CONSUMER FINANCIAL PROTECTION BUREAU | JULY 2020

Financially Fit?

Comparing the credit records of young servicemembers and civilians

EXECUTIVE SUMMARY

Consumer Financial Protection Bureau

Financial well-being, including credit history, is an important consideration in an individual's ability to join the military as well as his or her ability to maintain a security clearance and continue in military service. Although prior surveys have provided a picture of servicemembers' overall financial situations, these surveys are generally self-reported and non-representative. The following report uses a representative sample of young servicemembers' credit reports and tracks their credit histories from the time they turn 18 until their mid-twenties. It also compares servicemembers to a cohort of same-age civilians. The analyses show how credit records co-evolve with military service.

The data used for this report come from the Consumer Financial Protection Bureau's (CFPB) Consumer Credit Panel (CCP), a random sample of de-identified credit records purchased from one of the three nationwide consumer reporting agencies (NCRAs). The NCRA merged credit report information from the CCP to information about dates of active duty from the Servicemember Civil Relief Act (SCRA) database managed by the U.S. Department of Defense (DoD). The SCRA database identifies people who have served on active duty at any point since 1985. The analysis utilizes a seven-year observation window to follow de-identified consumers who were born from 1989 through 1992, from age 18 through age 24. The sample comprises a total of 296,004 people, of whom 10,647 (3.6 percent) joined active duty during the observation window. Calculations from DoD statistics suggest that only a small fraction of this group joins active duty after age 24, meaning that this primarily comprises civilians who are never full-time active duty.

The report disaggregates the credit record data in two ways: based on the age at which servicemembers enter active duty and based on the time they spend in active duty. In general, the results show that the servicemembers who remain in the military have healthy credit records and are managing their debt well, even when compared to civilians. Many of those who leave military service, particularly those who leave within three years, run into problems. Although these problems may develop during active duty, they grow in the years after the servicemembers leave. The characteristics of these servicemembers, and the causes of their debt management problems, are not observable given the available individual-level information used in this study, but could be analyzed with future research.

The key conclusions are:

- **Young servicemembers use different forms of credit than civilians**, and their usage depends on the timing of military service. Servicemembers tend to take out auto loans and open revolving accounts soon after joining the military. They then often take out student loans soon after leaving. Compared to civilians overall, between ages 18 and 24 servicemembers are more likely to have an auto loan or a credit card, slightly more likely to have a mortgage, and less likely to have a student loan or a third-party collections account (Table S.1).

- **The consumers most likely to have problems with debt are those who join the military by age 21.** Approximately 30 percent of those who join by age 21 have a *deep subprime* score at age 24 (Figure S.1). Among those who join at age 22 or 23 (which includes officers), 33 percent have a *super-prime* credit score at age 24. In many cases, poor credit scores are due to delinquencies and defaults after leaving active duty, rather than during service.

