumers in lower-income neighborhoods are more likely to start their credit records with unfavorable items.

Significant differences also exist in the entry products that create credit records. Consumers in higher-income areas are more likely to acquire their credit records from student loans or credit cards. In particular, credit cards are much more frequently entry products in upper-income neighborhoods, where they serve as the entry product for 44 percent of consumers who transition out of credit invisibility.

4. The Role of Co-Borrowers

4.1 Introduction

One way that credit invisible consumers may be able to become visible is by relying on friends or relatives. There are two primary ways that credit invisible consumers can enlist others to help establish a credit history. The first of these is to apply for credit jointly with someone else who has already acquired a credit history. The second is to become an "authorized user" on someone else's account. In this section, we discuss these two paths and evaluate how often consumers seem to follow each in acquiring a credit history.

4.2 Joint Accounts

A lender that is unwilling to extend credit to someone without a credit history may be willing to make a loan to the same consumer if someone else with a credit history co-signs the loan. In such cases, when the account is opened, it is reported for both account holders, thus creating a credit record for the previously credit invisible consumer.

To explore how often co-borrowers appear to help the transition out of credit invisibility, we identify whether the entry product of each consumer in our sample

TABLE 6:   PERCENT OF ENTRY PRODUCTS THAT INVOLVE CO-BORROWERS
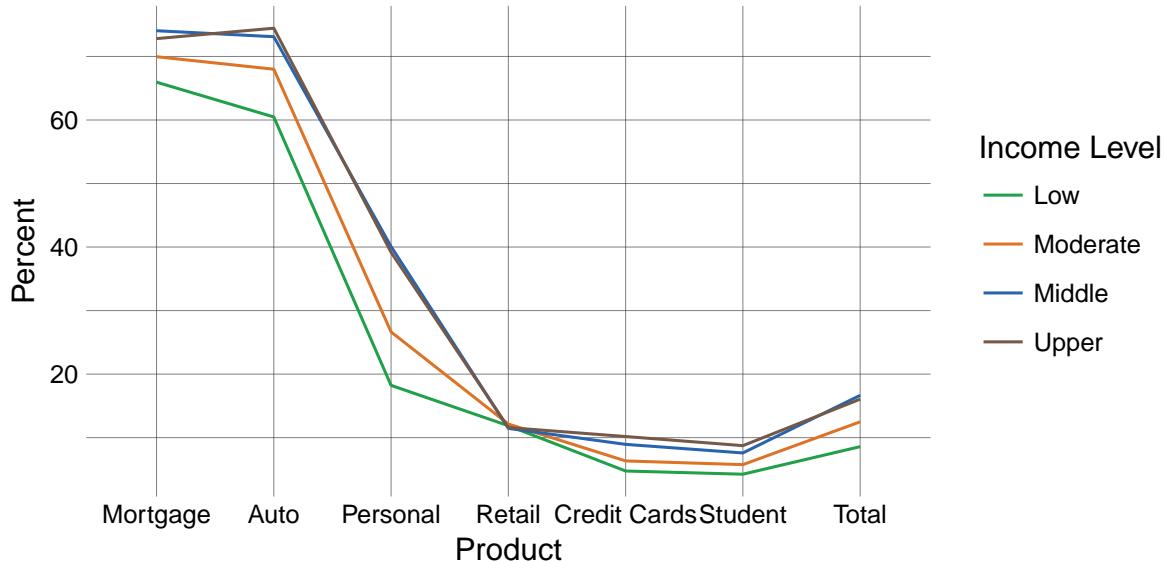
Age Range	Auto	Credit Cards	Mortgages	Personal	Retail	Student	Total
Under 25	74.9	8.8	76.2	36.7	10.6	7.3	15.1
25 - 29	62.4	6.0	71.7	24.7	17.4	8.7	13.5
30 - 34	56.9	6.2	68.1	23.0	17.8	8.4	13.1
35 - 39	56.5	7.3	69.3	26.3	15.1	7.4	13.9
40 - 44	58.7	7.7	68.1	28.0	14.2	4.6	14.5
45 - 49	59.9	7.9	68.0	30.3	10.6	8.5	14.2
50 - 54	61.6	9.4	72.1	34.9	10.8	13.7	15.5
55 - 59	61.8	10.4	72.1	32.0	10.9	17.2	15.6
60 - 64	57.4	13.5	74.9	36.3	15.8	15.9	18.2
65 - 69	61.7	14.8	68.8	37.9	9.4	12.5	17.4
Total	71.6	8.4	72.3	34.6	11.7	7.3	14.9

was opened by the consumer alone or whether it was jointly held. Since co-borrowers are only relevant for loans, we exclude consumers whose entry products were not loans.

