Community-Level Racial Inequities in Young Adults' Credit Scores Are Likely Driven by Differences in Wealth-Building Opportunities

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KEY TAKEAWAYS

Large and persistent **community-level racial inequities in young adults' credit scores** shape their access to credit and borrowing costs.

New evidence suggests that a **significant portion of racial disparities in young adults' credit scores reflects systemic differences in wealth-building opportunities** across communities, including differences in residential segregation and housing wealth.

Policies can reduce structural inequities and advance equitable opportunities to **equalize returns to homeownership and education for young adults in communities of color.**

Credit is an essential lifeline for young adults (ages 20–29) that can help them weather economic shocks. But large and persistent community-level racial inequities in credit scores limit the financial stability of young adults living in communities of color.[1]

In this summary, I explore how much of the community-level racial disparities in young adults' credit scores stem from systemic differences in community characteristics, including income, educational attainment, employment, and homeownership, as well as wealth-building opportunities. I conclude by reflecting on opportunities to address structural inequities in credit health for young adults living in communities of color and advance racial equity.

COMMUNITY-LEVEL RACIAL DISPARITIES IN CREDIT HEALTH

Meaningful Differences in Credit Access Can Limit Young Adults' Ability to Remain Financially Secure

Prior research has documented large and growing community-level racial inequities in credit health between young adults living in majority-white communities and in communities of color.[2] For example, young adults living in majority-Black communities—where 50 percent or more zip code residents identify as Black in the 2015–19 five-year American Community Survey—have average credit scores 67.0 points lower than peers living in majority-white communities. As a result, young adults living in majority-Black communities have, on average, subprime credit scores and experience disproportionately lower levels of credit access and borrowing costs than their peers in more affluent, majority-white communities (Martinchek 2024a, 2024b).[3] Evidence also suggests that some inequities in credit health may have accelerated between 2020 and 2023; the disparity in credit card delinquencies between young adults living in majority-Black communities and in majority-white communities grew by 26.3 percent (Martinchek 2024a, 2024b).[4]

Importantly, racial inequities in credit health are meaningful and shape young adults' access to mainstream credit and borrowing costs. For example, young adults living in communities of color may pay nearly $4,000 more in interest on a $10,000 loan over a four-year period (Elliott and Lowitz 2018). Furthermore, constrained access to credit may mean that they are unable to or cannot afford to borrow when their income drops, making it more challenging for them to weather economic disruptions and establish financial stability. In such circumstances, they may need to draw from their savings, access high-cost financial services like payday loans, or borrow from friends and family to make ends meet.[5]

Given the impact of racial inequities in credit health on young adults' financial well-being and their ability to establish financial security, it is important to identify the drivers of these disparities to inform and spur policy action.

The Role of Structural Racism: Policies Shape the Geography of Opportunity at the Community Level

Community-level racial inequities in credit health likely stem from race-based and race-neutral policies that have systematically limited wealth-building opportunities and access to credit. They serve as the root causes driving inequitable conditions that lead to disproportionate credit score outcomes across communities (Baradaran 2017; Furtado, Verdeflor, and Waidmann 2023; Kijakazi et al. 2019; Rothstein 2017). For example, redlining practices in the mid-20th century fostered and perpetuated differences in homeownership, housing price appreciation, and wealth-building returns, and they also entrenched residential segregation (Aaronson, Hartley, and Mazumder 2021; Baradaran 2017; Faber 2019; Markley et al. 2020; Mitchell and Franco 2018; Rothstein 2017).[6]

Over time, other policies—including the discretionary application of GI Bill benefits, predatory practices in subprime lending before 2008, and geographical targeting of high-cost and traditional credit based on community demographics—have further exacerbated these community-level racial inequities in wealth and credit (Baradaran 2017; Dymski 2009; Gale 2021; Goodstein and Rhine 2017; Katznelson 2005; Markley et al. 2020; Martinchek 2024b; McKenna 2008; Rothstein 2017; Taylor 2019; Wyly et al. 2009). Cumulatively, these policies have created distinct areas with inequitable access to affordable credit, wealth-building opportunities, and economic-mobility prospects—ultimately constraining residents' quality of life and financial trajectories (Acs et al. 2017; Baradaran 2017; Rothstein 2017; Turner et al. 2022). It is plausible that such systemic differences in wealth-building opportunities across communities stemming from

BRIEF METHODOLOGY

Data Sources

Administrative data are from a 2 percent nationally representative sample of consumer credit records sourced from one of the three major credit bureaus in February 2020, and they are merged with zip code–level data from the 2015–19 ACS and county-level data from Mobility Metrics dataset.

Analysis

I use a threefold Oaxaca-Blinder decomposition to decompose differences in young adults' average credit scores across communities into contributing factors.

This method estimates two linear regression models for the outcome of interest (credit scores) based on a group of factors: income, educational attainment, employment, and home-ownership from the ACS; and home price appreciation and residential segregation from Mobility Metrics.

