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"If I don't have credit, I don't have anything": Perspectives on the credit scoring system among mothers with low incomes

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Abstract

This mixed-methods study examines consumer perspectives on the credit scoring system drawn from in-depth interviews with 72 mothers with low incomes and national survey data from the National Financial Capability Study. Interviewees express strong awareness of credit scoring and a desire to have good credit. National survey data corroborate these findings, showing that most mothers with low incomes are knowledgeable about their credit scores. They know what behaviors improve credit standing and recognize the tradeoffs between present consumption and longer run goals. They do not reject the credit scoring system's legitimacy and seek to work within this system to pursue their financial goals, despite obstacles to success. This evidence enriches our understanding of the perspectives and values that motivate consumer financial behaviors and highlights the systemic challenges to people's financial well-being that are embedded in a seemingly widely accepted credit scoring system.

KEYWORDS

credit access, financial inclusion, poverty, qualitative interviews

1 | INTRODUCTION

Building and maintaining a strong credit record is often viewed as a step toward greater financial well-being. Researchers and advocates have critiqued the credit reporting system in the U.S. for further disadvantaging those who are financially marginalized (Ards & Myers, 2001; Jennett et al., 2012; Kear, 2017; Kiviat, 2019c). However, it is unclear to what extent consumers with low incomes—who are potentially most limited in their access to credit—share these critiques or view the system as working in their interest. The existing research on the consumers' understanding of credit scores often focuses on how accurate people are in their knowledge of their own credit scores and whether people's accuracy at knowing their credit profile is associated with financial behaviors or outcomes (Courchane et al., 2008; Levinger et al., 2011; Perry, 2008; Woodyard et al., 2017). While the accuracy of the people's self-reported credit status is an important financial phenomenon to study, these studies do not reveal whether people accept or reject the credit scoring system as offering workable opportunities for financial advancement. Do people who are likely to experience financial marginalization view the credit scoring system as illegitimate? Knowing the answer to the question of perceived legitimacy is key to comprehensively evaluating the credit system (Ards & Myers, 2001; Jennett et al., 2012; Kear, 2017; Kiviat, 2019c). Indeed, Sherraden's Financial Capability Model (2013) emphasizes that feelings about financial inclusion and confidence in financial services are as important as people's financial skills and knowledge when modeling consumer behavior.

The process of collecting credit data, reporting, and credit scoring is complex, involving a wide range of consumer payment transactions reported to multiple credit bureaus and used by private firms to estimate each consumer's credit score. The numeric credit score is, in turn, used to estimate future payment probabilities for each consumer in the system with a sufficient credit record. Creditors, retailers, landlords, and employers[1] may then use these data to make decisions before entering into agreements with individuals (Brevoort et al., 2016). Further, the data can include errors that can negatively affect credit scores, but which take time and financial knowledge to detect and correct (Smith et al., 2018).

People of color and women disproportionately receive lower credit scores, driven in part by systemic racism and sexism that leaves them with lower incomes and assets and more limited choices of high-quality financial products (Li, 2018; Martinchek et al., 2022). Parents of younger children also tend to have lower credit scores (Lembo Stolba, 2019). Because credit scores can affect employment, place of residence, and opportunities for asset accumulation, they play a central role in perpetuating existing inequalities in society (Foohey & Greene, 2022). The Financial Capability model of financial behavior posits that in addition to financial skills and knowledge, people need access to affordable and safe financial services, including access to affordable credit (Sherraden, 2013). Some advocates argue that the credit scoring system needs to be reformed. For example, one proposal is to require credit bureaus to collect payment transactions that are common among people with fewer economic resources—such as utility payments—to better reflect their credit worthiness (Chenven & Ryan, 2014; Cochran et al., 2021; Turner & Walker, 2019). Others, however, have argued that such fixes will do little to fully address the system's inequities (Friedline, 2020; Kear, 2017). What is missing from this discussion, however, are the perspectives of the consumers who are potentially most subject to financial exclusion due to the strictures of the current credit scoring system.

This study draws from in-depth interviews with 72 women, all of whom were mothers with lower incomes, and most of whom identified as Black or Hispanic. We learn about their perspectives on the credit scoring system, such as whether they see any possibility for themselves at successfully getting ahead financially while interacting with the credit scoring system. We contextualize these insights with what mothers shared about how they pursued their financial goals, and the values and beliefs that guide their efforts. We add to the literature by raising the voices of a group of consumers who are often marginalized in the financial system. Additionally, we compare their awareness of their credit to nationwide statistics from the National Financial Capability Study to benchmark the interview findings. Taken together, these data show that mothers with limited incomes consider the credit system to be legitimate. Moreover, they are actively working within this system, despite its well-known challenges, to strive toward greater financial security. Their insights provide directions for policy and research.

2 | BACKGROUND

For most households, access to reasonably priced and safe credit is a key foundation for financial well-being. The ability to smooth consumption over short periods or borrow large sums to invest in housing or schooling can have a significant impact on financial security over the life course. People's ability to access affordable credit is based on their credit histories (Brevoort et al., 2016). Data on payment histories, credit accounts, and negative public records are not only used by lenders, but also as part of screening processes by landlords, insurance companies, utility companies, and even some employers (O'Brien & Kiviat, 2018).