Table 6 shows the share of each of the loan entry products that were opened with a co-borrower by age cohort. Overall, 14.9 percent of those transitioning out of credit invisibility did so by opening an account with someone else. Almost three-quarters of auto loans and mortgages that are entry products involve a co-borrower (with an even higher rate for consumers under 25). For other loans, the shares are much lower. In particular, for the two most commonly entry products, credit cards and student loans, less than 10 percent of earliest credit experiences involve a co-borrower.

The prevalence of jointly held accounts as entry products differs significantly across neighborhood income levels. Figure 1 shows the share of each loan product that was jointly held for each of four relative income levels. To make the figure easier to read, we have ordered the products from highest joint share to lowest. The data in this graph indicate that there is little difference in the prevalence of jointly held entry products between consumers in middle- and upper-income neighborhoods. In contrast, the share of entry products that are jointly held is lower in

FIGURE 1:   SHARE OF ACCOUNTS THAT ARE JOINTLY HELD BY LOAN TYPE

moderate-income neighborhoods and lowest in low-income neighborhoods. This pattern holds across all of the credit products, except for retail loans where all four income groups are about equally likely to acquire a credit record from a joint account.

These differences in low- or moderate-income areas are somewhat striking. One might expect consumers in lower-income neighborhoods to have fewer financial resources and, therefore, have a harder time documenting their creditworthiness to lenders. One option that may exist for applicants on the margin of creditworthiness is to have someone else co-sign the loan. Given this, one might expect the use of co-borrowers to be higher in lower-income neighborhoods all else equal; however, the fact that we observe the opposite pattern suggests that consumers in lower-income neighborhoods may have fewer potential co-borrowers to rely on and that this may be inhibiting their ability to transition out of credit invisibility and contributing to the higher incidence of credit invisibility in lower-income neighborhoods.

While only a small portion, 15 percent, of consumers who become credit visible have an entry product that is jointly held, the differences observed indicate that a lack of co-borrowers may be an important contributor to credit invisibility in low- and moderate-income neighborhoods. Consumers in these neighborhoods are 48 percent and 25 percent less likely, respectively, than consumers in middle-income neighborhoods to transition out of credit invisibility via a loan that was jointly held.

4.3 Authorized Users

An "authorized user" is someone who an account holder allows to access their revolving account, most often a credit card, without the authorized user assuming any legal liability for charges incurred. This has frequently been used to provide family members with a means to pay for goods and services or to help teach children about credit.

As discussed in detail by Brevoort, Avery, and Canner (2013), the credit histories for accounts with authorized users are reported to the NCRCs both for account holders and for any authorized users. Regulation B requires that, when using credit history to evaluate creditworthiness, lenders consider the history of accounts on which the applicant is an authorized user, when available, *if* one of the account holders is the authorized user's spouse. Because credit records do not indicate whether an authorized user is a spouse, lenders generally over comply with these requirements and consider all of the accounts on which an applicant was an authorized user when assessing creditworthiness.

A person may be designated as an authorized user at the time the account is opened or at some point thereafter. Once they have been added, the entire history of that account is reflected on the authorized user's credit record. So if an 18-year-old is added as an authorized user to her parent's 20-year-old credit card, her credit record will almost immediately acquire 20 years of account history. In addition to its intended use of providing others with a means of payment, authorized user account status may allow portions of someone else's credit history to be passed on to the authorized user.[9]

Some credit invisible consumers, therefore, may acquire a credit history by becoming an authorized user on someone else's account. In this section, we explore how often consumers acquire a credit history in this way. As we mentioned earlier, our analysis so far has focused exclusively on the earliest reported credit experiences where the consumer was not an authorized user. In part, this decision was motivated by the

---

[9] Newer versions of some credit scoring models, such as the FICO score, have altered how they treat authorized user accounts so that the history on these accounts does not contribute as much to a consumer's credit score as would an account in the consumer's own name with similar characteristics.