I assess the extent to which differences in credit scores between young adults living in communities of color and in majority-white communities can be accounted for by (1) differences in the average characteristics of those communities (explained portion of the difference), (2) differences in the way those characteristics influence credit scores in different types of communities (unexplained portion of the difference), and (3) the interaction between community characteristics and their effects (interaction effect).

these policies could have shaped resident's' credit health outcomes, resulting in stark differences in young adults' credit health.

DECOMPOSING CONTRIBUTING FACTORS TO COMMUNITY-LEVEL RACIAL INEQUITIES IN CREDIT SCORES

To better understand what drives these community-level racial inequities, I decompose (or break down) differences in average credit scores between young adults living in majority-white communities and in communities of color into contributing factors.[7]

Specifically, I explore whether differences in young adults' credit health across communities result from differences in levels of two types of community characteristics: factors associated with credit health and factors associated with wealth-building opportunities. I also examine the differences in how these factors (or other unobserved factors) influence credit scores in majority-white communities and in communities of color. (See the Detailed Methodology section for a comprehensive description of this analysis.)

The factors reviewed in this analysis are as follows:

- Community factors associated with credit health
  - » median household income of local communities
  - » educational attainment of local communities
  - » employment status of local communities
  - » share of a community's families that have a mortgage (referred to as "homeownership" in this analysis)[8]
- Community factors associated with wealth-building opportunities
  - » housing values by race and ethnicity
  - » residential segregation by race and ethnicity

Each credit-health factor is positively associated with credit scores; that is, higher income (more wealth) and higher levels of education, employment, and homeownership are associated with higher credit scores (Beer, Ionescu, and Li 2018). Importantly, mean differences in these factors and credit scores are often in favor of majority-white communities, where residents tend to have higher median income, higher levels of educational attainment, higher employment rates, and higher rates of homeownership than either majority-Latinx or majority-Black communities.

In this analysis, residential segregation measures the share of a person's neighbors who are people of other races and ethnicities; higher values indicate higher levels of racial diversity, and thus lower levels of residential segregation. I expect lower levels of residential segregation to be positively associated with credit scores, as that would reflect lower levels of concentrated disadvantage and advantage along racial lines (Baradaran 2017; Dymski 2009; Gale 2021; Goodstein and Rhine 2017; Katznelson 2005; Markley et al. 2020; Martinchek 2024b; McKenna 2008; Rothstein 2017; Taylor 2019; Wyly et al. 2009).

When decomposing mean differences in credit scores between young adults living in majority-white communities and in communities of color, I expect that factors associated with credit health (e.g., income, education, employment, and homeownership) would explain a portion of these differences, because they are highly correlated with credit scores and vary across communities. However, since these factors do not adequately capture systemic differences in wealth-building opportunities that shape access to affordable credit and economic-mobility prospects, I anticipate that a substantial portion of the mean differences in credit scores would remain unexplained until factors that capture these dimensions, such as housing values and residential segregation, are included

(Baradaran 2017; Dymski 2009; Gale 2021; Goodstein and Rhine 2017; Katznelson 2005; Markley et al. 2020; Martinchek 2024b; McKenna 2008; Rothstein 2017; Taylor 2019; Wyly et al. 2009).[9]

Below I look at how much of the mean difference in young adults' credit scores is explained by just the differences in community factors associated with credit health, and then how the decomposition of the mean difference in credit scores changes when factors associated with wealth-building opportunities are included.

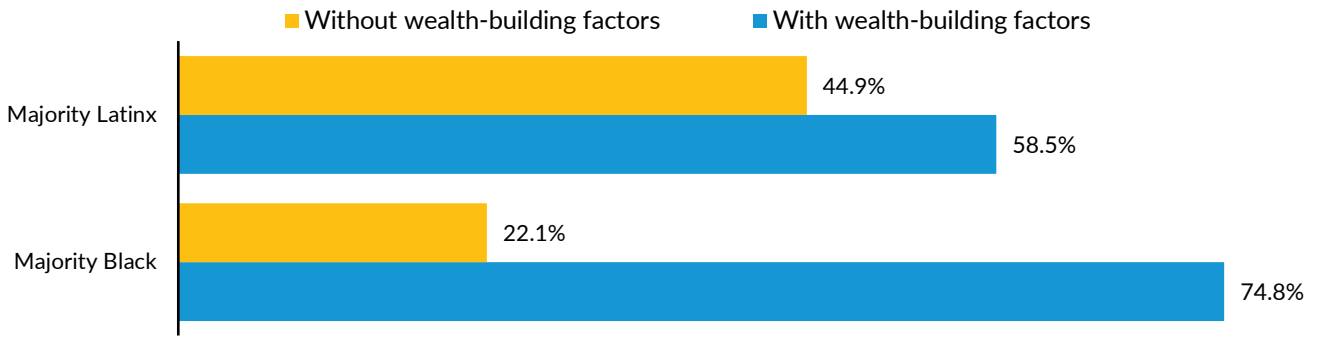
COMMUNITY-LEVEL RACIAL INEQUITIES IN YOUNG ADULTS' CREDIT SCORES ARE LIKELY DRIVEN BY DIFFERENCES IN WEALTH-BUILDING OPPORTUNITIES