The U.S. has three major credit bureaus: TransUnion, Equifax, and Experian. Each company collects data from furnishers (creditors, lenders, collection agencies, etc.) about balances, payment histories, ages of loans, and credit limits, as well as from public records like bankruptcies and foreclosures. Based on these data, lenders evaluate the risk of default for a given loan application (Lee & Van der Klaauw, 2010). In addition, many lenders also turn to formula-based models to estimate credit scores for each loan applicant, for which a higher credit score indicates a lower probability of default (Hayashi & Stavins, 2012). Credit scores have existed for decades, starting with the Fair Isaac Corporation (FICO) score. While FICO is widely known, there are dozens of other credit scoring models (Brevoort et al., 2016; Hayashi & Stavins, 2012; Turner & Walker, 2019).

The calculation of credit scores is based on several factors (Hayashi & Stavins, 2012). First is payment history, for which late payments lower the score and paying bills on time improves it. The second is credit utilization relative to credit limits. In general, paying off debt or having an increase in credit limits will result in higher scores, although closing accounts may raise the utilization ratio and mean a lower score. The third factor is the credit history length with older credit accounts resulting in higher scores—a clear disadvantage for younger people just starting out. Finally, a diversity of credit types is another factor, for which someone with just one loan (e.g., an auto loan) will score lower than someone with multiple loan types (for example, an auto loan, several credit cards, and a mortgage). While more loans can help someone's credit score, seeking out multiple loans in a short period can result in a lower score. This complex and opaque scoring system has the potential to leave people confused about their actual credit rating (Homonoff et al., 2021; Kiviat, 2019b; Lembo Stolba, 2019; Smith et al., 2013, 2018; Tach & Greene, 2014).

Adding to this confusion is that credit bureau information is not publicly available (Hiller & Jones, 2022). While those in the U.S. can view their credit report at no cost from each of the three credit bureaus,[2] that view is limited and does not include access to a credit score (Calafiore et al., 2014). Consumers can obtain scores by paying fees to credit bureaus or by subscribing to specialized services, but these fee-based alternatives are not widely used. Consumers can also get access to their scores from a lender or credit provider when they are denied credit (Hiller & Jones, 2022). While there are tools and services that provide estimates of credit scores or levels, these are not the same data and scores used by creditors (Calafiore et al., 2014). The opacity around credit information means that people may not have accurate or reliable information about their credit history or credit score (Courchane et al., 2008). Courchane et al. (2008) find people who underestimate their own credit have worse financial outcomes, indicating that there may be consequences of credit score awareness. Other studies suggest that some groups, especially Black consumers, are widely viewed, including in self-reporting, to have worse credit than is shown in actual credit history data, perpetuating unequal patterns of credit access by race (Ards & Myers, 2001).

Several studies emphasize the importance of consumer experience and knowledge levels when dealing with credit (Courchane et al., 2008; Dobbie et al., 2020; Lyons et al., 2007; Smith et al., 2018). This includes understanding what is reported, how and when negative information disappears from the report or is disregarded by creditors, and how to dispute errors in the report. Several studies show that younger people, women, and people with lower levels of education and from lower-income communities tend to have lower levels of financial knowledge (Courchane et al., 2008; Lusardi et al., 2010; Lusardi & Mitchell, 2014; Ricaldi & Huston, 2019). This could, in turn, result in certain groups of people systematically under-estimating their true creditworthiness.

Levinger and colleagues surveyed 1990 credit-counseling recipients to assess how well people estimate their own creditworthiness (Levinger et al., 2011). The authors found nearly three-in-four people underestimated their actual credit scores. Moreover, people who underestimated their credit were less likely to view themselves as creditworthy and less likely to seek out credit than their counterparts who did not underestimate their credit scores. This also leads to persistently lower credit scores, less credit use, and paying higher interest rates. Systematically underestimating creditworthiness can become a self-fulfilling prophecy for some people. A precursor to estimating one's own creditworthiness, however, is awareness of credit scores. Homonoff and colleagues find that by drawing consumers' attention to credit scores, people change their credit score perceptions, increasing accuracy in estimates among those who previously perceived their credit history to be better than it actually was, and reducing the rate of late payments (Homonoff et al., 2021). This experimental study used random assignment to test a very simple information disclosure for consumers; the results suggest that even small changes in the people's perceptions of credit scores can be economically meaningful for the people's financial well-being.

Some scholars criticize the credit scoring formula for generating lower scores for individuals from economically challenged communities (Hiller & Jones, 2022). Peers and social networks can influence the people's perceptions of their credit risk and credit scores (Lee et al., 2019). The process of applying for credit, managing credit, and self-perceptions of credit risk are influenced by social processes and subjective information as much as data-driven calculations (Kamleitner et al., 2012; Kamleitner & Kirchler, 2007). And, aside from financial consequences, the outcomes of this process can be psychologically and socially consequential; credit denial can be a stigmatizing experience for consumers (Jennett et al., 2012).

While there are several studies examining credit data and behavior, few studies interview consumers, especially those likely to have a negative view of their own credit. One notable exception is a case study of Lending Circles, a peer-to-peer lending model operated by a non-profit organization (Kear, 2017). These consumers, who were engaged in an alternative credit program outside a typical credit market, still wanted to improve and enhance their credit data collected by mainstream credit bureaus. The author describes people as "playing the credit score game," in part to prove to others that their credit data supported their financial aspirations. Lending circle participants viewed their credit score as a benchmark of credit quality, even if they doubted or misunderstood the actual credit data and formulae.