TABLE 7:   SHARE OF CONSUMERS WITH AN AUTHORIZED USER ACCOUNT (AUA)

Age Range	% with AUA	% Entry Via AUA	Mean AUA Age	Median AUA Age
Under 25	18.3	9.2	5.4	2.1
25 - 29	20.6	14.8	2.3	0.3
30 - 34	22.3	16.4	2.5	0.2
35 - 39	21.8	16.3	2.7	0.3
40 - 44	21.3	16.0	3.5	0.6
45 - 49	21.3	16.0	3.8	0.6
50 - 54	23.4	17.6	4.4	0.8
55 - 59	24.7	19.8	4.7	1.1
60 - 64	24.0	19.1	5.3	1.8
65 - 69	24.3	19.3	5.1	1.5
Total	19.1	10.9	4.7	1.4

difficulty in determining when an account was first added to a consumer's credit record.

The credit records used in this study include a variable that indicates the date the account was first reported on the consumer's credit record. But this variable is only available for archives after 2009. For earlier archives, we are able to approximate this date by looking at the number of months of payment history that have been reported on accounts. While this method works well for accounts in the consumer's name, it is unreliable for authorized user accounts where the authorized user immediately acquires the entire payment history of the account.[10] Therefore, we limit the analysis in this section to data derived from archives from 2010 to 2016.

Table 7 provides information about the presence of authorized user accounts on the credit records of consumers in our sample. Overall, 19.1 percent of consumers had at least one account on their credit record on which they were an authorized user. Authorized user accounts were more common among younger consumers,

---

[10]This method may also be unreliable if a consumer is added as a co-borrower to an existing account. Our analyses suggest that this is rare and should not materially affect our results.

TABLE 8: SHARE OF CONSUMERS WITH AN AUTHORIZED USER ACCOUNT (AUA) BY NEIGHBORHOOD INCOME LEVEL

Income Level	% with AUA	% Entry Via AUA	Mean AUA Age	Median AUA Age
Low	11.6	6.9	3.3	0.6
Moderate	14.2	7.9	3.5	0.7
Middle	18.0	9.7	4.4	1.2
Upper	26.9	16.1	5.6	2.1
Total	19.1	10.9	4.7	1.4

particularly those younger than 25, of whom 18.3 percent had at least one authorized user account.

Overall, over half of consumers with an authorized user account had their credit records created as a result of one of those accounts. In our sample overall, 10.9 percent of consumers had an authorized user account that was added to their credit record before their entry product (as we have defined the term) meaning that their authorized user account caused them to transition out of credit invisibility. The amount of credit history these consumers acquired varied significantly across age groups. The fourth column of Table 7 shows the average age in years of the authorized user accounts that triggered the creation of someone's credit record at the time the authorized user account was first reported. On average consumers younger than 25 acquired about 5 years of account history as soon as the account was added. While account histories were generally lower than this for other age groups, at least 2 years of account history was gained on average in all cases.

There are significant differences in the prevalence of authorized user accounts across neighborhood income levels. Newly-visible consumers in lower-income neighborhoods were less likely than those in higher-income neighborhoods to have at least one authorized user account on their credit records. They were also less likely to have their earliest-reported credit experience be an authorized user account, which means that consumers in lower-income neighborhoods were less likely acquire a credit record by becoming an authorized user on someone else's account. Moreover, among consumers whose credit record was created by an authorized user account, consumers in lower-income neighborhoods tend to acquire shorter credit histories.

The patterns in the presence of authorized user accounts across income levels largely mimic the patterns we observe for joint accounts. For the most part, the consumers whose credit records were created by authorized user accounts do not appear to be the same consumers whose entry product was opened with a co-borrower. Of the 10.9 percent of consumers who had an authorized user account appear on their credit record before any other item, only 1-in-9 opened their entry product with a co-borrower. Combined with our earlier estimates on the use of co-borrowers, this implies that about 24.5 percent of consumers transitioned out of credit invisibility by relying in whole or in part on the creditworthiness of others.[11] Notably, this percentage was significantly lower for consumers in low-income neighborhoods, where 14.9 percent relied on the creditworthiness of others, than it was for consumers in upper-income neighborhoods (30.3 percent).

---

[11]The 24.5 percent estimate is equal to the share of consumers whose entry product involved a co-borrower, plus the portion of the population whose earliest reported credit experience was as an authorized user on someone else's account and whose entry product did not involve a co-borrower. We exclude from the latter number the more than 1-in-9 consumers whose credit record was created by an authorized user account whose entry product did not involve a co-borrower to avoid double counting.