Scholars have often hypothesized that racial inequities in financial well-being capture variations in factors associated with credit health (e.g., income, education, employment, and homeownership) across consumers and communities, rather than structural factors (Beer, Ionescu, and Li 2018; Cole, Paulson, and Shastry 2014). But when looking at majority-Black and majority-white communities, I find that these credit-health factors alone explain only 22.1 percent of the mean difference in young adults' credit scores, while the majority (77.9 percent) remains unexplained (lower yellow bar in figure 1) (Martinchek 2024b).[10] I also find that, although these factors explain nearly half (44.9 percent) of the mean difference in credit scores between majority-Latinx and majority-white communities, the balance (55.1 percent) remains unexplained (top yellow bar in figure 1).

FIGURE 1

Including Differences in Wealth-Building Factors Explains a Greater Share of Racial Disparities in Credit Scores than Income, Education, Employment, and Homeownership Alone

Share of mean difference in young adults' (ages 20–29) credit scores across communities explained by included factors



URBAN INSTITUTE

Source: Author's analysis of Urban Institute credit bureau data, American Community Survey data, and Mobility Metrics data (as published in Kassandra Martinchek, "Young Adults' Use of Debt and Credit During the COVID-19 Pandemic Data Tables," last modified April 15, 2024, https://datacatalog.urban.org/dataset/young-adults%E2%80%99-use-debt-and-credit-during-covid-19-pandemic-data-tables) in two separate threefold Oaxaca-Blinder decompositions.
Notes: This figure shows how much of the mean difference in credit scores between young adults living in communities of color and in majority-white communities (majority-white communities are the reference group) is explained by differences in levels of certain factors. For the yellow bars, the factors are community-level (zip code) data on median income, educational attainment, employment status, and homeownership (mortgage holding). For the blue bars, measures of housing values and residential segregation by race and ethnicity are added. Young adults are classified as living in a majority-Black or majority-Latinx community if they live in Zip Code Tabulation Areas where more than 50 percent of the population identifies as a particular race or ethnicity in the 2015–19 five-year American Community Survey in February 2020.

When I include details of wealth-building factors (e.g., housing values and residential segregation) across communities, I find that much of the mean difference in the credit scores of young adults living in communities of color and in majority-white communities is explained (blue bars in figure 1). Specifically, including these wealth-building factors alongside credit-health factors explains 58.5 percent of the mean difference in young adults' credit scores for majority-Latinx communities and 74.8 percent of the mean difference in young adults' credit scores for majority-Black communities. This suggests that systemic differences in wealth-building opportunities may meaningfully shape young adults' financial well-being in important ways and could capture a critical pathway by which racial inequities are entrenched and perpetuated.

I examine the portion of the community-level racial disparity in young adults' credit scores explained by differences in each community characteristic (figure 2). For majority-Black communities, differences in levels of home values were a significant explanatory factor. This is less so for young adults living in majority-Latinx communities, where education played a greater explanatory role. For example, differences in home values between majority-Black and majority-white communities explained 31.8 points of the 67.5-point mean difference in young adults' credit scores, of which 50.5 points are explained by differences in average community characteristics (panel A).

These empirical results align with prior research suggesting that systemic differences in wealth-building opportunities, property valuation, and access to credit may be the crucial omitted factors that meaningfully explain racial inequities in credit scores (Baradaran 2017; Dymski 2009; Gale 2021; Goodstein and Rhine 2017; Katznelson 2005; Markley et al. 2020; Martinchek 2024b; McKenna 2008; Rothstein 2017; Taylor 2019; Wyly et al. 2009).

Even with the inclusion of factors that capture differences in wealth-building opportunities in addition to factors associated with credit health, there is still a portion left unexplained: 41 percent of the mean difference in credit scores between young adults living in majority-white communities and in majority-Latinx communities, and 25.1 percent of the mean difference in credit scores between young adults living in majority-Black communities and in majority-white communities. This could be because of (1) differences in the way community characteristics (e.g., income, education, employment, homeownership, home values, and residential segregation) influence credit scores in different types of communities (also called "returns"), (2) the interplay between community characteristics and their effect (also called "interaction effect"), and (3) omitted or unobserved factors.