There are a number of studies that critique the credit scoring system (Foohey & Greene, 2022, 2022; Hiller & Jones, 2022). Yet, credit scores have become embedded across a wide range of consumer markets, even beyond lenders making decisions on loan applications (Kiviat, 2019c; O'Brien & Kiviat, 2018). Critics of the system typically do not include evidence from the perspectives of the people affected by the system themselves, however. Low-income and liquidity-constrained consumers face budget constraints that may mean they cannot sustain even basic levels of consumption. As a result, these consumers need to make difficult trade-offs about which bills are paid on time and which ones end up being reported as delinquent (Tach & Greene, 2014). Some types of bills or payments are reported to credit bureaus only when they are long overdue, while others are reported monthly, including positive, on-time payments (Brevoort et al., 2016). Some policy proposals seek to expand what types of payments are reported, including more categories of expenditures that can be considered in credit scoring (Chenven & Ryan, 2014; Cochran et al., 2021; Turner & Walker, 2019). It remains unclear if expanding the scope of reporting would be viewed positively by consumers, however. There are differences in how consumers manage bills based on income, education level and class (Halpern-Meekin et al., 2015; Seefeldt & Sandstrom, 2015; Tach & Greene, 2014), including a reliance on social networks and family to make ends meet (Campbell & Pugliese, 2021). If policymakers are generalizing based on the experiences of middle-income or more affluent consumers, then the result may be very different than when including the experiences of lower-income consumers.

People's awareness and confidence related to managing credit data, histories, and scores can be understood in the context of Sherraden's Financial Capability Model (Sherraden, 2013). In this framework, financial behaviors are the result of a process where people use their accumulated knowledge and skills to make financial choices, influenced by their attitudes and confidence about financial decisions, as well as access to appropriate financial products and services. People may understand credit scores, how credit data are collected, and what their credit history means for their financial situation, but if they lack confidence in the credit scoring system and have negative attitudes about credit reports and scores, they may not prioritize making different financial decisions related to their credit (Foohey & Greene, 2022; Lee et al., 2019; Ricaldi & Huston, 2019). That is, if they reject the legitimacy of the system and see no hope for themselves to succeed within it, then they may not attempt to play by its rules. By understanding consumers' perceptions and attitudes, beyond their knowledge and skills, we can better understand how people's financial capability—and the system that shapes it—can be improved.

This current study builds on the prior literature in several ways. Firstly, we focus on a population of consumers who are likely to have both objectively lower credit quality, as well as lower levels of self-assessed credit. These individuals are not recruited from a lending program or credit counseling, so they are not selected for study participation based on their credit awareness. Secondly, through interviews we explore attitudes about credit, experiences with credit, and perceptions of credit scores. Rather than focusing on accuracy relative to external data, we rely on what people say about their experiences and how their perceptions influence their behavior. Because alternative financial service use is lower among those with the lowest earnings in the U.S., compared to their counterparts with household incomes between $25,000–50,000 (Friedline & Kepple, 2017; Lawrence & Elliehausen, 2008; Lusardi & de Bassa Scheresberg, 2013) and because previous research with this sample has similarly found limited engagement with alternative financial services in this sample (Collins et al., 2022), we focus on the mainstream credit market. Finally, using a mix of public survey data and interview findings, we show that people have widespread knowledge of the credit data and scoring system. Taken together, this offers insight into whether these mothers with limited incomes view the credit system as illegitimate or as offering opportunities for building toward greater financial well-being in the future.

3 | DATA AND METHODS

3.1 | Interview data

Baby's first years (BFY) is a randomized controlled trial of the impact that unconditional cash transfers to mothers with limited income have on child development. Across four metropolitan areas varying in demographics and policy contexts, one thousand mothers with incomes below the federal poverty line were recruited after giving birth to receive a monthly cash gift for the first 76 months of their child's life. After agreeing to participate in BFY, mothers were randomly assigned to receive either $333 or $20 via debit card monthly. The debit card is a Mastercard that can be used widely in stores and online, as well as to withdraw money via ATM. The card is not reloadable, with only the cash gift being dispersed through it. Limited fees are associated with the card. There are no fees when making purchases, withdrawing cash through a bank teller, accessing customer service, or requesting a card replacement from BFY; however, standard ATM fees apply and there is an inactivity fee after 12 months of no use. The cash transfer itself is not taxable, as it is regarded as a gift. To the extent possible, the research team worked with policymakers to exclude the gift from counting as income for government benefit program eligibility determinations.

In this study, we draw on in-depth, semi-structured interviews from Baby's first years: mothers' voices (BFY: MV), the qualitative companion to the broader BFY study (approved by the Institutional Review Board of the University of Wisconsin-Madison). BFY: MV focuses on the narratives of 80 randomly selected BFY mothers, as they share with us their views of and experiences with parenting, finances, BFY, and other salient topics; all provided informed consent to participate. In BFY: MV, we selected 50 mothers from Louisiana and 30 mothers from Minnesota to reflect the site distribution in the broader BFY study, with an equal number of BFY: MV mothers in each site receiving the large and small cash gifts. The sampling intentionally ensured that first-time mothers were well represented. In this longitudinal study, the first wave of interviews occurred around the time the focal child was about 1 year old with each subsequent interview occurring about 1 year later. Most interviewers lived in the same metro areas as the women in the study; all interviewers had at least a college degree; and half of the interviewers identified as people of color. In this way, there were similarities and differences between the characteristics of the interviewers and the women participating in the interviews.