5. Changes Over Time

This study is based on the experiences of consumers who transitioned out of credit invisibility roughly since the turn of the century. Because it was a period that encompassed an array of macroeconomic environments with substantially different levels of credit tightness, the transition out of credit invisibility may have been more or less difficult at different periods. For example, during the Great Recession, when credit conditions were relatively tight, consumers may have had a harder time qualifying for the loans that could trigger the creation of a credit record than did similar consumers during periods with looser credit standards.

To better understand how the transition out of credit invisibility has changed over time, we analyze differences in transitions across the birth-year cohorts in our sample. Because we do not possess data on the consumers who did not acquire a credit record, we are not able to investigate how the tendency to transition out of credit invisibility changed over time. Consequently, our analysis is limited to investigating the ways people transitioned out of credit invisibility changed over time.

Figure 2 shows the share of each entry product type for each age group using the data from each archive from 2006 to 2016. This allows us to compare the outcomes in different birth-year cohorts and provides a view at how credit usage patterns changed over the time period we examine. For example, the green line in the upper-left panel of the figure shows the share of people who acquired a credit record before they turned 25 whose entry product was an auto loan, as reflected in each

archive from 2006 to 2016. This allows us to compare the experiences of consumers in this age range born in each year from 1982 to 1992.

Perhaps the most significant change exhibited in Figure 2 is the growth in the share of consumers whose entry product was a credit card. Our earlier results established that credit cards are the most frequent entry product. The patterns across birth-year cohorts highlight that their prevalence has grown significantly in the last 11 years, from a little under 40 percent for most age groups in the 2006 archive to around 60 percent for most age groups in the 2016 archive.

Consumers who transitioned out of credit invisibility before turning 25 are a notable exception to this trend. Among these consumers, the share whose entry product was a credit card has fallen slightly. Using data on consumers under 25 from the 2006 archive, which reflects the 1982 birth-year cohort, credit cards were the entry product for 40.2 percent of consumers, a higher share than for any other age group at that time. By 2016, the share of consumers under 25 (the 1992 birth-year cohort) whose entry product was a credit card had fallen to 32.5 percent, significantly lower than the share for any other age groups.

There are several possible, non-mutually-exclusive explanations for the declining pattern among consumers younger than 25. First, the decline could reflect the greater use of student loans by young consumers whose entry product otherwise would have been a credit card. Figure 2 shows that the share of consumers younger than 25 whose entry product was a student loan increased more rapidly than it did for any other age group. This growth in student loans as an entry product could explain the fact that we do not observe the same growth in credit cards as an entry product that we observe for consumers 25 and older.

To test this, we determined for each consumer under 25 the earliest reported account that was *not* a student loan. We refer to this product for each consumer as their *simulated entry product*. Figure 3 shows the share of these young consumers whose simulated entry product was a credit card. The share of consumers under 25 whose simulated entry product was a credit card declined somewhat over the time period. The decline is not as substantial as the the decline we observe for credit cards as an entry product. So some of the decline in credit cards as an entry product among the young appears to reflect the growing share of student loans. However, the fact that