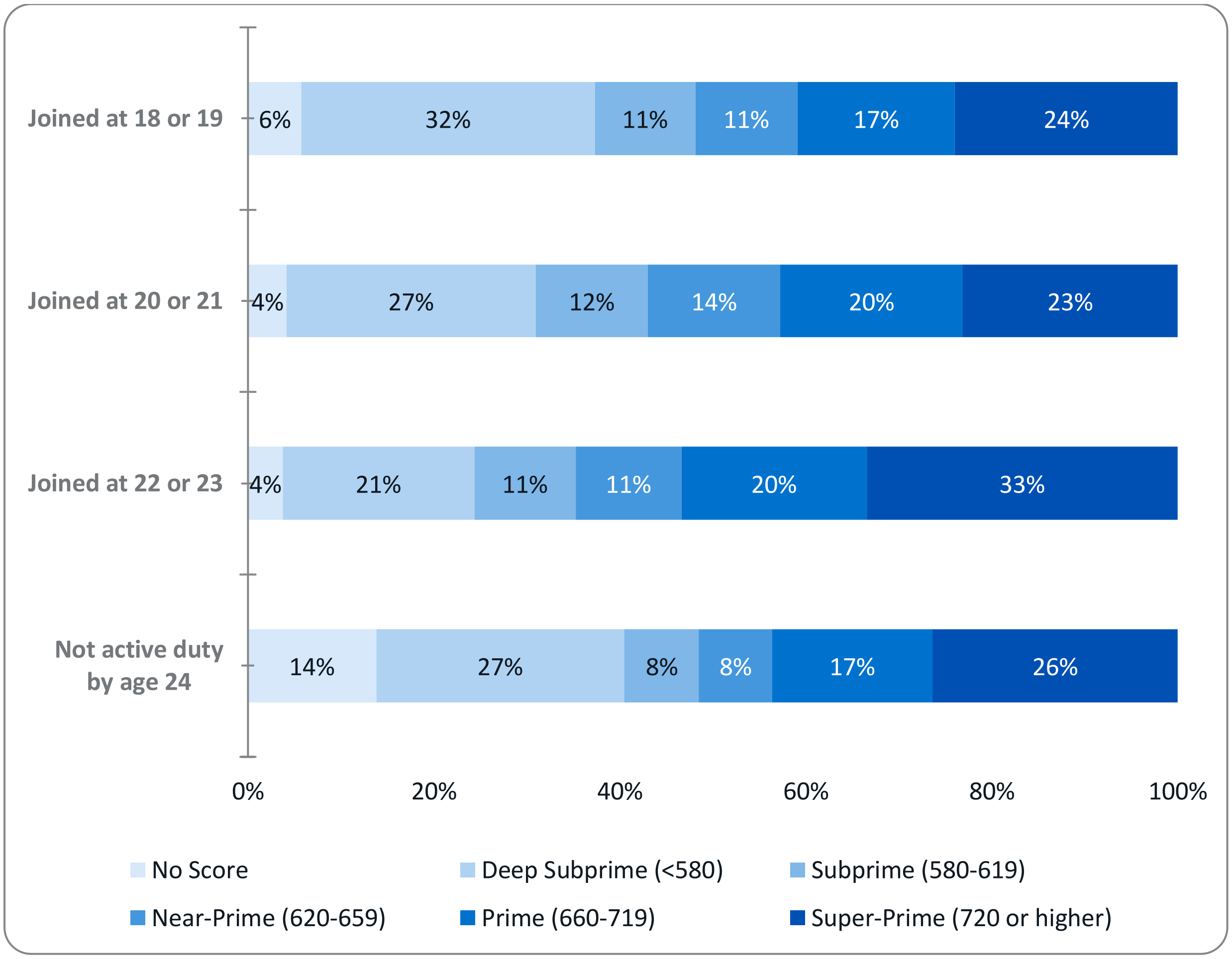
- **Individuals with one credit issue often have several issues at once**. For example, in the sample as a whole, 63 percent of 24 year-olds with a 90-day delinquency on auto debt also have a 90-day delinquency on revolving debt (such as a credit card), and 32 percent have medical debt in collections (Figure S.2).

TABLE S.1: PERCENTAGE OF CONSUMERS WITH VARIOUS TYPES OF CREDIT ACCOUNTS BETWEEN AGES 18 AND 24

	Auto Loan	Mortgage	Student Loan	General-Purpose Credit Card	Retail Credit Card	Third-Party Collections Account
Entered active duty prior to age 24	73%	7%	26%	80%	62%	37%
Did not join active duty by age 24	39%	5%	45%	69%	46%	41%