We draw on four waves of semi-structured interviews[3] that covered a range of topics with mothers, from their day-to-day life to experiences with parenting and family life to managing money and finances, including income, expenses, the BFY gift, and experiences with financial institutions. Interviews typically occurred every 9–12 months. We recorded and transcribed each interview. During our first and second interviews, nearly half of mothers (49%) spontaneously raised the topic of credit scores. Because of this, we systematically asked mothers about credit scores in our third wave of interviews: "Tell me about how your credit score affects what you can or can't do financially." During the fourth interview, we also asked mothers about how they learned about managing money growing up and what they want their children to learn about managing money. Interviews often lasted about 1 hour and 15 min, though this varied across waves and between participants. There were eight BFY: MV mothers who we were unable to interview in our third wave, and with whom the topic of credit scores did not spontaneously emerge in other interviews; therefore, our sample is 72 mothers.

About half of the mothers received each BFY gift amount—51% received the large gift and 49% received the small gift (see Table 1). Fifty-eight percent of mothers were from Louisiana and 42% of mothers were from Minnesota. The mothers in this study were mostly women of color: 64% of them identified as Black, 10% as Hispanic, 4% as Asian, 1% as Native American, 11% as White, and 10% identified with multiple races or another race. At the time of our first interview, mothers ranged in age from 19 to 42 years old with a median age of 27. Also at that time, 56% of mothers had a romantic partner, they had between one and six children (with a median of two), and 28% were first-time mothers. About two in five (39%) were formally employed at the time of the first interview, about 1 year after giving birth. Most mothers received food assistance through the Supplemental Nutrition Assistance Program (71%), about 10% received cash welfare benefits through Temporary Assistance for Needy Families, and at least 35% received housing assistance. Most mothers rented a home or resided in someone else's home. When we spoke with mothers the first time, 56% of mothers were currently banked, defined as having a checking or savings account.

We analyzed the content of these four waves of interviews using descriptive, deductive, and inductive approaches. Using *Dedoose 9.0*, we applied a set of pre-determined codes based on interview content and prior research. We revisited this set of codes with each interview wave and returned to previous interviews to apply new codes, as needed. We followed a protocol for assuring intercoder consistency so that codes were similarly understood and applied. Then, we compiled all excerpts related to credit scores from the first four waves of interviews, as well as

TABLE 1 Demographic characteristics of BFY: MV mothers and NFCS mothers with low incomes.

	BFY: MV wave 1 (%)	NFCS 2021 (%)
Lives in LA	58	4
Lives in MN	42	1
Nonwhite	89	51
Ages 18–24	26	23
Ages 25–34	58	40
Ages 35–44	15	36
Co-resides with spouse/partner/significant other	43	48
Number of dependent children (Mean)	2.60	2.01
Employed	39	39
Banked	56	82
N	72	866

Note: Age range for BFY: MV sample: 19–42. Age range for NFCS subpopulation: 18–44. Number of children for BFY: MV range: 1–6. Number of children for NFCS subpopulation range: 1–4 (Note: Number of dependent children is top-coded at four). Sample median for number of children is also 2 in both BFY: MV sample and NFCS subpopulation. NFCS provides neither specific ages nor races/ethnicities. NFCS data weighted.

excerpts related to learning about money from the fourth wave of interviews. We descriptively categorized excerpts to indicate whether mothers were aware of their credit score, did not know their credit score, or were unsure. Then, we identified themes that emerged from these excerpts regarding the views mothers had of their credit scores and the credit scoring system. We use pseudonyms when referring to mothers and their children to protect their identities.

3.2 | National financial capability study data

We produce nationally representative descriptions about credit awareness among mothers with low incomes using publicly available data from the National Financial Capability Study (NFCS). We concentrate on the 2021 survey to align with the timing of the qualitative study. The FINRA Investor Education Foundation administers this survey triennially to measure topics such as financial attitudes, credit card and bank account use, and other topics. Our outcome of interest is respondents' self-reported awareness of their credit measured in the survey, "How you would rate your current credit record?" (FINRA Investor Education Foundation, n.d.). Figure 1 shows the distribution of these self-assessed credit records. At the extreme end, 13% of low-income mothers in the 2021 NFCS data reported having "very bad" credit records, compared to only 4% of the overall national sample. At the other extreme, only 6% of low-income women reported "very good" credit, which is only one-seventh of the 40% rate overall. Mothers with low incomes assess their credit records more negatively than the broader U.S. sample.

Respondents could also indicate that they "did not know" their credit record. Because the survey also offered respondents a "prefer not to say" response, we assume a "do not know" response is not a proxy for not wanting to share this information and, instead, is a valid and reliable assessment of their awareness of their own credit history. We dichotomize awareness of one's own credit history based on the "do not know" response to this question.