Encouragingly, very little is left unexplained by omitted factors (figure 3). But I find substantial differences in *returns* to community characteristics—or differences in the way these characteristics influence credit scores in different types of communities. This likely reflects structural inequities in the ability of young adults living in different communities to benefit from key investments in financial well-being (see figure 1) (Baradaran 2017; Gale 2021; Rothstein 2017). For example, for young adults living in majority-Latinx communities, differences in returns to income, employment, and housing wealth accounted for a substantial portion of the mean difference in credit scores relative to majority-white communities (figure 3, panel B). For young adults living in majority-Black communities, differences in returns to home values and residential segregation were substantial factors driving credit score differences across communities (panel A). In other words, differences in returns to community factors mean that if young adults living in majority-Black communities enjoyed the same benefits of housing wealth as their peers in majority-white communities, their credit scores would be 37.7 points higher.

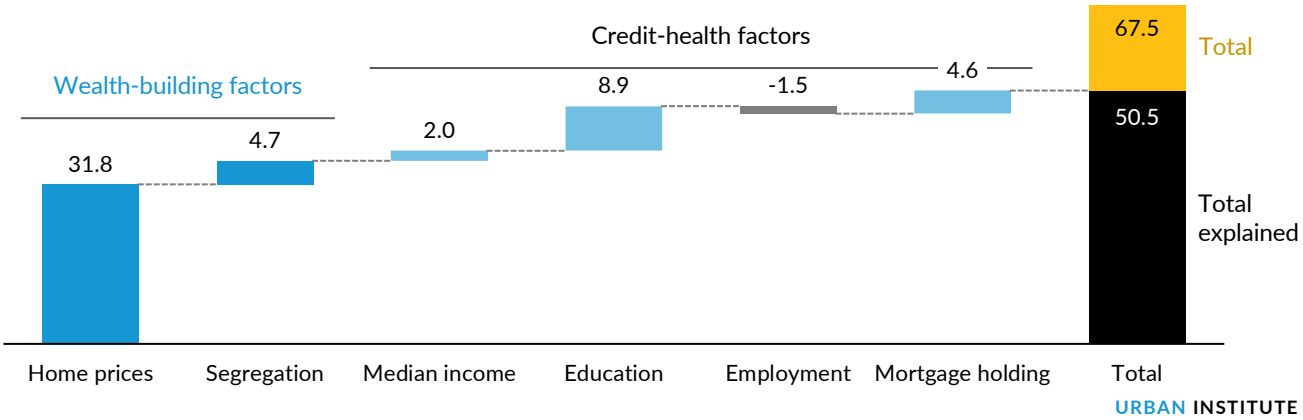
Systemic inequities in the way community characteristics influence credit scores in communities of color and in majority-white communities suggest that young adults in these communities do not benefit equally from investments in income, education, employment, and homeownership (Baradaran 2017; Gale 2021; Rothstein 2017).

FIGURE 2

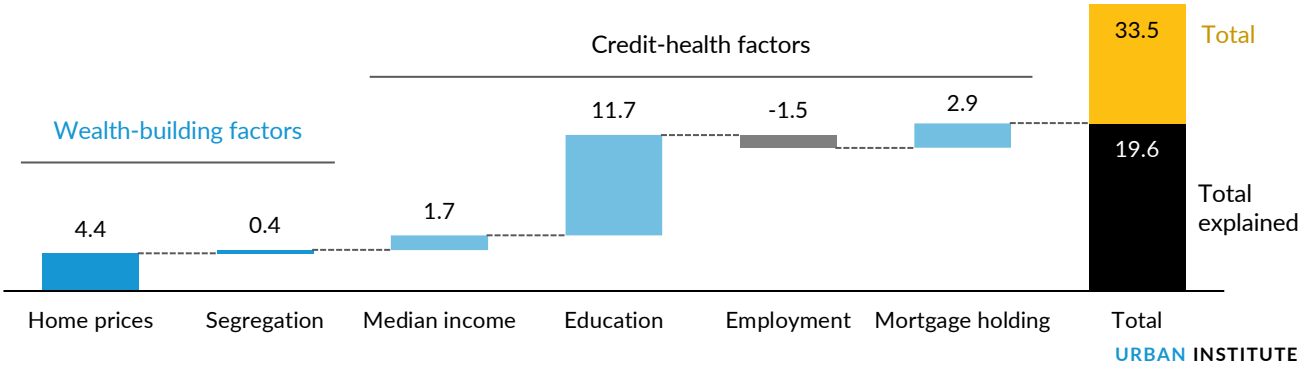
Racial Inequities in Credit Scores Are Largely the Result of Differences in Wealth-Building Opportunities

Share of mean difference in young adults' (ages 20–29) credit scores explained by average community characteristics

Panel A: Majority-Black communities



Panel B: Majority-Latinx communities



Source: Author's analysis of Urban Institute credit bureau data, American Community Survey data, and Mobility Metrics data (as published in Kassandra Martinchek, "Young Adults' Use of Debt and Credit During the COVID-19 Pandemic Data Tables," last modified April 15, 2024, https://datacatalog.urban.org/dataset/young-adults%E2%80%99-use-debt-and-credit-during-covid-19-pandemic-data-tables) in a threefold Oaxaca-Blinder decomposition.