FIGURE 2: ENTRY PRODUCT TYPE BY ARCHIVE YEAR
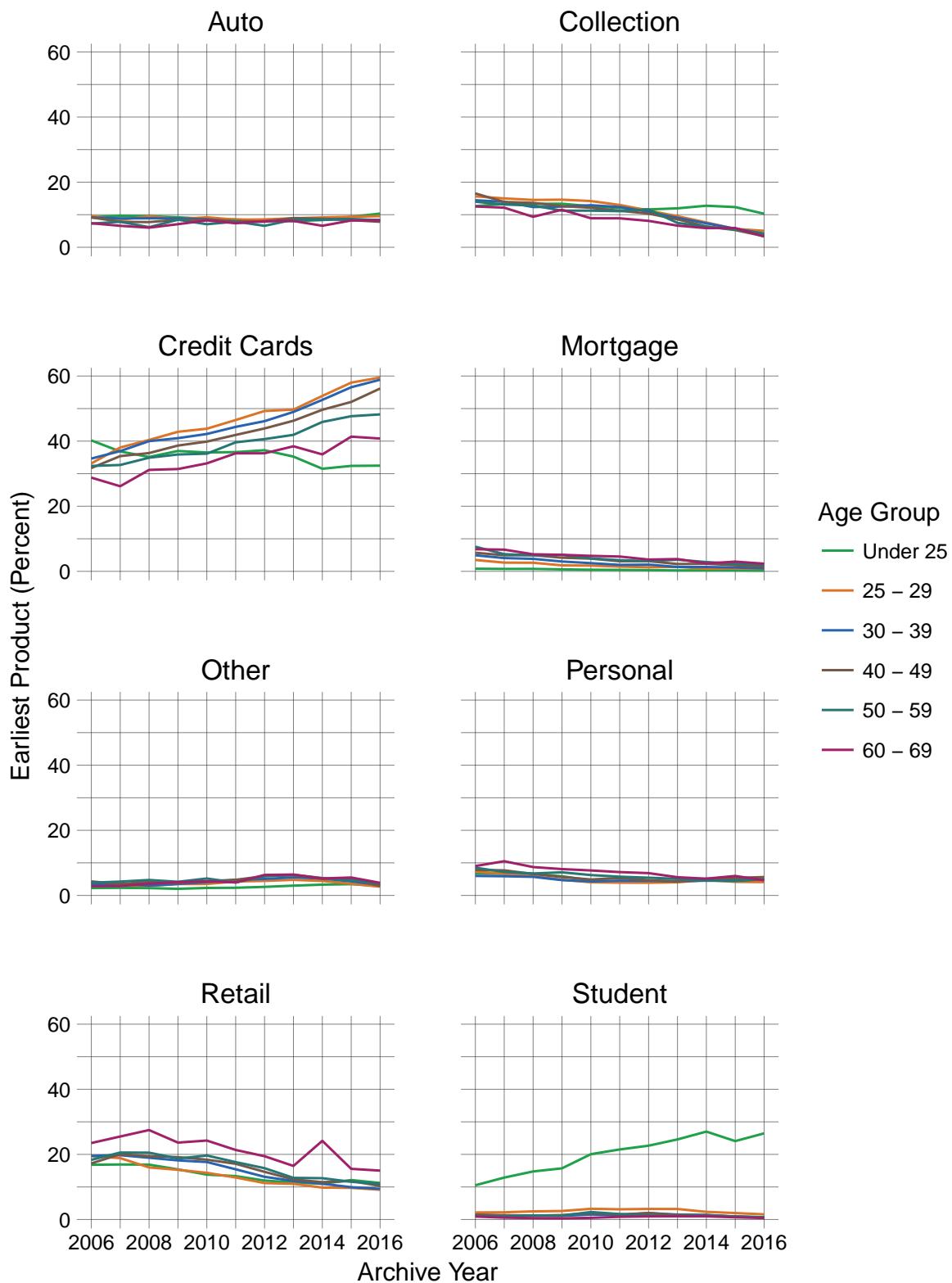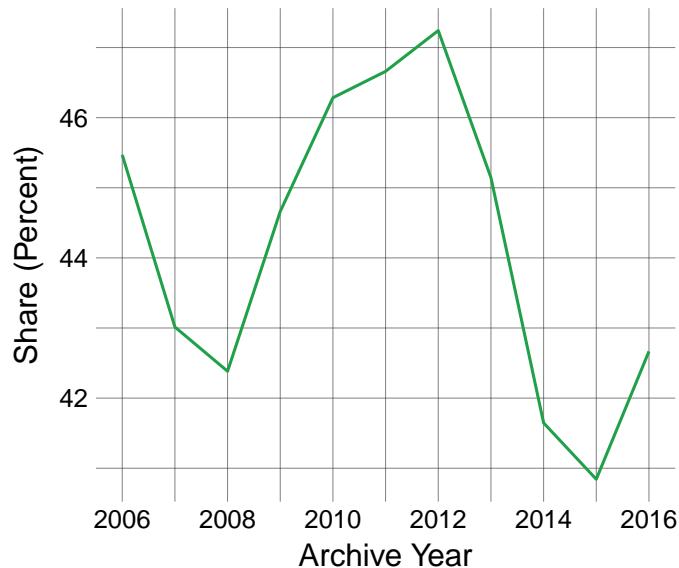
FIGURE 3:   SHARE OF CONSUMERS UNDER 25 WHOSE SIMULATED ENTRY PRODUCT WAS A
CREDIT CARD
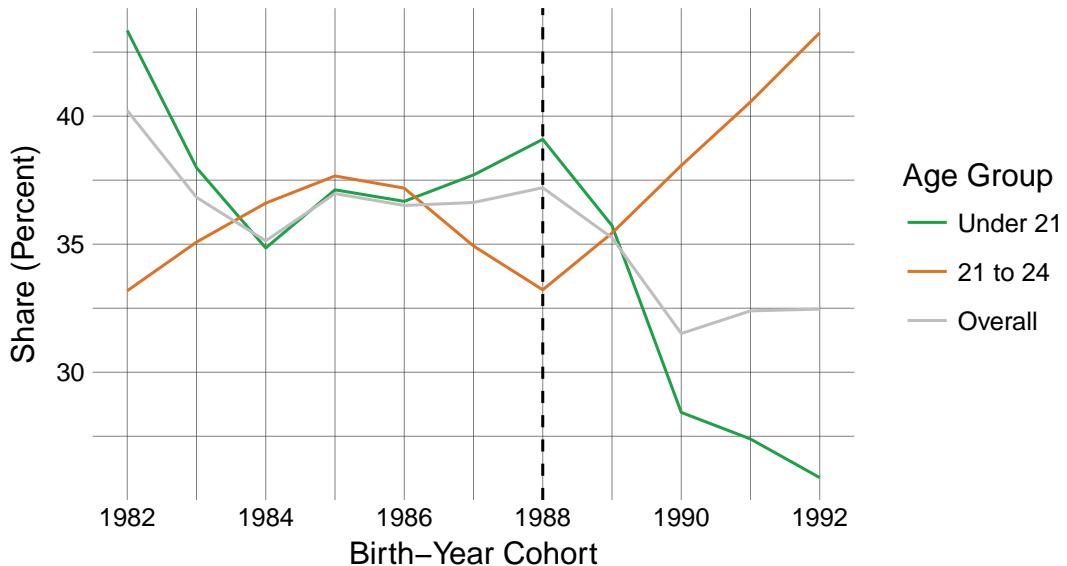
the share of young consumers whose simulated entry product has been declining
implies that the difference that we observed in the growth of credit cards as an entry
product between consumers transitioning out of credit invisibility before 25 and at
later ages cannot be explained by the increased use of student loans alone.[12]

