The Use and Effect of Big Data: Presentation for National Fair Housing Alliance The Fair Housing Act at 50 Conference

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Credit Scores: The Original “Big Data”

• Overly blunt

For more: *Solving the Credit Conundrum: Helping Consumers’ Credit Records Impaired by the Foreclosure Crisis and Great Recession*

• “Vicious cycle” effect

• Racial disparities
Overly Blunt

Swedish study of consumers with negative credit information

- Will NOT default
- Will default
Vicious Cycle of Financial Distress

Inability to pay bills harms credit history

Bad credit excludes consumer from fair credit, jobs, and housing

Lack of economic opportunity prevents consumer from paying bills
## Studies showing racial disparities in credit scoring

<table>
<thead>
<tr>
<th>Study</th>
<th>Conclusion</th>
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<tr>
<td>2012 Consumer Financial Protection Bureau</td>
<td>Median FICO score for majority minority areas was 34 vs. 52 for low minority areas</td>
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<td>2010 Woodstock Institute</td>
<td>In zip codes over 80% African American, 54.2% had FICO score under 620. In mostly white zip codes, only 16.8% had scores under 620</td>
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<td>2007 Federal Reserve Board</td>
<td>Mean score for African Americans was 25.6 versus 54.0 for whites – about half; Hispanics had mean of 38.2</td>
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<td>2007 Federal Trade Commission</td>
<td>African Americans and Hispanics strongly over-represented in the lowest scoring categories</td>
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<td>1996 Freddie Mac study</td>
<td>African-Americans 3 times as likely to have FICO scores below 620 as whites; Hispanics 2 times as likely</td>
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But wait, there’s more

<table>
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<th>Other studies</th>
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<td>2006 Brookings</td>
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<td>2004 Federal Reserve researchers</td>
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<td>2004 Harvard Joint Center for Housing Studies</td>
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<td>2004 Texas Department of Insurance</td>
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Discussions of these studies and a complete list of citations is available in NCLC’s Policy Brief: *Past Imperfect: How Credit Scores and Other Analytics ‘Bake In’ and Perpetuate Past Discrimination*
Reasons

Lack of “Personal Responsibility”
or
Historical unlevel playing field

Racial wealth gap

Vicious cycle nature of using the past as the key measure
Racial Wealth Gap
from Demos and Brandeis Institute on Assets and Social Policy

Figure 1. Wealth Accumulation and Size of the Racial Wealth Gap, 2011

- Latino families (any race): $102,798
- Black families: $104,033
- White families: $120,000

Legend:
- Blue: Median Wealth
- Gray: Size of the Wealth Gap with White Families
How the Wealth Gap Plays Out: Racial Disparities in Debt Collection

• 71% of African American middle-income households called by bill collectors compared to 50% of white middle-income households despite similar rates of default and late payments

• In mostly black neighborhoods:
  - Rate of judgment 2X as high
  - 20% more likely to have plaintiff attempt garnishment

From ProPublica, the Color of Debt, Oct. 8, 2015:
African American Population in Newark
Judgment rate per 100 residents

Judgments per 100 Residents
Structural racism is self-perpetuating

• “If we can agree that racialized wealth disparities are, in fact, unjust, then simply leaving these disparities alone to perpetuate themselves indefinitely is not an option. This is true regardless of whether there are currently racist policies creating wealth disparities, or whether the disparities, because of how wealth functions in a capitalist economy, are perpetuating themselves.”
  – “Structural Racialization”
  john a. powell
Problems with Big Data

- Accuracy
- Not immune to systemic inequality
How Do You Measure the Accuracy of Analyzing This?
“There’s a lot of crappy data out there”

Study Participants with Incorrect Information in Their Data Reports

ID Analytics

Intellus

Spokeo

EBureau

(sample of 15 consumers)

From: *Big Data, a Big Disappointment for Scoring Consumer Creditworthiness*, March 2014
Legal Considerations

• Equal Credit Opportunity Act
  – Many indicators will be reflective of the structural racism
  – Disparate Impact Analysis
    • Policy that has disparate impact
    • Legitimate Business Need
      – What is the legitimate need if the type of data has not proven to be predictive?
    • Need new ways of analysis, the “less discriminatory alternative” – that is another role for Big Data
“In order to get beyond racism, we must first take account of race. There is no other way.”

NCLC FCRA Manual