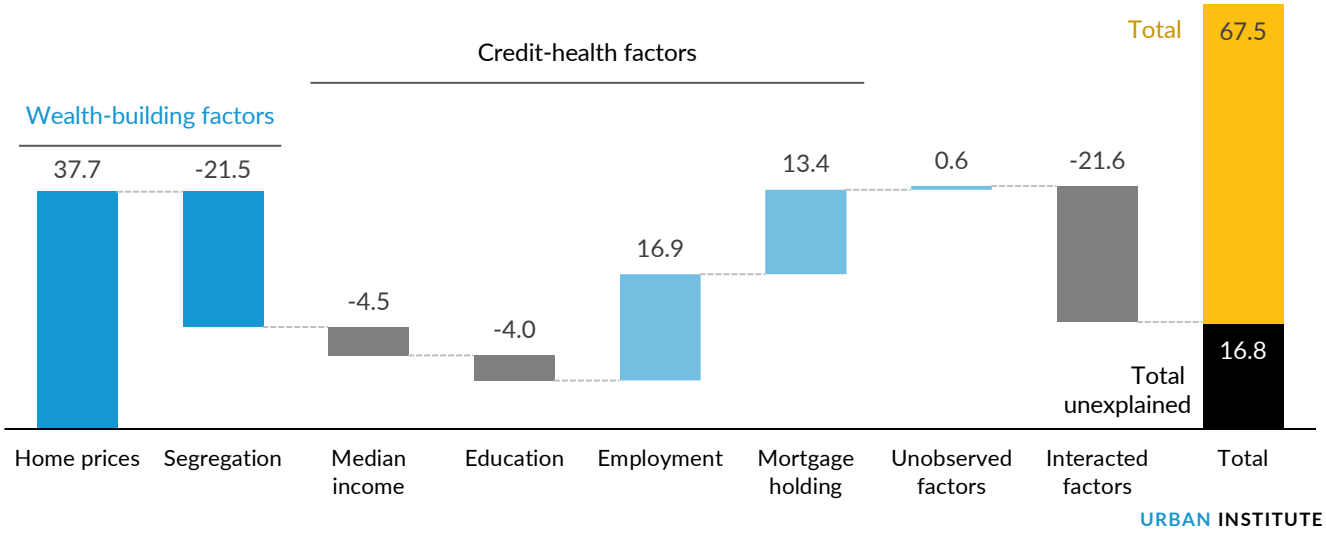
Notes: This figure shows how much of the mean difference in credit scores between young adults living in communities of color and in majority-white communities (majority-white communities are the reference group) is explained by differences in levels of certain factors. It breaks down the effect of each factor's levels on the mean difference. The factors in this model are median income, educational attainment, employment status, homeownership (mortgage holding), home values by race and ethnicity, and residential segregation for different racial and ethnic groups. Young adults are classified as living in a majority-Black or majority-Latinx community if they live in Zip Code Tabulation Areas where more than 50 percent of the population identifies as a particular race or ethnicity in the 2015–19 five-year American Community Survey in February 2020.

FIGURE 3

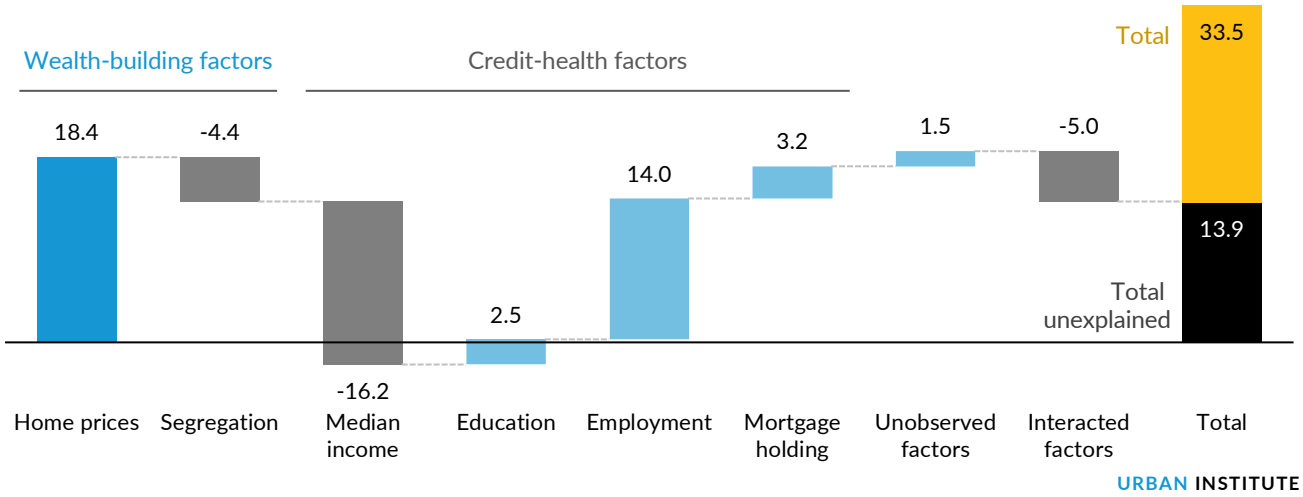
Racial Inequities in Credit Scores Capture Differences in Returns to Investments

