

Building Credit to Build Wealth Research Brief

December 2020



Acknowledgments

Thank you to Commonwealth staff for their contributions to this report: Jerome Barnes, Babatunde Ajao, and Zaan Pirani. We would also like to thank Keyarash Jahanian and our LOQBOX colleagues.



Commonwealth is a national nonprofit building financial security and opportunity for financially vulnerable people through innovation and partnerships. Black, Latinx and Female-led households disproportionately experience financial insecurity due in large part to longstanding, systemic racism and gender discrimination. Addressing these issues is critical to Commonwealth's work of making wealth possible for all. For nearly two decades, Commonwealth has designed effective innovations, products, and policies enabling 750,000 people to accumulate more than \$3 billion in savings. Commonwealth understands that broad changes require market players to act. That's why we collaborate with consumers, the financial services industry, employers, policymakers, and mission-driven organizations. The solutions we build are grounded in real life, based on our deep understanding of people who are financially vulnerable and how businesses can best serve them. To learn more, visit us at www.buildcommonwealth.org.



This research would not have been possible without the generous support from MetLife Foundation.

MetLife Foundation is committed to expanding opportunities for the world's most vulnerable people. They partner with nonprofit organizations and social enterprises to create financial health solutions and build stronger communities, while engaging MetLife employee volunteers to help drive impact.

MetLife Foundation was established in 1976 to continue MetLife's long tradition of corporate contributions and community involvement. From its founding through the end of 2019, MetLife Foundation provided more than \$860 million in grants and \$85 million in program-related investments to make a positive impact in the communities where MetLife operates. To date, their financial health work has reached 13.4 million low-income individuals in 42 countries. To learn more about MetLife Foundation, visit metlife.org.

MetLife Foundation's Financial Opportunity Project

Decades of research points to the material, psychological, and social value of wealth. Yet, building financial security is a persistent challenge for lower-income Americans, who continue to become less wealthy, not more. In fact, nearly 40% of people in the United States cannot cover an unexpected \$400 emergency expense, according to the Federal Reserve. MetLife Foundation's Financial Opportunity Project aims to reverse this trend. **The four-year initiative, implemented by Commonwealth with the generous support of MetLife Foundation,** will uncover and highlight new consumer insights and pilot practices to enable wealth creation for millions of low-income individuals and families over time.



[LOQBOX](#) aims to help everyone build credit and savings through a no-interest credit-builder loan. Customers set an amount they can save each month, and open a LOQBOX equal to 12 times the monthly payment, financed with an interest-free loan in their name. Once borrowers make their 12 monthly payments, they have the choice to withdraw the sum of their savings for free into a new savings account at a partner bank, or move their money to a bank of their choosing for a \$40 fee. LOQBOX has operated successfully in the United Kingdom and now operates in 40 states in the United States.

Executive Summary

Having a good financial credit score is a staple of American opportunity, but for many people it seems out of the realm of possibility.

While 77% of financially vulnerable Americans have heard of ways to check or improve their credit, only 14% have tried credit-building tools such as secured credit cards or credit builder loans. Another 26% have used monitoring tools such as Credit Karma and Credit Sesame; 20% say they don't know how such services work and 19% say they can't afford them.

Such are the findings of a new research study Commonwealth conducted in partnership with LOQBOX, a mission-driven fintech company committed to helping people build credit and long-term wealth.

In the first quarter of 2020, to investigate the link between credit and wealth building, and to learn more about how people view the connection, we conducted an online survey of 440 financially vulnerable Americans.

The respondents were between the ages 20 and 40 with incomes of no more than \$60,000. We interviewed 14 of them by phone to gather qualitative data to deepen our understanding.

During the interviews, many respondents reported that building good credit is an important step to building wealth. Further, people with bad credit told us they felt the ill effects, both financially and emotionally. While some respondents try to pay off their credit card debt, in hopes of improving their score, others are too stressed to even check their credit score.

Because of these challenges, people are looking for transparent, free, or inexpensive credit-building tools that will provide supplemental support throughout the long and complicated credit-building journey.

Fintechs and other organizations seeking to meet the needs of financially vulnerable people have a significant market opportunity to develop products that help people build their credit as they work to build their wealth.

