FINRA Investor Education FOUNDATION

NDI National DISABILITY INSTITUTE

Access to Credit for Adults with Disabilities

Introduction

Credit is an important tool in today's economy. It can enable families to buy a home or a car, start a business, pursue an education, or withstand a medical emergency or drop in income. However, Americans with disabilities have less access to credit than those without disabilities. According to the National Disability Institute (NDI) report *Financial Capability of Adults with Disabilities: Findings from the National Financial Capability Study*, individuals with disabilities are less likely to have a credit card, more likely to use nonbank borrowing (such as pawn shops and payday lenders) and less likely to have common types of credit (such as auto loans or mortgages). One consequence of not having access to affordable credit is that more than half (55 percent) of people with disabilities could not come up with $2,000 in an emergency, compared with 32 percent of those without disabilities (Figure 1).[1]

To some extent, these findings are unsurprising. Although many people with disabilities work in well-paying jobs, adults with disabilities are more likely than those without disabilities to have lower incomes, lower levels of education, less attachment to the labor force and higher expenses. These factors are strongly associated with financial capability, credit scores and access to credit. However, research reveals that adults with disabilities are credit constrained beyond what would be predicted by their socioeconomic characteristics.[2]

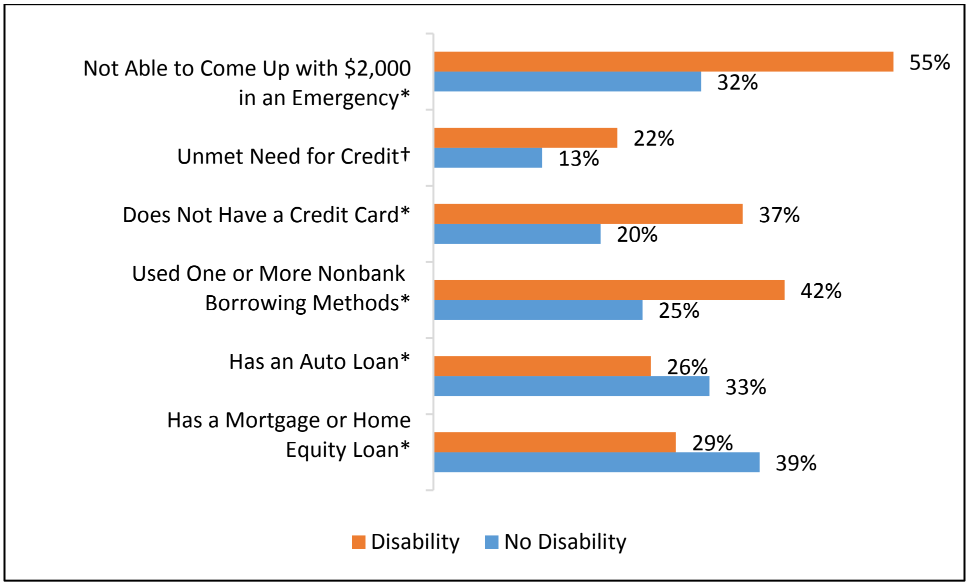
Having a poor credit history, or a credit history insufficient to generate a credit score (a "thin" credit file), can be expensive. Generally, credit scores (ranging from 300–850) are calculated based on detailed information in consumer credit reports maintained by the three major credit reporting agencies: Equifax, Experian and TransUnion. The most widely used credit score is the FICO® score. A substandard credit history or low credit score affects not only access to affordable credit, but also the ability to be approved for an apartment or cell phone contract. Those with low or no credit scores may be required to pay a security deposit on utilities and, in some states, insurance companies may use a credit-based score when setting premium rates. Employers do not have access to an individual's credit scores but, in some states, they may use

[1] Goodman, N., O'Day, B. & Morris, M. (2017). *Financial Capability of Adults with Disabilities: Findings from the National Financial Capability Study*. National Disability Institute and FINRA Investor Education Foundation. https://www.finrafoundation.org/files/financial-capability-adults-disabilities

[2] Ibid.

an employment-screening version of a credit report to consider an applicant's credit history when hiring. Summing up the importance of credit scores, comedian Tiffany Haddish calls the three-digit number "your grown-up report card."

