Born to Be Prime: Persistence in the U.S. Consumer Credit Market

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How large is persistence in the U.S. consumer credit market?

- **Do people move around the distributions of credit outcomes over their lives?**
- **Or are credit outcome trajectories pretty much determined already when entering the credit market?**

Motivation

- **Consumer credit** plays an important role in households' consumption and investment decisions
- Persistence in the consumer credit market can reflect persistence in the ability of individuals to
  - invest in tangible assets (e.g. real estate)
  - finance investment in human capital through student loans
  - draw liquidity through credit cards to face unexpected expenditures
- How big is the **heterogeneity in credit availability at the time of entry in the credit market?**
- **How persistent are these differences**?
- **Do these initial conditions matter** for life-cycle trajectories in credit outcomes?

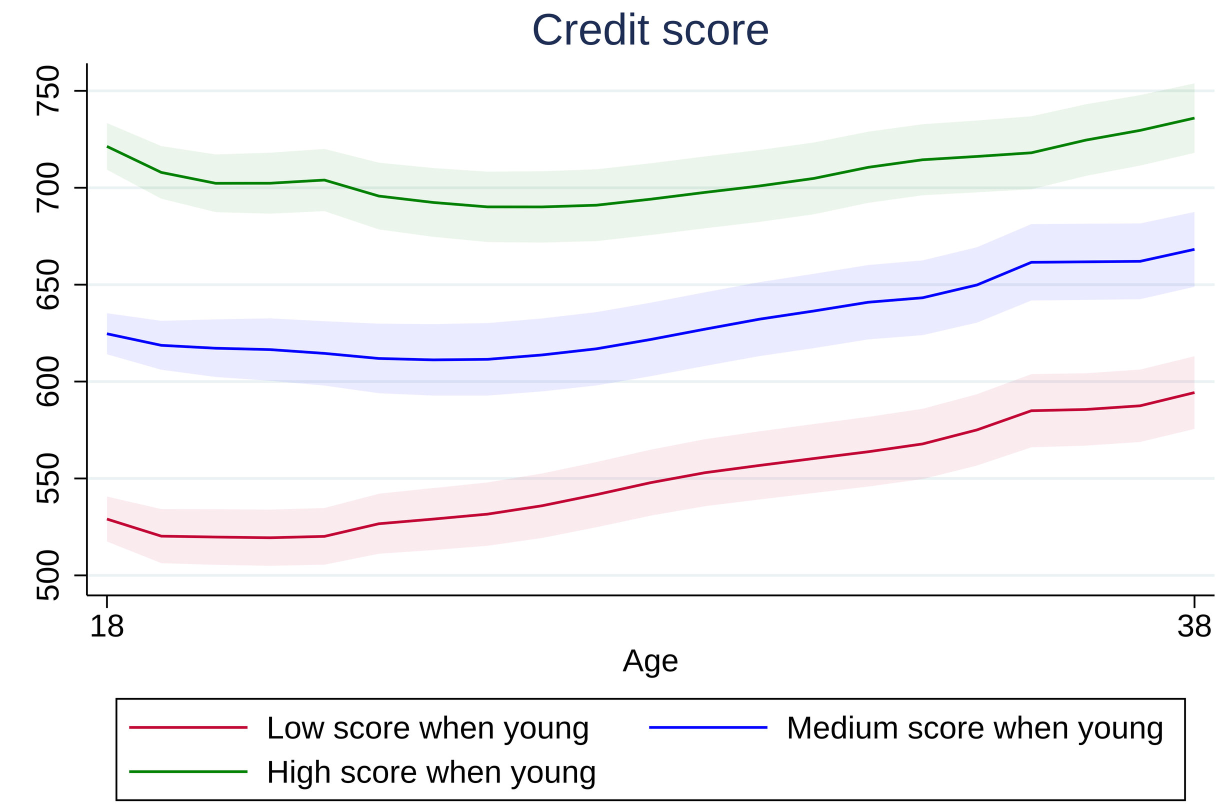
Data

- Anonymized yearly credit data for a **1% random sample from the universe of U.S. consumers with Experian credit reports in 2010** from **from 2004 to 2020** (except for 2017 and 2018)
- For each individual, we observe over 400 variables on the extensive and intensive margins of **auto loans, mortgages, student loans, credit card transactions**; **credit scores**; demographic characteristics
- We also have information on number of delinquencies and bankruptcies for each transaction and an estimate of labor income for each individual

