Racial/ethnic Patterns in Credit Problems

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This paper analyzes factors related to getting behind or missing payments on debt. A logit selection model was used with the 2004 Survey of Consumer Finances (SCF,) with the first stage being holding any debt, and the second stage was delinquency. The dependent variable for the second stage was based on the SCF question "Now thinking of all the various loan or mortgage payments you made during the last year, were all the payments made the way they were scheduled, or were payments on any of the loans sometimes made later or missed?"

We tested the effect of trigger events and financial buffers on household loan delinquencies. We expected that the more limited financial experiences and socialization of Black and Hispanic households would be associated with higher predicted delinquency rates, conditional on having debt. Means tests for those with debt showed that Blacks had a significantly higher delinquency rate than Whites (40% versus 18%) and Hispanics also had higher rates than Whites (25% versus 18%).

A probit analysis of having debt showed that Blacks were less likely to have debt than Whites, but there was not a significant difference between Hispanics and Whites. The logit analysis of being delinquent showed that Blacks were significantly more likely to be delinquent than Whites, but Hispanics were significantly less likely to be delinquent than Whites. At the mean value of other variables in the logit, Black households had a predicted delinquency rate of 35%, White households a rate of 20%, and Hispanic households a rate of 17%. There was a significant selection effect, as the Inverse Mills Ratio was significant in the logit.

Our research results showed that Black and Hispanic households are different in delinquency behavior and should be analyzed as separate groups. Helping Black households improve their credit repayment patterns may be crucial to increasing their homeownership rates without excessive risks.

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