Figure 1: Selected Measures of Credit Constraints among Working-age Adults, by Disability Status



*Sources: * FINRA Investor Education Foundation: National Financial Capability Study, 2015*
† FDIC National Survey of Unbanked and Underbanked Households, 2015

Why People with Disabilities Are Less Likely to Use Credit

NDI conducted a series of focus groups with 65 working-age adults with disabilities to explore their use of financial services and identified four reasons why people with disabilities may not have loans or credit cards.[3]

Desire to avoid debt

Because their financial situations are more precarious, many people with disabilities wish to avoid debt, either because of past experiences or concern about their ability to make monthly payments.

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[3] Goodman, N., O'Day, B., & Morris, M. (forthcoming). *Building Curb Cuts to Financial Inclusion*. National Disability Institute.

Low credit scores

When people with disabilities do want to borrow money, affordable credit may be unavailable to them because of poor credit histories and low credit scores. An analysis of the Federal Deposit Insurance Corporation biannual survey found that 22 percent of working-age adult households with disabilities have an "unmet need for credit," meaning they were either denied bank credit, discouraged about applying for bank credit or used nonbank credit, compared to 13 percent of those without disabilities.[4]

Disability-related barriers

Misperceptions, misunderstandings and lack of basic disability etiquette among lenders can make taking out a loan more difficult for people with disabilities. Focus group participants shared stories about bank personnel who treated a blind woman as if she could not possibly be eligible for a mortgage on her own. A deaf individual described being given complex documentation written in legal terms and the lender not understanding that American Sign Language (ASL) is his first language; expecting him to quickly decipher the meaning of a legal document in his second language was unreasonable.

Appropriate, affordable loan products not available

The lack of access to credit through banks often leads to the use of payday and other high-cost small-dollar loans as a last resort. When affordable loans are not available, people with disabilities borrow from family and friends or just "make do." Data shows people with disabilities are more likely than others to turn to high-cost borrowing: 42 percent of adults with disabilities used a pawn shop, payday loan, rent-to-own store or auto title loan at least once in the past five years, compared with 25 percent of those without disabilities (Figure 1).

Despite the need, few banks and credit unions offer affordable small-dollar loans that consumers may need to pay bills, cope with income volatility and avoid outcomes such as eviction or foreclosure, having utilities disconnected, having their cars repossessed or going without necessities.[5]

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[4] Goodman, N. & Morris, M. (2017). *Banking Status and Financial Behaviors of Adults with Disabilities: Findings from the 2015 FDIC National Survey of Unbanked and Underbanked Households*. National Disability Institute. http://bit.ly/BankingStatusFDICReport2017

[5] Pew Charitable Trusts (2018). *Standards Needed for Safe Small Installment Loans from Banks, Credit Unions*. Issue Brief February 15. Accessed April 19, 2018. http://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2018/02/standards-needed-for-safe-small-installment-loans-from-banks-credit-unions

Why People with Disabilities Tend to Have Lower Credit Standing

In the FINRA Investor Education Foundation's National Financial Capability Study, respondents with disabilities were more than twice as likely as those without disabilities to report their credit record as either "bad" or "very bad" (31 percent compared to 13 percent) (Table 1). This disparity results from differences in socio-economic characteristics, as well as disability-related factors.[6]

Socio-economic status

Low-income people with disabilities face the same challenges to establishing and maintaining strong credit scores as other low-income populations. Compared to those in higher-income areas, consumers in low-income areas are more likely to have no record at the three credit bureaus or records that are too "thin" for FICO to compute a credit score. They are more likely to develop credit data due to negative records, such as a debt in collection, than positive payment histories.[7] This is due in part because, historically, positive payment of rent, utilities and telecommunications services have not been reported to the credit bureaus or used in credit scoring models, although negative information may be reported if it is sent to a collection agency.