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credit-builder loans

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**have used monitoring
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Karma and Credit
Sesame

20%

say they **don't know**
how such services work

19%

say they **can't afford**
them

Introduction

Credit is a foundational aspect of every American's financial journey.

Having good credit—in addition to making it easier to cover everyday expenses—can facilitate access to a plethora of financial options that better support building wealth.

Conversely, poor credit can be a significant barrier to accessing safe and effective financial resources, products, and services. Getting a car or home loan, or even a job, can be challenging for those with poor credit.

Millions of Americans struggle with credit. Roughly 26 million Americans are “credit invisible”—meaning they have no credit history with one of the nationwide consumer reporting agencies. [According to the Consumer Financial Protection Bureau](#), both unscored and poor credit scores are disproportionately experienced among Black and Latinx populations. Given the outsized influence of credit in people's financial lives, Commonwealth is examining the potential of credit as a pathway to building wealth.

In 2020, Commonwealth partnered with LOQBOX, a mission-driven fintech, to learn how financially vulnerable Americans view the role of credit in their financial lives. We also wanted to learn about their existing knowledge and use of credit-building tools. We conducted an online survey of 440 lower-income people between the ages of 25 and 40 with household incomes of no more than \$60,000. We also conducted 14 phone interviews—oversampling for Black and Latinx individuals—to deepen our qualitative understanding.

Our sample was nationally representative in terms of race and gender, and included people from across the United States.

Our findings shed light on the concerns, hopes, and dreams of financially vulnerable Americans. We believe these insights have the power to inform the design of relevant, easy-to-use, and effective credit-building tools to expand wealth creation.

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Rapid Insights

Credit Is Scary, Confusing, and Unfair

Among low-income Americans in our study, there is a general lack of understanding of the credit system and how credit scores are calculated.

While 77% of survey respondents said they have heard of ways to check or improve their credit, only 14% have tried credit-building tools such as secured credit cards or credit-builder loans. Another 26% have used monitoring tools such as Credit Karma and Credit Sesame; 20% say they don't know how such services work; and 19% say they can't afford them.

Among the people we interviewed, credit know-how is mixed.

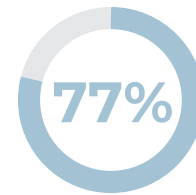
While some respondents with poor credit say they understand the system today, they attribute their financial situation to past errors, when they did not have the right information to make sound decisions. Others say they still do not understand the system.

"I think it's something that can get messed up. Friends didn't understand what (credit) was and that they really are paying for things," said Sarah, a single woman in Maryland. **"I just got a credit card when I needed it, but it can make or break you."**

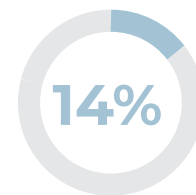
Like Sarah, many of our respondents said they were introduced to credit when they were young adults and their expenses—education, supporting family members, basic necessities—exceeded their income. In that respect, some respondents feel as if they never had a chance to start building a strong credit score or to build a strong foundation for their credit score. They used their credit card because they had to, didn't understand the implications of doing so, and are now reeling from the adverse effect.

Many respondents said they know their score is poor but don't want to confront that fact. Those in the lowest income brackets were the least likely to know their credit score.

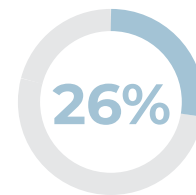
"I won't check it, it stresses me out so much," a male respondent from Virginia said.



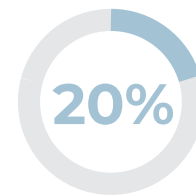
77% of financially vulnerable Americans **have heard of ways to check or improve their credit**



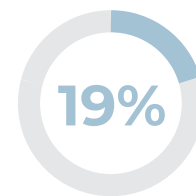
14% **have tried credit-building tools** such as secured credit cards or credit builder loans



26% **have used monitoring tools** such as Credit Karma and Credit Sesame



20% say they **don't know how such services work**



19% **say they can't afford them**

Bad Credit Destroys Dreams

While people may not know their credit score, they understand the impact a poor score has on their lives.

Often, they don't know where to turn.

“Credit is an invisible wall that kind of boxes people out of and keeps them from reaching certain opportunities,” Tanya, a Boston resident, said.