Share of mean difference left unexplained in majority-Black and majority-Latinx communities by differences from majority-white communities in returns to observed, unobserved, and interacted factors

Panel A: Majority-Black communities



Panel B: Majority-Latinx communities



Source: Author's analysis of Urban Institute credit bureau data, American Community Survey data, and Mobility Metrics data (as published in Kassandra Martinchek, "Young Adults' Use of Debt and Credit During the COVID-19 Pandemic Data Tables," last modified April 15, 2024, https://datacatalog.urban.org/dataset/young-adults%E2%80%99-use-debt-and-credit-during-covid-19-pandemic-data-tables) in a threefold Oaxaca-Blinder decomposition.

Notes: This figure shows how much of the mean difference in credit scores between young adults living in communities of color and in majority-white communities (majority-white communities are the reference group) is explained by differences in returns to certain factors. It breaks down the effect of each factor's returns as well as the impact of unobserved and interacted factors on the mean difference. The factors in this model are median income, educational attainment, employment status, homeownership (mortgage holding), home values by race and ethnicity, and residential segregation for different racial and ethnic groups. Young adults are classified as living in a majority-Black or majority-Latinx community if they live in Zip Code Tabulation Areas where more than 50 percent of the population identifies as a particular race or ethnicity in the 2015–19 five-year American Community Survey in February 2020.

HOW CAN POLICYMAKERS ADVANCE RACIAL EQUITY IN CREDIT HEALTH OUTCOMES ACROSS COMMUNITIES?

In this analysis, I find evidence of the following:

- Community factors commonly associated with credit health (e.g., income, education, employment, and homeownership) account for less than half of the difference in credit scores between young adults living in communities of color and in majority-white communities—with most of the difference left unexplained.
- Including community factors associated with wealth-building opportunities, such as home values and residential segregation, across communities—in addition to factors associated with credit health—accounts for a substantial portion of the remaining difference in credit scores for young adults living in both majority-Black and majority-Latinx communities relative to majority-white communities—with housing wealth being a substantial explanatory factor between majority-Black and majority-white communities.
- Despite this, differences in returns to community characteristics with respect to credit scores still remain, and they likely reflect structural inequities in the ability of residents of different communities to benefit from key investments in financial well-being.

These empirical results reveal that community factors associated with credit health and wealth-building opportunities are integral to understanding the root cause of racial inequities in young adults' credit scores across communities. Collectively, the results suggest that efforts to advance racial equity in credit should take a community-level, equity-centered approach focused on these factors.

To address community-level racial inequities in credit health and help young adults in all communities get a bright start to their financial futures, policymakers should consider policies that (1) reduce inequities in wealth-building opportunities and credit access across communities, and that (2) enable equitable opportunities for residents of communities of color to equally benefit from wealth-building opportunities.

Policymakers should also consider policies that equalize access to credit across communities through place-based investments. For example, special-purpose credit programs enable banks to offer credit on favorable terms to borrowers who have suffered systemic economic disadvantage, and postal banking programs are designed to directly tackle challenges of financial exclusion present in communities of color by expanding available banking options (Friedline et al. 2021; Long and Pressman 2023).[11]

Other policies that address inequitable returns to investments and wealth-building opportunities across communities—such as those that bolster protections against discrimination in property valuation and appraisals and that provide relief for education debt—can enable consumers of color to equally benefit from asset-investment opportunities (Kahn, Huelsman, and Mishory 2019; PAVE 2022; Perry, Steinbaum, and Romer 2021; Rothwell and Perry 2022; Weller and Figueroa 2021; Williamson 2020).

ADDITIONAL READING

How Can States Help Young Adults Weather a Recession?
Kassandra Martinchek, https://urbn.is/44M2Gr7

Young Adults' Use of Debt and Credit During the COVID-19 Pandemic Data Tables
Kassandra Martinchek, https://urbn.is/3yzzK9y

Young Adults Are Feeling the COVID-19 Recession's Effects Three Years Later, Especially in Communities of Color
Kassandra Martinchek, https://urbn.is/3wSeSKd

DETAILED METHODOLOGY

Data Sources

I draw on administrative data from a 2 percent nationally representative sample of consumer credit records sourced from one of the three major credit bureaus in February 2020; zip code–level data as measured by Zip Code Tabulation Areas (ZCTAs) from the 2025–19 five-year American Community Survey (ACS); and county-level data from Mobility Metrics dataset from the Urban Institute's Upward Mobility Framework (data from 2018).[12] All data tables used in this research are published in the Urban Institute Data Catalog.[13]

I use young adults' (ages 20–29) average credit scores from the credit bureau data as the main outcome of interest, as measured by consumers' VantageScore from 300 to 850. Credit scores below 600 are considered subprime, and consumers with these credit scores likely face higher borrowing costs and have constrained access to mainstream credit (Elliott and Lowitz 2018). These data are measured at the individual consumer level, where details on consumer age and zip code of residence are available, thus enabling me to identify young adults living in different communities.