The three credit bureaus and other data companies that provide consumer financial information to lenders are in the nascent stages of incorporating utility records and other pieces of financial information into their platforms. However, regulatory and logistic challenges coupled with concern over the accuracy, validity, predictability and fairness of including additional data have slowed down the process.

Until recently, positive rent payment was not reported either. However, that is evolving. The three national credit reporting companies now report on-time rent payment history from landlords who have opted to report the payments. For a fee, individuals can also opt-in to report their own payments through intermediaries. The most commonly used versions of the FICO score do not use rental payment information in calculating scores, but several newer scores (FICO Score XD and VantageScore) are incorporating it.

People with lower incomes, regardless of disability status, are more likely to have poor credit scores than those with higher incomes. However, those with disabilities have lower credit scores than those without disabilities at all income levels (Table 1).

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[6] Goodman, O'Day and Morris (2017).

[7] Brevoort, K.P., Grimm, P., and Kambara, M. (2015). Data Point: Credit Invisibles. Consumer Financial Protection Bureau. https://files.consumerfinance.gov/f/201505_cfpb_data-point-credit-invisibles.pdf. Brevoort, K.P. and Kambara, M. (2017). CFPB Data Point: Becoming Credit Visible. Consumer Financial Protection Bureau. https://www.consumerfinance.gov/data-research/research-reports/cfpb-data-point-becoming-credit-visible/

Table 1: Respondent Rates Credit Record as "Bad" or "Very Bad"

	Disability	No Disability
All	31%	13%
Household Income		
Less than $15,000	39%	22%
$15,000 to $35,000	36%	22%
$35,000 to $50,000	30%	17%
$50,000 to $75,000	23%	11%
$75,000 and above	13%	6%

Disability-related events

The majority of people with disabilities acquire those disabilities as a result of a medical or mental health condition or accident that occurs during their working lives. With many Americans living paycheck to paycheck, an unexpected "health shock" can significantly reduce individual and household financial wellbeing. People who get a loan prior to the onset of their disability may have difficulty paying it off if their condition reduces their ability to work and earn income or increases their health-related expenses.

Another source of financial risk for some people with disabilities may be the uncertain nature of their impairments and their associated medical conditions. Some people's conditions may be unstable, episodic or degenerative with medical expenses and difficulties in functioning that are difficult to predict.

This might serve to preclude their ability to get good financing, or put them at risk of not being able to make payments on existing loans because of an unexpected drop-off in their ability to work and earn income.

Disability-related expectations

Establishing and building strong credit requires forethought and planning. The process may start with applying for a secured credit card with a low balance, paying it back on schedule, getting a small unsecured loan and then increasing the line of available credit over time. However, people with disabilities are much more likely to have a short time horizon for planning and budgeting than those without disabilities (34 percent compared with 24 percent plan for only the next few months).[8] Following the low expectations set by society, they may see little chance that they work, earn and be in the position to make a large purchase that would require credit.

I grew up in a low-income Latino family with a disability. I was taught from the get-go that SSI, Social Security was going to take care of me forever. The whole idea of being employed was not even a thing. I was never once asked what I wanted to be when I grew up. The whole concept of dreaming…of moving past tomorrow is new to me. In the disability community, there is not a lot of thought about planning for tomorrow or planning for a year or 10 years from now. Among youth, there isn't a sense of, 'I want a job and I want to save up for a house or I want to save up for a car.'

—30-year-old Latino with Cerebral Palsy

Examples of Products that Meet the Needs of People with Disabilities

Several products exist that address the interrelated issues of credit scores and access to credit for people with disabilities and others with low incomes. The examples below are all Community Development Financial Institutions (CDFIs). That is, they are specialized organizations that provide financial services in low-income communities and to people who lack access to financing and are eligible to receive funds through the U.S. Department of the Treasury CDFI Fund. In all three examples, loans are coupled with financial education and personal relationships to facilitate the process.