We tabulate our descriptive statistics using the weights provided in the public data. The analysis is restricted to the sample of parenting women ages 18–44 with annual household

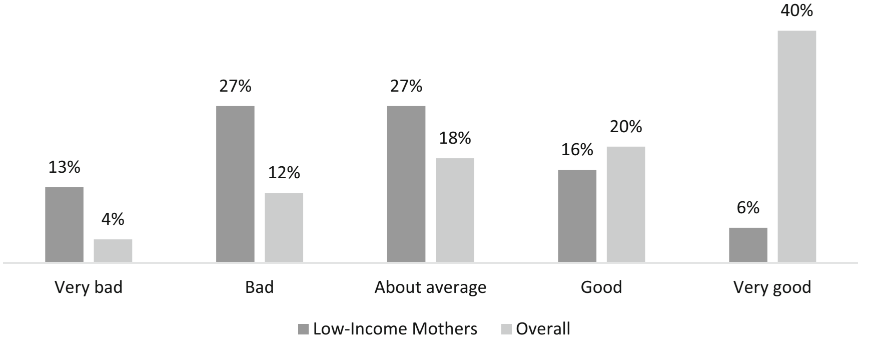

FIGURE 1 Distribution of self-assessed credit score among mothers with low incomes versus U.S. Population, 2021. Weighted. Percentages may not add up to 100% due to rounding. All differences among low-income mothers relative to the U.S. population are statistically significant at the 1% level based on two-tailed t-tests. The analysis provided in this figure is solely based on data from the NFCS. *Source*: NFCS (2021).

incomes of less than \$25,000 ($N = 866$ in the 2021 sample). Table 1 shows the BFY: MV and NFCS samples had similar age distributions, although the BFY: MV sample tended to be more in the 25–34 age range. Just under half of the women in both samples had a partner or spouse living with them. The average number of children among mothers in BFY: MV (2.6) was larger than mothers in the NFCS sample (2.0). Both samples had about a 39% employment rate, although only 56% of the BFY: MV sample reported being banked, relative to 82% of the national NFCS sample.

4 | RESULTS

While the credit scoring system is complex and involves multiple agencies (such as Equifax, Transunion, and Experian), the mothers we talked to experienced it all as a single system. They did not discuss the distinctions between which transactions count and which do not in affecting credit scores, nor did they see differences between credit scoring agencies. Because they experienced the credit scoring system monolithically, we discuss it as such here. In doing so, we describe the mothers' awareness of their credit scores; the way they valued good credit in terms of their financial aspirations; that they do not regard the credit system as illegitimate; their knowledge of how to establish or build their credit scores; and the tensions they faced between their financial values, the need to get by currently, and their desires to get ahead via credit use.

4.1 | Awareness of credit scores

As we asked the women about whether their credit score affected what they were able to do, we learned that most were aware of their credit scores, whether high or low. Overall, 50 mothers (69%) described themselves as aware of their credit score, six (8%) said they did not know their credit score, and 13 (18%) were unsure, not feeling confident in their knowledge.[4] We do not see differences in credit score awareness between mothers receiving the large and small BFY cash gifts.

It was not just mothers with stronger credit scores who described being aware of them. For example, Amber, a mother in the Twin Cities who identifies as Black, Hispanic, and White, explained, "I don't really have, like, bad credit, but I don't have any credit. No credit is like bad credit, you know. So, it's probably a good thing I never qualify for a credit card or anything so I, like, don't really have debt like that." Amber is aware that she is unscored and that that's a bad thing in terms of her credit worthiness but her financial situation is tight—"I kind of make it just barely every month and we get through somehow"—and so she views the limits on her credit access as protecting her from accumulating debt. Many of the mothers, such as Amber, experienced financial challenges with making ends meet, and they typically had limited experience with many types of financial transactions (such as purchasing real estate, buying and selling stocks and bonds, or maintaining retirement accounts). Nonetheless, they were often aware that their credit worthiness was assessed and scored.

The prevalence of BFY: MV mothers explicitly stating they do not know their credit score (8%) reflects national estimates. Nationwide in the NFCS, one in 10 mothers with low incomes "do not know" how they would rate their current credit record. In the U.S. population overall, only 5% say the same. (Both nationwide and within our subsample, 1% indicated they "prefer not to say.")

4.2 | Valuing good credit for financial aspirations

Next, we want to understand why mothers are attuned to their credit scores. When we asked Tracy, a Black mother in the Twin Cities, if her credit affected what she was able to do, she explained, "[I]f I wanted to buy a house I probably couldn't buy a house." However, she told us, being able to do so was a goal. "Well, eventually I would like to buy a house. I am tired of renting and if I did rent, I would rather rent to own.... [P]ay rent and it could actually go towards me being able to keep the house instead of me just paying rent to somebody else and then I won't be able to keep the apartment." For her, this wasn't just about achieving the goal of homeownership, but also being able to move her family into a more desirable neighborhood. "I kind of wanted to move to the west side of Saint Paul; they've got some really nice areas over there, a lot of restaurants and shopping centers and stuff...." Tracy had been working toward this goal by building her credit score, but her efforts were disrupted after she had a baby. "I do have, like, the Self app, and that's basically where you pay yourself every month, and my credit score did go up, like 100 and something points, but then I went on maternity leave so … I stopped paying myself and then they ended up sending a check for everything that I had saved.... And I know my credit score did go up, but I don't know what happens now.... I would like to fill out another application so I can do that again because that did help build my credit score, like 100 and something points. It was at four something, [and] now it's at like 530 or something like that." For Tracy, building her credit score is an important step toward her goal of purchasing her own home in the part of the city she'd prefer to have her family live, closer to amenities. Even though her efforts through the Self app did not lift her credit score out of the "very poor" range in FICO's classification, Tracy nonetheless saw herself moving in the right direction in building her credit before she had her youngest child. Likewise, Stephanie, a mother from the Twin Cities who identifies as American Indian, Black, and White tells us about how her credit score was decent until she had a bill go into collections. In her narrative, we hear how the disappointment in this event lies in what she sees this meaning for her dream of opening her own business. "[I]t dropped my score about 55 points, and I was at 700. Now I'm at, like, six something, and it's not really good because I was trying to take out a small business loan for me to begin to fund my own business, and they said that they kind of would only go with a score that was seven something. Well, just last week I was qualified, but now I don't." She's not giving up on her business ownership goals, though. She says she's going to fix her credit score: "I'm still going to build it and maintain it."

