

# Credit costs more for the poor

by Ashley Hall, staff attorney

It's a new year. Time for a fresh start.

And yet.

When January rolls around, we all have to reconcile our decisions from the last eight+ weeks prior -- the food we bought (and consumed), the gifts we gave, the holiday parties we went all out for. All of which can come with hefty price tags when added up.

But we don't all feel that pinch the same way, do we?

How much you can afford, what you pay out of pocket, how you balance these "extras" with paying your necessary bills -- the answers to these questions look very different, depending on your income level.

Some individuals may think nothing of adding these extra expenses to their credit cards and knowing they'll pay them down in the new year. Or maybe there is an attractive one-year interest-free credit card promotion we take advantage of, again knowing we'll pay off the balance before the interest hits.

But not everyone has the luxury of turning to credit to pay for these holiday extras or, really, any emergency spending.

The fact is, the poorer you are, the fewer options you have for paying for life's expenses. And what options are available don't always, or rarely ever, equate to great financial options for getting out of poverty.

Poverty is cyclical. People who earn low wages or rely on public benefits programs like disability have less money in their pockets to cover their expenses, let alone any extra or emergency spending. And they have less access to credit that can bridge this gap.

Nearly half of consumers in low-income neighborhoods either have little or no credit history. Note, that doesn't read: "have a bad credit history" or "have low credit scores." Having little to no credit history means credit scoring agencies don't have enough information to know if they can or should be lending to you. So they typically don't.

The same is true for less than 10% of consumers in high-income neighborhoods.

There are differences among racial and ethnic groups, as well, as Black and Hispanic Americans are more likely to have little or no credit history, compared with their White and Asian American counterparts.

Without a credit history, or with a poor credit history, it's extremely difficult to qualify for credit cards and lending opportunities. It also means it will be much harder for you to get a car loan or qualify for a mortgage, both of which build equity and can transfer wealth from one generation to the next. It is the chicken or the egg conundrum -- you can't build your credit without having a steady credit history, but you can't get a traditional loan to build that history because you don't have credit.

Low-income households are also more likely to be "unbanked," meaning no one in the household has a bank or checking account. This data is also higher for Black and Hispanic populations. As a result, an individual would have to seek out a check cashing service and incur fees, which would again cut into that individual's monthly income and decrease the amount they have to spend on monthly expenses.

So, what is the practical implication of having no or poor credit? Individuals who cannot get a traditional credit card or bank loan are forced into situations where their only option is personal loans with exorbitant interest rates. The interest rates may make it near impossible to keep up on the payments, which may lead to a default, which then of course may lead to a negative mark on their credit. And the cycle continues.

You may say, if you don't have the cash to spend for these extras around the holidays then you shouldn't buy it. Okay. But what if your family's only vehicle breaks down? What if your furnace goes out, and it's below freezing? If someone is already on a fixed or low income, how do they cover that emergency, absolutely necessary expense?

The fact is, with how our credit and financial systems are structured, it's easier for those with even modest means to cover extra or unforeseen expenses. And the poorer you are, the harder it is -- not just because you have less money in your pocket each month, but because the systems in place to help Americans out when hard times hit aren't available to all of us.

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