A second possibility is that credit cards are less available to young consumers then
they were in the past. One of the important changes to the credit card industry that
took place during the time period we are examining was passage of the Credit Card
Accountability Responsibility and Disclosure Act (CARD Act). Among its provisions
was a requirement that consumers under the age of 21 who apply for a credit card
either obtain a qualified co-signer over age 21 or submit information indicating that
they have an independent means to make the required payments on an account. The
CARD Act also contains provisions establishing certain restrictions on the marketing
of credit cards on or near college campuses or at college-sponsored or college-related
events.

If these provisions of the CARD Act were an important factor in explaining the
decrease in the extent to which credit cards are entry products for young consumers,
we would expect the decline to primarily be among consumers younger than 21. To

---

[12]We cannot exclude the possibility that consumers may have substituted student loans for credit cards.

FIGURE 4: CREDIT CARD ENTRY PRODUCT SHARE FOR CONSUMERS UNDER 25 BY BIRTH-YEAR COHORT

investigate this, we divide consumers in our data who acquired a credit record before turning 25 into two groups: those who acquired a credit record before turning 21 and those who acquired a credit record when they were 21 to 24. The figure below shows the share of consumers in these two subgroups whose entry product was a credit card.

The CARD Act's requirements regarding lending to consumers under the age of 21 went into effect in February 2010. Consumers who turned 21 before 2010, which corresponds to birth-year cohorts of 1988 or earlier, should have been completely unaffected by these requirements. Later birth-year cohorts (those to the right of the dashed line in the figure) would have been subject to the increased restrictions for at least a portion of their adult lives.

For the birth-year cohorts that were not subject to the CARD Act's requirements regarding lending to consumers younger than 21, there is little evidence of any trend in the usage of credit cards as entry products either for consumers under 21 or 21 to 24. However, among the cohorts that were subject to these restrictions, there are divergent patterns. There was a substantial decrease in the extent to which credit cards serve as entry products among consumers under 21 and a substantial increase among those aged 21 to 24. This pattern is consistent with consumers subject to the

CARD Act delaying taking out their first credit cards until after they turned 21, which is consistent with Congress's intent to limit credit availability to these consumers.[13] The decline in the overall frequency with which credit cards served as entry products among the post-CARD-Act cohorts further suggests that some of the consumers who postponed taking out their first credit card likely acquired a credit record from a different entry product.