While Tracy and Stephanie aspire to substantial asset accumulation, we heard mothers describing a desire to build their credit scores as a means to achieve smaller-scale financial goals or even optimize household spending. For example, Deiondre, a Black mother in New Orleans, would like to build up her credit score so that she can qualify for a mainstream credit card. Isabella, a Hispanic mother in New Orleans, sees the role her credit score plays in managing her household budget, as it interferes with her access to affordable cell phone and internet services as well as the best rates for insurance policies. She tells us, "If I don't have credit, I don't have anything." Mothers see their credit scores as instruments that can help them access aspects of the financial market from which they are otherwise barred—owning a home or business, or simply being able to smooth consumption by using a credit card that's accepted by most merchants.

4.3 | Perceived legitimacy of the credit scoring system

As we can see from the narratives above, mothers are generally aware of the credit scoring system and see opportunities for themselves that would come from working within it. That is, even when they are frustrated or disappointed at being rejected or unable to do what they want because of their credit scores, their response is generally not to reject the legitimacy of this approach to determining credit worthiness; rather, they describe their commitment to continuing to work within this system. For example, while Dominique, a Black mother in New Orleans, says critically, “They check credit too much these days,” this seems to have only strengthened her resolve to bring up her credit score. “I need to get my credit score up because it's a lot of stuff that I want, and I can't get [it] because of my credit. I need to work on that. So, I just feel like if I had credit, better credit, I'd have way more options. It'd be better for me and my family.”

Similarly, Houa, a Hmong mother in the Twin Cities, was frustrated that her bank would not give her a $2000 loan. As she talks, we hear her anger toward her bank, as opposed to being directed to the credit scoring system the bank is part of writ large. “They're—the banks and credit unions, I mean they do talk to you but it's hard because—I mean they say they try and help you, but they don't really help you. … I don't have the right to take out a loan because I don't qualify for a loan…? Because my credit score is too low? It just don't make sense to me. Sometimes it's hard because I have no credit score at all, and sometimes I get angry too. I'm like, what am I supposed to do then? [Laughter] Now I have to rely on someone else and I hate relying on people, ever.” That mothers do not reject the credit scoring system's legitimacy is underlined by the absence of such narratives among even those mothers, like Houa, who were mad or disappointed at the ways their low credit scores limited their opportunities as consumers.

4.4 | Financial values, and resulting tensions

As we heard from the mothers above, when their credit scores were not where they wanted, they often articulated present or future plans to establish or build their credit. That is, they often felt like they had an idea of what they needed to do to increase their credit scores. The approaches to doing so that mothers described included paying off debts, using credit cards selectively and carefully with the intention of building credit (as opposed to doing so to engage in consumption smoothing), monitoring their credit reports and disputing incorrect information, using apps and self-pay options that are marketed to build credit, and making rent-to-own purchases to establish credit.

For example, Camille, a Black mother in New Orleans, describes buying a TV set at Aaron's, a rent-to-own store, to build her credit. While she was making those payments, that bill was a high priority for her every month. “Every time I got paid when I was working at Walmart…that [Aaron's bill] was the first thing I paid.” She explained that she would have let her phone get shut off before she let that Aaron's bill go unpaid so that she could achieve her credit goal. “Just paying it on time, make healthy credit score. … It went good. I paid it.” She had been unscored beforehand; she sees herself as more financially stable now, pointing to being able to put all her utility bills in her own name after having established a credit score and moving into her own apartment with her kids. Being able to have her bills in her own name felt like an accomplishment.

Like Camille, mothers often had a sense of what steps they could take to establish or build their credit. However, there are some strategies mothers did not talk about using. For example, though they were aware of the role of on-time payments in credit scores, mothers generally did not describe using the BFY debit card (or other cards or accounts) to help build a stable payment history through mechanisms like automatic bill pay. Some other credit building strategies did not come up for mothers either, such as attempting to have certain on-time payments like rent or utilities included in their credit report or keeping credit accounts open over time to lengthen their credit history. Instead, for example, we hear some mothers talk about intentionally closing accounts so that they do not use credit that they cannot pay off. It's possible that the women in this study do not know about these other strategies for building credit, but it's also possible that these alternative strategies would not work for them, and so they do not pursue them.

In addition to building credit, however, mothers also held other financial values or goals. These financial values came through when we asked them about the financial lessons they wanted to teach their children. They often described wanting their children to be financially stable, to live within their means, and to save. Tonya, a mother in the Twin Cities who identifies as American Indian and White, told us, “I guess I would like them to learn how to save money versus spending it.” Likewise, Simone, a Black mother in New Orleans, tries to dissuade her daughter from spending the money in her piggy bank on toys. “I have to tell her like, you know, if you don't spend your money and you save your money, you'll have more and more and more money.”

This emphasis on saving and avoiding unnecessary spending was repeated by many mothers. As a financial approach, this can help to minimize expenses and build a personal safety net, both of which felt important to these mothers who were often living on the financial edge, trying to make ends meet. However, this strategy contrasts with several of the ways mothers described for establishing or building credit. That is, there were tensions in mothers' financial values and strategies between saving and engaging in the kind of spending—such as on credit or rent-to-own purchases—that could help them build credit. Engaging in credit building strategies could present a risk, as we heard above from Camille who prioritizes paying her rent-to-own bill as a way of building credit, while risking her phone getting shut off when her paycheck did not cover all that month's expenses.

