Economic Review

Addressing Traditional Credit Scores as a Barrier to Accessing Affordable Credit

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Traditional credit scores do not always reflect a consumer's creditworthiness and may drive disparities in credit access.

Affordable credit enables consumers to better manage their finances, cope with unexpected emergencies, and pursue opportunities such as entrepreneurship or higher education. However, many consumers face difficulties obtaining the credit they need. A major impediment is lenders' reliance on traditional credit scores to assess consumers' creditworthiness. These credit scores affect not only loan approval decisions but also the interest rates consumers pay on their loans. While credit scores are intended to help lenders make informed decisions about consumers' risk of default, they do not always accurately reflect a borrower's ability to repay. Traditional credit scores may also disproportionately punish consumers from economically disadvantaged groups.

Ying Lei Toh examines the barrier traditional credit scores pose to obtaining affordable credit in the United States and discusses efforts to address this barrier. Using data from the 2019 Survey of Consumer Finances, she finds that traditional credit scores may indeed hinder a sizeable share of consumers from obtaining the credit they desire. Further, disparities in credit access across several sociodemographic groups match the disparities in their likelihood of having high traditional credit scores, suggesting lenders' reliance on traditional credit scores may drive disparities in credit access.

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