I then draw on data from Mobility Metrics and the ACS to capture community factors that could influence consumer credit scores. I used ZCTA-level data from the ACS and county-level data from Mobility Metrics and merged them onto the credit bureau data based on consumer age and zip code of residence to generate the final dataset for analysis.

To address missingness in the ACS data before conducting the decomposition, ZCTA-level data were mean-imputed within each age group before being merged onto the credit bureau data. I used imputation to ensure all ZCTAs have values for all variables, as conducting the Oaxaca-Blinder decomposition requires complete case analysis. I also conducted a robustness check, where I compared decomposition results using imputed and nonimputed data. The findings were similar, so in this summary I present results from the decomposition that uses imputed data.

From the ACS, I use the following data:

- *Median income:* median income over the past 12 months for adults ages 15–24 and 25–44 in the ZCTA
- *Educational attainment:* the share of ZCTA residents with a bachelor's degree or higher for adults ages 18–24 and 25–34
- *Employment status:* the share of ZCTA residents with employment for adults ages 20–24 and 24–29
- *Mortgage holding (or homeownership):* the share of ZCTA residents with a mortgage, by householder age, for adults ages 15–34

In addition, I draw on data from Mobility Metrics at the county level for the following:

- *Home values:* the ratio of the share of a community's housing wealth held by a racial or ethnic group to the share of households of the same group, broken down by race and ethnicity
- *Neighborhood exposure index (or residential segregation):* the share of a person's neighbors who are people of other races and ethnicities, broken down by race and ethnicity

For the neighborhood exposure index, higher values indicate higher levels of racial diversity, while lower values indicate lower levels of racial diversity (or greater levels of residential segregation), between different racial and

ethnic groups across communities. Since Mobility Metrics are county-level measures, I weight them by the racial and ethnic composition of ZCTAs to generate ZCTA-level estimates of residential segregation and housing wealth.

Young adults are classified as living in a majority-Black, majority-Latinx, or majority-white community if they live in ZCTAs where more than 50 percent of the population identifies as a particular race or ethnicity in the ACS in February 2020.

Oaxaca-Blinder Decomposition Analysis

I use a threefold Oaxaca-Blinder decomposition to decompose differences in young adults' average credit scores across communities into the contributing factors (Etezady et al. 2020; Rahimi and Hashemi Nazari 2021). This analysis is conducted in two stages.

First, I estimate equation 1 for two groups of interest: young adults living in majority-white communities (labeled group 1); and young adults living in different communities of color, which is done separately for majority-Black and majority-Latinx communities (labeled group 2).

$$W_{1izt} = \delta_{1t} + \beta_{1t} X_{1zt} + \phi_{1izt}$$
$$W_{2izt} = \delta_{2t} + \beta_{2t} X_{2zt} + \phi_{2izt} \quad (1)$$

where W_{1izt} and W_{2izt} are the credit score of young adult *i* in ZCTA *z* in group 1 and 2 at time *t* (February 2020), δ_{1t} and δ_{2t} are constants, X_{1zt} and X_{2zt} are vectors of community characteristics (e.g., income, education, employment, homeownership, housing wealth, and residential segregation) measured at the ZCTA level, and β_{1t} and β_{2t} are vectors of regression coefficients for these community factors. These coefficients are assumed to vary by group but not by time. ϕ_{1izt} and ϕ_{2izt} are the error terms.

Second, I use the output from these equations from stage 1 (equation 1) to estimate the decomposition in equation 2. I conduct two separate decompositions for each community of interest (majority-Black and majority-Latinx communities): one including community factors associated with credit health (e.g., income, education, employment, and homeownership) and one including all of these factors plus those that capture differences in wealth-building opportunities (e.g., home values and residential segregation).

$$\Delta\overline{W} = \sum_{i=1}^{k} \beta_{1t} (\bar{X}_{1t} - \bar{X}_{2t}) + \sum_{i=1}^{k} \bar{X}_{1t} (\beta_{1t} - \beta_{2t}) - \sum_{i=1}^{k} (\bar{X}_{1t} - \bar{X}_{2t}) (\beta_{1t} - \beta_{2t}) \quad (2)$$