By itself, the CARD Act is insufficient to explain the declining share of credit cards as entry products. Even among the birth-year cohorts that turned 21 before the CARD Act requirements were effective, the share whose credit record was created as the result of a credit card was holding steady (or possibly declining slightly) while it was increasing for older consumers. This suggests a third possible explanation. The millennial generation of consumers, which includes birth years from 1981 to 1997, may have a less favorable view of credit to fund purchases and may be eschewing credit cards in favor of debit cards or paying in cash.[14] Given that our data on consumers who transitioned out of credit invisibility before they turned 25 only includes the 1982-1992 birth-year cohorts, we are unable to compare the experiences of millennials to earlier birth-year cohorts to better understand how much of the observed differences are generational. Nevertheless, the use of credit cards as an entry product for younger consumers appears to have decreased to an extent that cannot be fully explained by the increased usage of student loans or the CARD Act's restrictions alone.

5.1 Changes in Time by Neighborhood Income Level
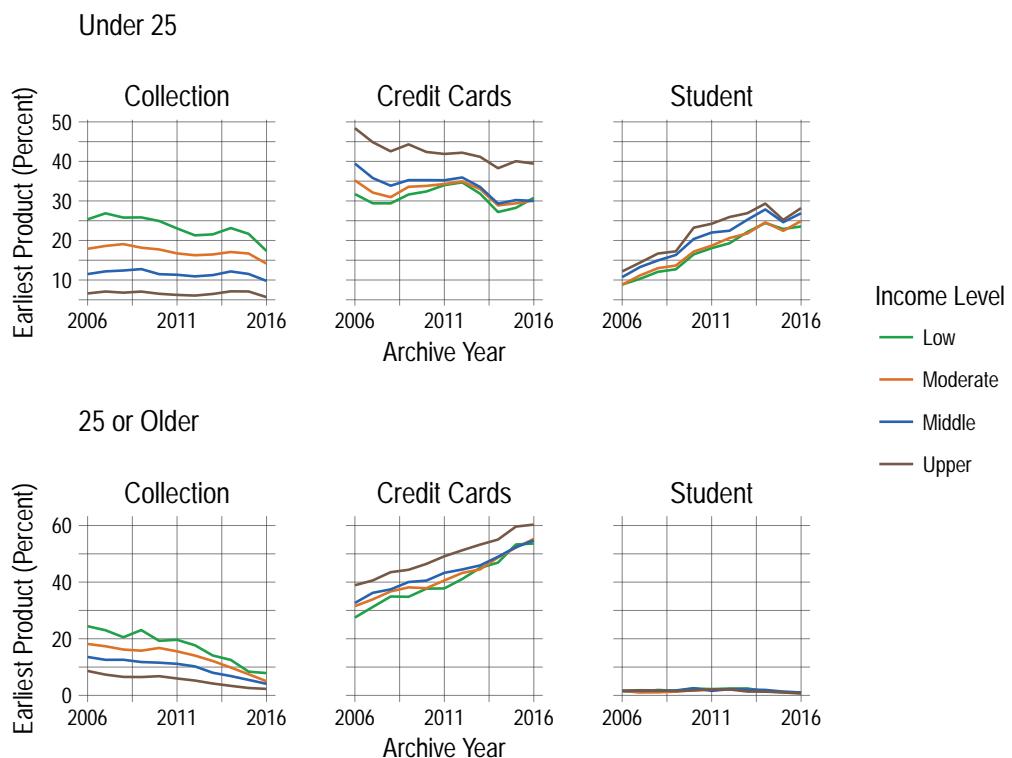
Our earlier results showed that there were some differences in the ways consumers were acquiring credit histories across neighborhood income levels. Among these differences was the frequency with which the credit records of consumers in lower-income communities were created by a third-party collection account, a credit

---

[13]For more information on the CARD Act's effects, see Consumer Financial Protection Bureau (2013) and Consumer Financial Protection Bureau (2015).
[14]The reduction in the use of credit cards by millennials has been documented by Popper (2016) and Skowronski (2014).

card, or a student loan. Figure 5 shows how these patterns changed over the time period of our study for the four neighborhood income levels. For simplicity, the results are presented for only two age groups: consumers younger than 25 and consumers 25 and older.