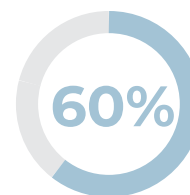
Some respondents reported that their poor credit score prevented them from pursuing numerous ambitions, including living where they wanted, getting the job they wanted, and saving money (due to prioritizing paying off debt). Respondents also pay higher interest rates and face other tangible barriers to wealth-building.

Bad credit can also cause shame, even when someone doesn't experience negative financial repercussions.

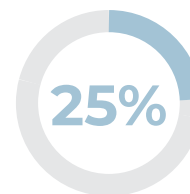
“Having bad credit is like having no job,” said Benita, a New Yorker, who says she feels judged.

Yet, people are hopeful—they just need a trusted financial partner.

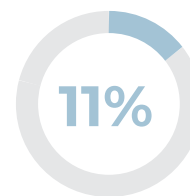
“Freedom,” said Texas resident Adrienne, when asked what it would mean to have a better credit score. **“Because if you have a high credit score, you have more freedom to do what you want to do.”**



60% said **“paying your bills on time”** is the best way to improve one's credit



25% said **“reducing the amount of debt you owe”** is their preferred way



11% prefer **“checking credit report for errors and resolving/disputing”**

Financially Vulnerable Americans Want to Improve Their Credit

Despite efforts to improve their credit score, the vast majority of the people we interviewed said they have seen slow progress, or none at all. Most are paying off their credit card debt as the sole method of improving their credit score. They have not explored credit-builder loans, secured credit cards, or other credit building services

Of the survey respondents, 60% said “paying your bills on time” is the best way to improve one's credit; 25% said “reducing the amount of debt you owe” is their preferred way, while 11% prefer “checking credit report for errors and resolving/disputing.”

Cathy, a mother from Minnesota, observed how quickly credit can be hurt and how long it takes to reverse the damage; she has been working to repair hers for some time.

“It makes me wonder who determines the pace at which you can increase (your credit score) and who invented the system,” she said.

Recommendations for the Financial Industry

Many financially vulnerable Americans have both the ability and desire to improve their credit scores with the right product, service, and guidance. Existing tools such as credit-builder loans and secured credit cards have limited recognition among this audience—for example, people use Credit Karma to monitor their credit, but they don't try or know how to change their credit.

Organizations in the financial services sector have a tremendous opportunity to innovate. Our research demonstrates that financially vulnerable Americans want and need credit-building tools; that there are viable and sustainable business models for serving this market. Meeting their needs is both good business and good for people.

Many financially vulnerable people had past experiences with financial services firms that involved exorbitant fees, confusing language, and not having their needs met; as a result, many financially vulnerable people do not trust financial services firms. However, survey respondents also provide a clear roadmap for financial services firms on what they hope to find in a product.

When we asked survey respondents what they wanted, they were clear:

- **Transparency.** Given that so many financially vulnerable people have poor credit scores as a result of financial products or financial decisions that were unclear to them at the time, a credit-building product must clearly articulate how it works. Confusion is the fastest way to erode trust, which was already in short supply among respondents.
- **Little to no cost.** Fees were a prevalent complaint among this population. Many existing credit-building products charge fees, and this is a significant deterrent to their use. If fees exist, it must be clear both why consumers are being charged and, more importantly, that the value (direct impact on credit score) is worth the price.
- **Supplemental support.** Credit-building is a long and complicated journey, and an important piece of one's financial standing. There was a strong desire among our respondents for products that don't just improve your credit score, but also give you advice, tips, and techniques to continually learn about credit and finances more broadly.

Conclusion

Our findings indicate both the need for, and appeal of, credit-building strategies for financially vulnerable people. In our ongoing effort to examine credit-building as a pathway to wealth building, we will continue to partner with fintechs to learn more about the effectiveness of such strategies. We will also continue to develop insights on how fintech products can positively impact people's lives—not just improving their credit score, but also impacting people's ability to build wealth.

Our research and that of [others](#) points to an opportunity for fintechs and financial services firms to deliver products to this underserved market and become a trusted partner as they embark on their path to building wealth. It also indicates that there are viable and sustainable business models for serving this market—demonstrating that meeting their needs is both good business and good for people.



If your organization would like to learn more about credit-building and other financial tools, and their role in helping more Americans build wealth, email Jerome Barnes, Senior Innovation Manager at [**info@buildcommonwealth.org**](mailto:info@buildcommonwealth.org).