We saw a tension between the approaches mothers saw helping them get ahead financially versus those that helped them get by for now on limited incomes—getting by and getting ahead could be in conflict. When mothers felt a real financial crunch, this sometimes meant they did not feel that pursuing strategies for getting ahead was an option for them. Heather, a White mother in the Twin Cities, very much wanted to be able to buy a “newer” (not new) car—something she's never had—but even being able to sign a lease in her own name, rather than her mother's, wasn't possible because of her credit. So, while she dreams of the financial standing and independence of having bills in her own names and a newer car, she does not see options for building her credit score right now. “Honestly, … I'm literally just trying to manage day by day as it is for [my daughter] and for myself. So, stuff like that is just kind of background noise.”

Mothers tended to have both knowledge of their own credit scores and how to build them, and they saw having good credit as a desirable tool for achieving their financial and asset building goals. Their financial needs and values emphasized taking care of present needs, limiting their spending, and saving. This could be in tension with the ways they could most easily build their credit, such as through making purchases on credit and then prioritizing the payment of these bills. Because mothers were acting in a constrained financial situation, their ability to pursue approaches to getting ahead was hampered, even as they seemed to accept the need to operate within this financial system.

4.5 | Factors that differentiate credit awareness

We next turn to the NFCS survey data to shed light on the patterns we observe in the BFY sample. Using this national sample, we estimate the credit awareness levels of mothers with low incomes and how awareness of credit varies by personal characteristics. This helps elaborate on the themes emerging in interviews with a more generalized population.

Overall, 90% of low-income mothers in the NFCS in 2021 affirmed "knowing" their credit record, as shown in Table 2. Table 3 shows that the rate of low-income mothers knowing their own credit record was slightly higher among those who were banked compared to the unbanked (92% vs. 87%) and among those with credit cards compared to those without (95% vs. 86%). These results are consistent with people who are more engaged with financial services also being more aware of their credit record, albeit by a small margin. Even among the unbanked and among those without credit cards, a heavy majority reported an awareness of their credit record.

We might predict that credit awareness is related to general financial awareness, but there is not strong evidence of this in the NFCS data. The mothers in the NFCS sample who reported being the "most knowledgeable" about finances in their household have about the same rate of reporting knowing their credit as those who say they are not the most knowledgeable about finances in their household. The NFCS also includes a series of questions about credit use in the last 12 months. Mothers who responded "do not know" to any one of six items (having a credit card; paying credit cards off in full; carrying card balances; making late payments; exceeding card credit limits; or taking out a credit card cash advance) are coded as "not knowing" about their own credit card use. This measure of a respondent's knowledge of credit use is not correlated with respondents reporting that they know their credit record. However, mothers

TABLE 2 Awareness and distribution of self-assessed credit score among mothers with low incomes versus U.S. Population.

	BFY: MV mothers	Low-income mothers, 2021	U.S. population overall, 2021
Does not know credit score	8%	10%	5%***
Knows credit score	69%	90%	95%***
Unsure/unconfident of credit score	18%	–	–
Refused	3%	1%	1%
N	72	866	27,118

Note: BFY: MV mothers did not self-assess credit scores and 18% of mothers indicated they were unsure. NFCS 2021 data weighted. Percentages may not add up to 100% due to rounding.

***Differences among low-income mothers relative to the U.S. population are statistically significant at the 1% level based on Taylor linearized standard errors and two-tailed t-tests. Data Source: BFY Waves 1–3; NFCS 2021.

TABLE 3 Awareness of self-assessed credit score among mothers with low incomes by select financial characteristics, 2021.

Characteristic	No (%)	Yes (%)
Has checking or savings account	87	92*
Has credit card	86	95***
Most knowledgeable about finances in household‡	89	92
"Does not know" credit usage in past 12 months	90	88
Used apps/websites to help manage finances and credit	85	93***

Note: N = 856. Weighted. Multiple characteristics can apply to households. ‡Asked among married and cohabitating households.
*Differences by banking status are statistically significant at the 10% level based on two-tailed t-tests.
***Differences by credit card ownership and app/website usage are statistically significant at the 1% level.
Source: NFCS (2021).

who reported using websites or apps such as GoodBudget, Mint, or Credit Karma to assist with budgeting, saving, or managing credit were relatively more likely to know their credit record than those who did not (93% vs. 85%). While these patterns in survey responses are interesting, we do not assume there is any causal relationship between app use and credit knowledge. In fact, for low-income consumers like those in our interview sample, these technology-based solutions may have only limited utility. For example, prior work shows women tend to have lower adoption of fintech products (Chen et al., 2023), as do people with more financial management problems (Carlin et al., 2023).

Collectively, the patterns in Table 3 show that mothers who have more financial experience and interactions with financial services are more likely to report awareness of their credit. However, lack of credit awareness does not seem to be a function of these women "not knowing" about their own credit behaviors or being less knowledgeable about finances in their household. Awareness of credit records appears to be higher among people who need and use financial products. Generally, however, the differences in credit awareness are small in magnitude; awareness of credit is widespread among mothers with low incomes, in both the NFCS and BFY: MV samples.