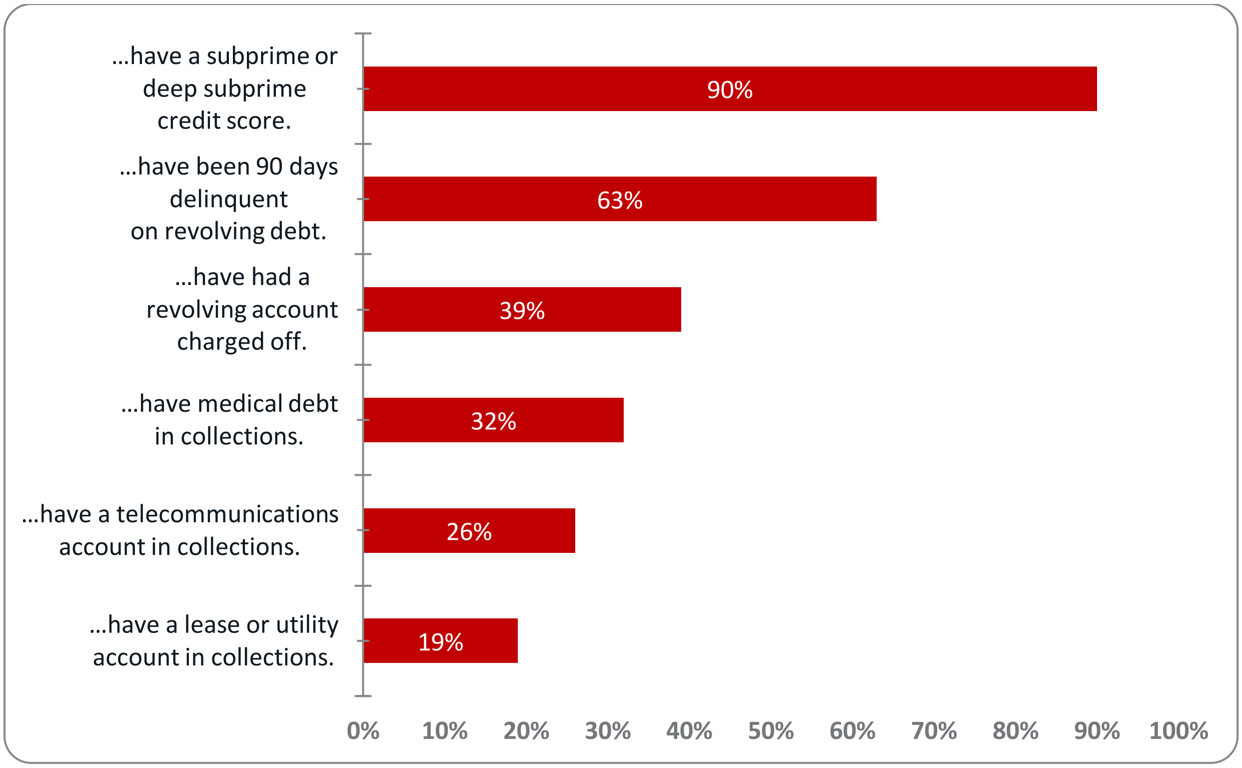
Source: Authors' calculations from CFPB's CCP merged to the DoD SCRA database. The table shows the percent of individuals who ever had each type of account at any time between ages 18 and 24.

FIGURE S.1: CREDIT SCORE AT AGE 24, BY AGE AT ENTRY INTO ACTIVE DUTY



Source: Author's calculations from CFPB's CCP merged to the DoD SCRA database. Percentages may not add to 100 percent due to rounding. Credit scores in the CCP are from a commercially available credit scoring model.

FIGURE S.2: OF ALL BORROWERS WHO HAVE BEEN <u>90 DAYS DELINQUENT</u> ON AN AUTO LOAN BY AGE 24, THE PERCENTAGE WHO ALSO…



Source: Authors' calculations from CFPB's CCP. Sample consists of all individuals who had been 90 days delinquent on an auto loan by age 24. N=7,402.

