Factors Predicting Consumer Credit Rejection: Evidence from the 1995 Survey of Consumer Finances

A better understanding of the likelihood of credit rejection can assist consumer educators, financial advisors, and policy makers. Some households may be more vulnerable to rejection or they may believe that they are more likely to be rejected. The purpose was to examine behavior related to applying for credit, specifically, would household heads decide not to apply for credit if they believed they would be turned down.

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The traditional types of families have decreased within the last several decades. Most noticeable is the fact that the proportion of single parent households with children under 18 rose 17 percent between 1970 and 1992 (Edmondson, 1992). Interestingly, single female headed families are especially over-represented among the working poor. In fact, 49 percent of the working poor are in families headed by a single woman (Kim, 1999). Compared to many dual income households, single income households are disadvantaged when making a credit application, because approval of a loan is strongly related to household income (Schwartz, 1988). Perraudin and Sorensen (1992) found that people who are married, white, homeowners, with a managerial or administrative job, and in good health get credit more easily than those who are single, non-white, renters, non-professionals, and not in good health. This study was designed to investigate the attitude related to applying for credit, i.e. what are the characteristics of consumers who expect to be rejected and thus fail to apply for credit.

Data for the study were drawn from the 1995 Survey of Consumer Finances. Only households with children were included because it was assumed that demands of these households were greater. The sample consisted of married and single female households with children. The number of single male households with children was small and they were not included. The dependent variable was the question, "Was there any time in the past five years that you thought of applying for credit at a particular place, but changed your mind because you thought you might be turned down?" Responses were coded 1 equal to yes and 0 equal to no. Independent variables were age, income, consumer debt, race, education, home ownership, attitude toward credit, and headed by a single female. The results indicated that 19 percent of the 1376 households in the sample expected to be turned down so they did not apply for credit. Logistic regression showed that households headed by younger individuals, non-whites, those with less education, lower income, and renters were more likely to expect to be turned down. Compared to married couples with children, single female heads with children were more likely to expect to be turned down. There was no difference for households with a positive attitude toward credit compared to those with a negative or neutral attitude and the amount of consumer debt had no effect on the expectation of being turned down when applying for credit.

References

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Endnotes

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