FIGURE 5:   CHANGES OVER TIME IN SELECT ENTRY PRODUCTS BY INCOME LEVEL

The results indicate that the differences across income levels we noted earlier in the role of these three products helping consumers transition out of credit invisibility has largely remained constant over time. The share of consumers whose entry product was a credit card was decreasing for all four income levels among consumers under 25 and increasing for all four among consumers 25 or older.[15] This suggests that the differences discussed earlier regarding the means by which consumers acquire credit histories across neighborhood income levels appear to persist across the time periods included in this study.

---

[15]For the products not shown in Figure 5, the differences across neighborhood income levels remained minimal across archive years.

6. Conclusion

Most consumers, at some point in their lives, transition out of credit invisibility. In this study, we examine the de-identified credit records of over 1 million consumers who made this transition. Of these consumers, over 20 percent had credit records that were acquired with the help of someone else, either as the result of an account they opened with a co-borrower (who may already have had a credit history) or as a result of the consumer becoming an authorized user on someone else's account. Another 15 percent, roughly, first acquired their credit history as the result of a non-loan, such as a collection account or a public record. But the remaining consumers, about 65 percent, appear to have transitioned out of credit invisibility by opening an account by themselves despite their lack of a credit history.

Unfortunately, the data used in this study, which are limited to the de-identified credit records of consumers who made the transition, are insufficient to further investigate why some consumers are able to make the transition and others are not. But the fact that only some credit invisible consumers appear able to make this transition suggests that there may be some, presently unobservable, characteristics that lenders are using to make loans to some credit invisible consumers but not others.

Understanding what these characteristics are may have important implications for efforts to promote credit visibility. For example, perhaps some commercial banks are willing to lend to credit invisible consumers with whom they have existing deposit account relationships. In this case, the differences in the incidence of credit

invisibility between higher- and lower-income neighborhoods may reflect the greater tendency of consumers in the latter to be unbanked. Moreover, it would imply that the problems posed by credit invisibility might be mitigated by promoting access to banking services in lower-income communities. Additional research on the processes being used to underwrite loans for credit invisible consumers may help illuminate potential approaches to reducing credit invisibility.

Some of the same problems that confront credit invisible consumers will also affect consumers whose credit records contain little information. In this study, we have used a strict definition of *credit invisibility* that only considers consumers without any credit history.[16] In our previous *Data Point* we also focused on a second group, consumers whose credit records could not be scored by a widely-used credit scoring model either because their records did not contain enough information or because they contained no recent information. Consumers with *unscored* records may face many of the same hurdles in obtaining credit as people who are credit invisible. In future research, we hope to investigate the challenges confronting consumers with unscored credit records, including examining how often consumers with credit records lapse back into credit invisibility.

Our analysis has also focused narrowly on the ways that consumers first acquire a credit history, without regard to whether that history would suggest to prospective lenders that they are "good" or "bad" credit risks. This distinction, however, has important implications for the consumer's access to credit. A consumer who acquires a credit history from a negative item, such as a collection account or delinquent loan, may not have enhanced their access to credit despite no longer being credit invisible; in fact, they may have a harder time finding willing lenders because of the negative information. In future research we also hope to delve deeper into the characteristics of credit records as they make the transition out of credit invisibility and thereafter.

---

[16]As discussed in section 3, this includes credit records that contain only credit inquiries.

References

Brevoort, Kenneth P., Robert B. Avery, and Glenn B. Canner (2013). Credit Where
   None is Due? Authorized User Account Status and 'Piggybacking Credit'. *Journal
   of Consumer Affairs* 47.3, 518–547.

Brevoort, Kenneth P., Philipp Grimm, and Michelle Kambara (2015). *Credit
   Invisibles*. Consumer Financial Protection Bureau Data Point. Washington, DC.
   Available online at http://files.consumerfinance.gov/f/201505_cfpb_data-
   point-credit-invisibles.pdf.

Consumer Financial Protection Bureau (2013). *CARD Act Report*. Tech. rep.
   Washington, DC. Available online at
   http://files.consumerfinance.gov/f/201309_cfpb_card-act-report.pdf.

Consumer Financial Protection Bureau (2015). *The Consumer Credit Card Market*.
   Tech. rep. Washington, DC. Available online at
   http://files.consumerfinance.gov/f/201512_cfpb_report-the-consumer-
   credit-card-market.pdf.

Popper, Nathaniel (2016). Already Loaded with Debt, Young Americans Shun More.
   New York Times August 15.

Skowronski, Jeanine (2014). More Millennials Say 'No' to Credit Cards.
   Bankrate.com September 8.