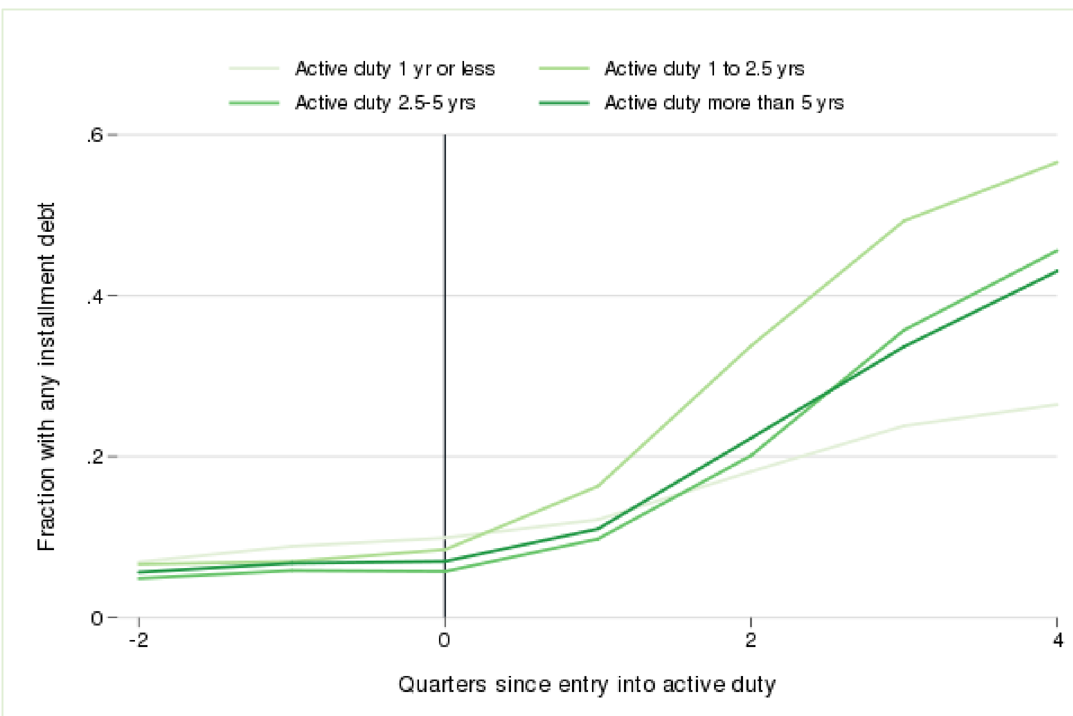
Those who join the military at younger ages develop worse credit records, on average, than other consumers by age 24. But there is still a great deal of heterogeneity among these young enlistees. Further investigating these broad findings, the report shows that length of service is correlated with creditworthiness.

- **Those who serve less than one year have debt levels similar to civilians, but with worse delinquency rates.** Those who enter active duty by age 19, but serve less than one year, build up less installment debt than those who stay longer (Figure S.3). Nevertheless, they experience an average decrease in credit score of more than 20 points in the six months following separation (Figure S.4). Although their debt levels at each age are similar to civilians', their credit scores at age 24 are worse due to higher rates of delinquency and default (Figure S.5).

- **Those who serve between one and 2.5 years accrue the most debt soon after joining and end up with the highest delinquency rates by age 24.** These servicemembers likely separate before the end of their first contract but accumulate debt more quickly than those who stay longer (Figure S.3). Most of this debt is made up of auto loans. From two quarters prior to two quarters after their separation from the military, their credit score drops by an average of 60 points (Figure S.4). By age 24 they have the highest delinquency and vehicle repossession rates of any group, as evidenced by their credit scores: 58 percent have a deep subprime credit score (Figure S.5).

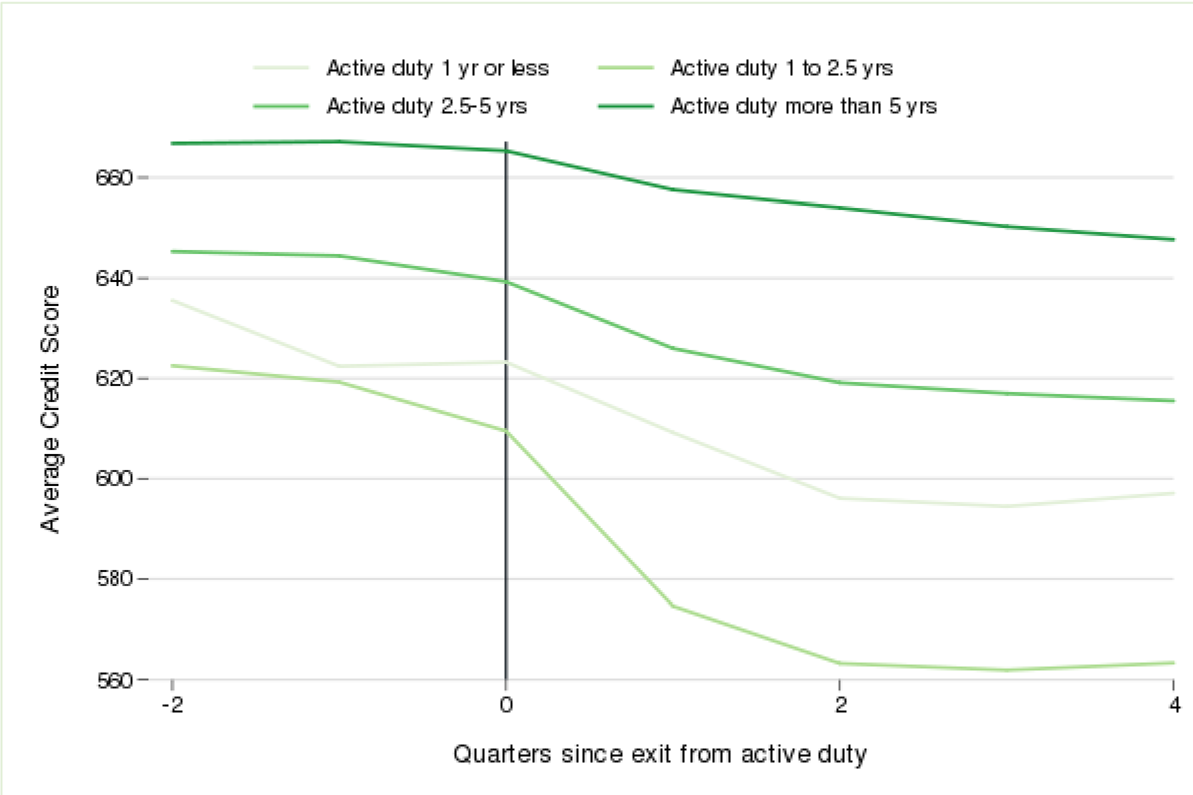
- **Those who remain in service for at least five years have the healthiest credit records by age 24, even compared to civilians.** These servicemembers also accrue installment debt (Figure S.3) and open revolving accounts shortly after joining the military but maintain higher credit scores than other groups. Those in this group who exit the military during the observation window do experience a decrease in credit score after separation of about 20 points (Figure S.4) but overall, by age 24 this group of servicemembers who stay for at least five years has even better credit scores than civilians (Figure S.5).