Strategy

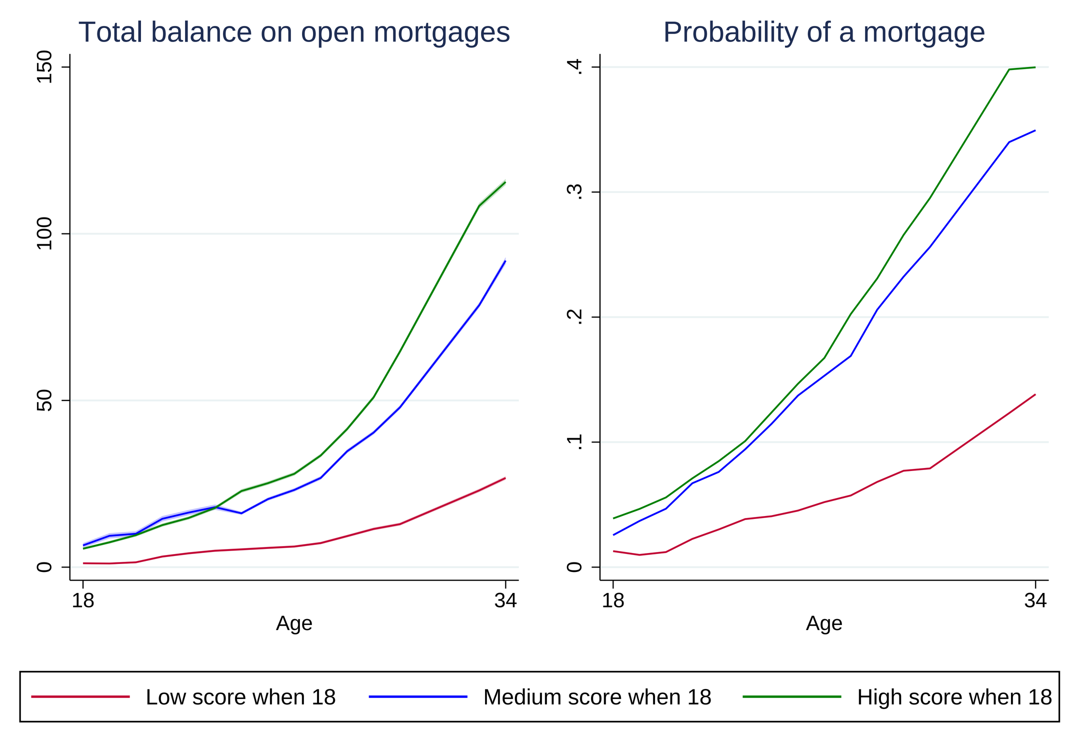
- The individuals for whom we can observe most of their life cycle are the ones who are 18 in 2004
- We construct **profiles of the yearly evolution of these individuals' credit outcomes**
- We build three different profiles based on whether these individuals where
  - in the 1st tercile
  - in the 2nd tercile
  - in the 3rd tercile

  of the credit score distribution for people who are 18 in 2004
- Idea: **compare the evolution of credit outcomes between groups that started off with low/medium/high credit scores**



CBSA-age average levels, by initial c.score, with 95% c.i.

- We observe sizable and persistent differences in credit scores at the time of entry in the credit market



Total balance measured in thousands of US$. Bands represent 95% confidence intervals.

- Initial differences in credit scores predict distinct trajectories in the life-cycle profiles of major credit outcomes
  - At age 34, the difference between the average mortgage for people that had a high vs. low credit score when they entered the credit market is more than $\$100K$!
  - These results are robust to controlling for core-based statistical area (CBSA) fixed effects
- We calculate the probability of remaining in the same tercile of the credit score distribution between years t and $t+1$
- The probabilities of moving away from a high/low credit score are very low and almost constant over the observed life cycle
- There is more mobility away from the center of the credit score distribution
- This mobility gets smaller as people get older

Additional results/moving forward

- We provide evidence of high intergenerational persistence in credit scores (about 0.6 in levels)
- We find that high-credit-score individuals are more concentrated on the coasts/more central areas
- Are our results evidence of a "credit trap"? Or are there simply different "types" of individuals?
- Ideal experiment: what if a low-credit-score individual randomly became a middle-credit-score person?
  - Would she go back to be have a low credit score?
  - Would she experience a persistent improvement in her credit outcomes?

- **We document sizeable intragenerational persistence in credit scores in the U.S. consumer credit markets**
- **Initial differences in credit scores persist and shape the credit life of U.S. consumers**