Pennsylvania Assistive Technology Loan Fund

Pennsylvania Assistive Technology Foundation (PATF) is a statewide, nonprofit organization that helps Pennsylvanians with disabilities and older state residents acquire assistive technology devices such as adapted vehicles, hearing aids, home modifications, computer and tablet technologies, and wheelchairs. PATF is a certified CDFI and is the state's designated Alternative Financing Program (AFP) under the Federal Assistive Technology Act. PATF is one of 42 AFPs and state financing entities in the U.S. and its territories.[9]

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[8] Goodman, O'Day, and Morris (2017).

[9] Pennsylvania Assistive Technology Fund (2018). *Who We Are*. https://patf.us/who-we-are/

PATF has two loan programs. A three-year mini loan is available for purchases of $100–$1,500 at no interest. For larger purchases, PATF offers a loan at 3.75 percent interest to be repaid over the expected life of the device. PATF buys down the difference between the lender's rate and the lower rate charged to consumers. If necessary, PATF may guarantee the loan and make rescue payments if the borrower falls behind.

PATF staff, who tend to be members of the disability community, communicate with prospective borrowers an average of 14 times before initiating the loan. They help identify the appropriate technology and determine if there is a public or private funder that could cover the cost. This personalized and relationship-based application process allows PATF to move beyond the traditional parameters of what is credit worthy. Clients are encouraged to increase their financial capability through PATF's financial education book, *Cents and Sensibility*[10], prepared specifically for people with disabilities.

Since its inception in 2002, PATF has facilitated $35 million in loans and has a default rate of less than 3 percent.

Credit-Building Loans and Secured Lending at Alternatives Federal Credit Union, Ithaca, NY

Alternatives Federal Credit Union offers three types of loans for credit union members with low credit scores.

The Score Builder requires full repayment of the loan and interest prior to accessing cash. Loan amounts range from $100 to $2,500 with a 2 percent interest rate and 12–24-month terms. The Score Builder Loans are designed exclusively for borrowers wishing to establish a good credit history.

With a **Shared Secured Loan**, the borrower, friend or relative secures the loan by buying a "share" in the credit union, similar to a buying a bank's certificate of deposit. The loan funds are disbursed to the borrower, who makes payments against the loan, which are then reported to the credit bureaus. The interest rate on the loan is 2 percent above the interest earned in the Share Certificate. Once the loan is paid off, the amount in the Share Certificate is refunded to its owner.

The Credit Builder Loan is an unsecured loan for up to $1,000 for first-time borrowers and low-income families, with a current interest rate of 16 percent. Rather than relying on FICO scores and traditional credit reports, the credit union will allow the prospective borrower to prove their credit-worthiness through alternative means. The credit union will also approve loans at a higher debt-to-income ratio under certain circumstances.

These loan products are coupled with a money management course, one-on-one financial and credit counseling and Volunteer Income Tax Assistance (VITA).

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[10] Pennsylvania Assistive Technology Fund (2016). *Cents and Sensibility: A Guide to Money Management*. https://patf.us/what-we-do/financial-education/

Lending Circles at the Mission Asset Fund

The nonprofit Mission Asset Fund (MAF) brings together groups of six to 10 people who each contribute a set amount each month — such as $50, $100 or $200 to a common pot. Members rotate on a monthly basis, with each person getting a turn to take the full amount in the pot. This practice has a long tradition in immigrant communities and globally. The Mission Access Fund formalizes the process, requires participants to sign a promissory note and reports the activity to the credit bureaus.

The personal group interaction is important because it keeps people committed to each other. Since 2008, more than 9,000 people have participated in about 800 lending circles connected to nonprofit organizations in 30 cities across the country, lending a total of $7.5 million.

Although disability organizations have not yet established lending circles, the model has the potential to leverage pro-social pressure to encourage regular savings for large expenses while building a credit score.

Conclusion

Financial behavior of people with disabilities has no single element that can be isolated to explain patterns and directly focus possible solutions to improve stability and security. Access to credit and subsequent effective money management require education, customized personal support and incentives to reinforce positive financial behavior. The examples in this brief embrace these common design elements and demonstrate what is possible for low- and moderate-income individuals with and without disabilities to use credit effectively to stabilize financial status. The challenge is to move these three promising concepts from CDFIs to mainstream financial institutions to achieve needed scale and sustainable practices.

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