FIGURE S.3: INSTALLMENT DEBT BALANCE AROUND TIME OF ENTRY INTO ACTIVE DUTY, BY EVENTUAL TIME IN SERVICE



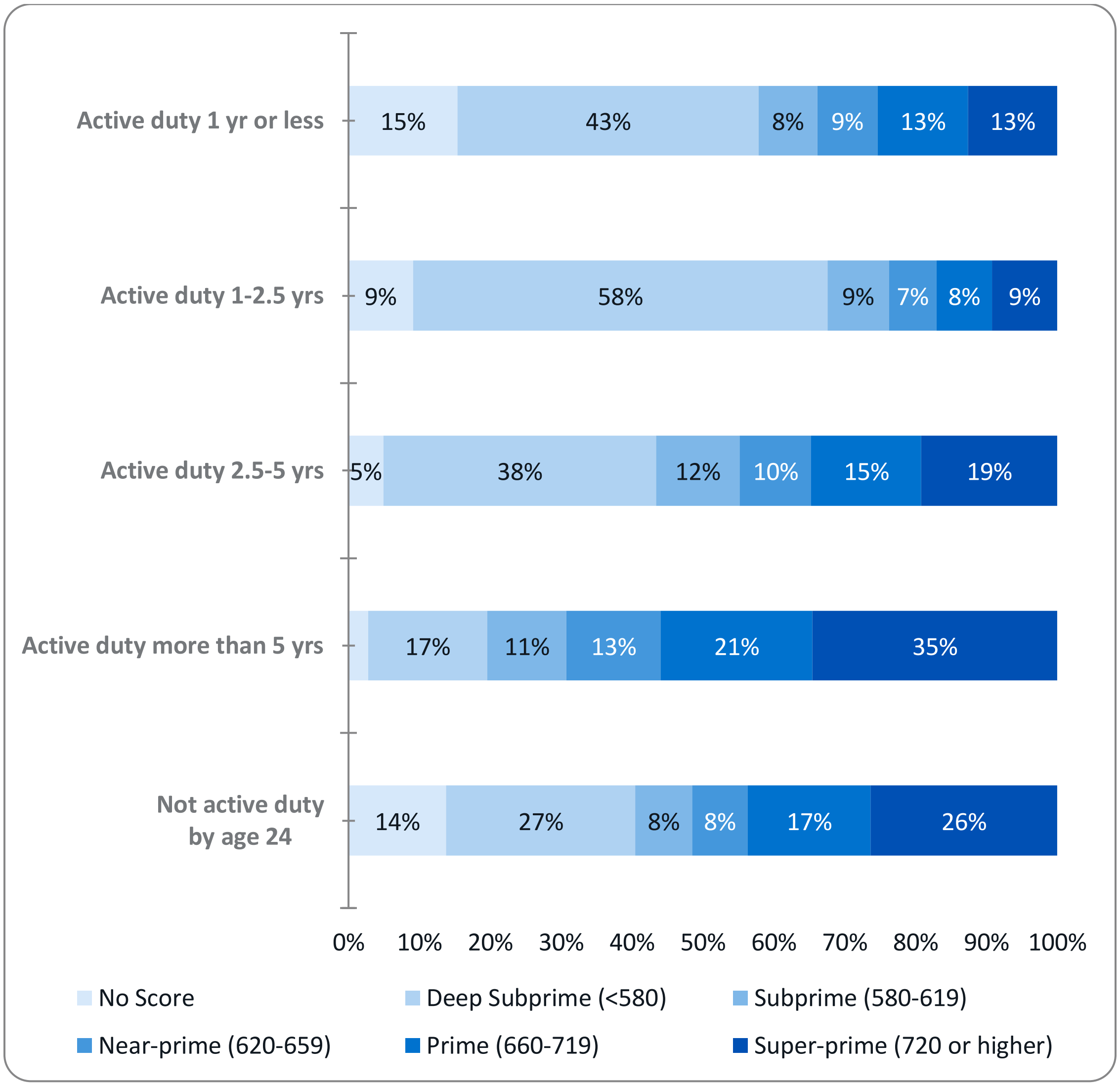
Source: Author calculations from CFPB's CCP merged to the DoD SCRA database. The sample is limited to individuals who entered active duty by age 19.