5 | DISCUSSION

Overall, these data show that the mothers with low incomes in our study did not reject the credit reporting system—they often had knowledge of their credit scores; understood some concrete steps they could take to improve their credit scores; linked having a stronger credit score to their financial aspirations for the future, such as home ownership; and did not fundamentally reject the (un)fairness of credit scoring's judgments of their financial worthiness. However, they also faced a tension between the behaviors that could help them with their long-term financial goals—such as spending on credit now to build their scores and strengthen their position as a potential homebuyer—and being risk averse in their consumption decisions now—such as avoiding spending on credit as near-term financial shocks could mean an inability to pay that bill. When mothers expressed their financial values in describing the most important financial lessons they wanted their children to learn, it tended to be around the latter—wanting their children not to spend beyond their means. This underscores that while these mothers with low incomes are fairly accepting of operating within the credit scoring system, their difficult financial positions often raise the risks of doing so.

Existing research details how consequential credit scores and credit score awareness can be. The present study sheds light on views of the credit score system among mothers with limited incomes, who are likely to be disadvantaged and financially excluded by this system (Lembo Stolba, 2019; Li, 2018; Martinchek et al., 2022). We gain an understanding that, by and large, these women do not reject the legitimacy of the credit scoring system. They generally are aware of their credit scores and have some ideas about concrete strategies they can take to manage their credit. They are motivated to do so by their financial dreams and aspirations, but they also face tensions in doing so by the trade-offs between making ends meet now and financial decisions that could facilitate getting ahead in the future. Therefore, despite not expressing the same skepticism of the system as critics (Ards & Myers, 2001; Friedline, 2020; Jennett et al., 2012; Kear, 2017; Kiviat, 2019c), financially marginalized women find themselves working to navigate a system that often does not work for them. Yet, they do not disengage from it, as it is the option our economy offers for securing the American Dream of homeownership and family security. In turn, widespread acceptance of the legitimacy of the credit scoring system provides a foundation which will allow this structure to exist (Habermas, 1973; Kiviat, 2019a).

These findings align with previous research with a sample of Lending Circle participants, who felt they needed to "play the credit score game" (Kear, 2017). Findings such as these should encourage the field to move beyond a focus solely on testing financial knowledge. The present study shows how insights from qualitative work can shed light on the perspectives and values that motivate financial behaviors and decision-making. Further, it encourages scholars and policymakers to see people who are financially marginalized as agentic—they have some knowledge and pursue financial management strategies yet nonetheless face systemic obstacles to economic stability and thriving.

Some critics of the credit scoring system have encouraged tweaks to recognize and score some of the types of payments that consumers with lower incomes are likely to make, such as their utility bills (Chenven & Ryan, 2014; Cochran et al., 2021; Turner & Walker, 2019). However, as others have pointed out (Friedline, 2020; Kaul, 2021; Kear, 2017), and as we see in our study, this would not be uniformly beneficial for families living on the financial edge. For example, the children's needs for food and shelter could trump utility bills, continuing the set of trade-offs families face as they try to get by on limited incomes while wanting to build credit.

Future research could address some of the limitations of the present study. For instance, our qualitative study participants are drawn from two metro areas; it is possible that in other regions or states, with different financial infrastructure, awareness of and perspectives on the credit scoring system may vary. Our confidence, however, is bolstered by the similarity we see in credit score awareness between the qualitative data and the national NFCS data. Further, our study includes mothers with at least one young child. It is possible that views of and engagement with the credit system changes over the life course and as the needs of one's children change. Future research could include more diversity in geography and life course stage. Finally, we do not assess the accuracy of the mothers' credit score knowledge, as that was not the focus of the study; therefore, we cannot speak to whether their assessments of their credit situations would be reflected in their actual credit scores.

6 | CONCLUSION

Both opaque and enormously consequential, the machinery of the credit scoring system works to shape the lives of consumers, whether they have high scores, low scores, or no scores. The perspectives and experiences of lower-income consumers, especially those juggling the financial tradeoffs required among young parents, are important for any consideration of regulations or reforms related to the credit scoring system. The present study demonstrates the widespread awareness of this system among those most likely to be excluded from it—mothers of color with limited incomes. We learn about the work they do to navigate this system, connected to their dreams for their financial futures, and the tensions and trade-offs they face in doing so. While not set up for them to succeed, they nevertheless continue to try to operate within its constraints, not treating the credit scoring system as illegitimate. Researchers, educators, practitioners, and policymakers can continue to push for improvements to the credit reporting system, but at the same time pay close attention to the life experiences of consumers outside of the mainstream of financial markets.

AUTHOR CONTRIBUTIONS

Authorship in alphabetical order. All of the authors contributed to the manuscript. Melody Harvey and Jill Hoiting analyzed data. All authors took part in writing and editing.

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ENDNOTES

[1] Some states limit credit checks for certain purposes (such as by employers). The two states in the interview study, Minnesota and Louisiana, do not have these restrictions (Foohey & Greene, 2022).

[2] In the U.S., consumers can obtain a free annual credit report from the Fair and Accurate Credit Transactions Act. https://www.ftc.gov/legal-library/browse/statutes/fair-accurate-credit-transactions-act-2003

[3] Initially, the first wave of interviews occurred in-person, but in response to the COVID-19 pandemic we transitioned to phone interviews about two-thirds of the way through this first wave and remained so in subsequent waves.

[4] Additionally, two mothers (3%) chose to skip this question, and one (1%) did not respond in ways that allowed us to classify their awareness.

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