FIGURE S.4: CREDIT SCORE AROUND QUARTER OF EXIT FROM ACTIVE DUTY, BY TIME SPENT IN ACTIVE DUTY



Source: Author calculations from CFPB's CCP merged to the DoD SCRA database. The sample is limited to individuals who entered active duty by age 19.

FIGURE S.5: CREDIT SCORES AT AGE 24, BY TENURE IN FIRST PERIOD OF ACTIVE DUTY



Source: Author calculations from CFPB's CCP merged to the DoD SCRA database. The sample is limited to individuals who entered active duty by age 19, as well as those who do not enter active duty before age 24. Credit scores come from a commercially available credit scoring model.

Several caveats must be considered when drawing conclusions from the results:

- **Credit invisible people, or those with no credit history, cannot be observed** in the CCP. The averages and percentages presented in this report are therefore means and fractions of the particular credit-visible population, not of the entire population of under-24 year-olds. Estimates suggest that the credit invisibility rate of those who join active duty is similar to the invisibility rate of the rest of the population by age 24.

- **Active duty servicemembers differ from the comparison group** of non-active-duty individuals in several important ways. The servicemember population skews heavily male and differs from the general population in terms of race, education, marital status, and U.S. citizenship. The core CCP data do not include any demographic information except for age, so the analysis cannot control for these differences. The analysis cannot deduce the causes or mechanisms underlying any similarities and differences.

- **The observation window covers 2007-2016.** The analysis focuses on consumers in the years immediately following the Great Recession and may yield different results from an analysis of more recent trends. The results do not differ substantially based on birthyear, but the sample does not include people who turned 18 after 2010.

Future research could uncover the causes and risk factors of young servicemembers' trouble managing debt. The analysis suggests that the causes are more complex than simply taking on a lot of debt. Rather, there may be several potential factors that should be examined, corresponding to two main avenues for research:

- First, ***are debt management problems directly related to military service?*** Debt problems could be exacerbated by the stresses of a military career. For example, deployments and permanent changes of station (PCS) are stressors on military families. Deployment can affect physical and mental health, which can in turn affect the need for credit or the ability to manage it. PCS moves can disrupt military spouses' careers, which affects overall household income. But debt problems could also arise for reasons unrelated to military service.

- Second, ***are debt management problems occurring before or after leaving the military?*** If servicemembers have debt issues while in service, is that part of the reasons they leave? To what extent could better financial management skills mitigate attrition and improve military readiness? If servicemembers leave for other reasons and run into debt issues after service, why?

Answering these questions is a necessary first step to determine at what point in a servicemember's career path they are most at risk of financial hardship and what types of programs or policies may mitigate those risks.