Here, $\Delta\overline{W}$ reflects the mean difference in credit scores between group 1 (young adults living in majority-white communities) and group 2 (young adults living in communities of color), from the perspective of group 1. The entire decomposition is done from the perspective of group 1. Subscripts 1 and 2 denote which group the term refers to, *i* denotes an individual consumer, $\bar{X}$ refers to averages of the covariates, and β reflects coefficients estimated in equation 1. $\sum_{i=1}^{k} \beta_{1t} (\bar{X}_{1t} - \bar{X}_{2t})$ captures the portion of the mean difference in credit scores explained by differences in the average of covariates included in the decomposition between the two groups, where covariates are measured at the community level. $\sum_{i=1}^{k} \bar{X}_{1t} (\beta_{1t} - \beta_{2t})$ captures the differential effect of these covariates (e.g., differences in returns to community characteristics) and "general effect of unknown factors" (Rahimi and Hashemi Nazari 2021, 11). This term is often regarded as the "unexplained" portion of the difference in means. $\sum_{i=1}^{k} (\bar{X}_{1t} - \bar{X}_{2t}) (\beta_{1t} - \beta_{2t})$ captures the "interaction caused by the simultaneous group differences in the covariates level and their coefficients" (Rahimi and Hashemi Nazari 2021, 5). This term is also part of the "unexplained" portion of the difference in means.

Detailed Results Tables

I present tables of means for each variable by community composition and coefficients from stage 1 decomposition equations (see equation 1) and stage 2 decomposition results (see equation 2).

TABLE 1

Stage 1 Means and Coefficients for Majority-Black Communities

	Group 1: Majority-White Communities			Group 2: Majority-Black Communities		
	Mean	Coefficient (without wealth-building factors)	Coefficient (with wealth-building factors)	Mean	Coefficient (without wealth-building factors)	Coefficient (with wealth-building factors)
Median household income	$62,074.50	0	0	$40,041.60	0	0
Educational attainment	27.45%	0.89	0.82	17.06%	0.94	0.97
Employment status	81.39%	−0.35	−0.36	77.29%	−0.71	−0.56
Mortgage holding	83.38%	0.40	0.42	72.25%	0.37	0.26
Home values	109.48%		81.73	70.40%		47.22
Residential segregation	27.49%		−41.64	39.06%		35.97
Constant		616.18	540.89		583.44	540.31

Source: Author's analysis of Urban Institute credit bureau data, American Community Survey data, and Mobility Metrics data (as published in Kassandra Martinchek, "Young Adults' Use of Debt and Credit During the COVID-19 Pandemic Data Tables," last modified April 15, 2024, https://datacatalog.urban.org/dataset/young-adults%E2%80%99-use-debt-and-credit-during-covid-19-pandemic-data-tables) in a threefold Oaxaca-Blinder decomposition.
Notes: This table shows means and coefficients for stage 1 decomposition results, as specified in equation 1. Young adults are classified as living in a majority-Black or majority-Latinx community if they live in Zip Code Tabulation Areas where more than 50 percent of the population identifies as a particular race or ethnicity in the 2015–19 five-year American Community Survey in February 2020.

TABLE 2

Full Oaxaca-Blinder Results for Majority-Black Communities

	Points
Median household income	2
Educational attainment	8.9
Employment status	−1.5
Mortgage holding	4.6
Home values	31.8
Residential segregation	4.7
Explained by differences in community characteristics	**50.5**
Median household income	−4.5
Educational attainment	−4
Employment status	16.9
Mortgage holding	13.4
Home values	37.8
Residential segregation	−21.6
Unexplained because of unobserved factors	0.6
Unexplained by differences in returns to community characteristics	**37.9**

	Points
Unexplained because of interacted factors	**–21.6**
Overall difference in mean credit scores	**67.5**

Source: Author's analysis of Urban Institute credit bureau data, American Community Survey data, and Mobility Metrics data (as published in Kassandra Martinchek, "Young Adults' Use of Debt and Credit During the COVID-19 Pandemic Data Tables," last modified April 15, 2024, https://datacatalog.urban.org/dataset/young-adults%E2%80%99-use-debt-and-credit-during-covid-19-pandemic-data-tables) in a threefold Oaxaca-Blinder decomposition.
Notes: This table shows how much of the mean difference in credit scores between young adults living in communities of color and in majority-white communities (majority-white communities are the reference group) is explained by differences in levels, returns, and interactions for certain factors, measured in points. The factors in this model are median income, educational attainment, employment status, homeownership (mortgage holding), home values by race and ethnicity, and residential segregation for different racial and ethnic groups. Young adults are classified as living in a majority-Black or majority-Latinx community if they live in Zip Code Tabulation Areas where more than 50 percent of the population identifies as a particular race or ethnicity in the 2015–19 five-year American Community Survey in February 2020. Because of rounding in presentation of estimates, totals may not sum.

TABLE 3

Stage 1 Means and Coefficients for Majority-Latinx Communities

	Group 1: Majority-White Communities			Group 2: Majority-Latinx Communities		
	Mean	Coefficient (without wealth-building factors)	Coefficient (with wealth-building factors)	Mean	Coefficient (without wealth-building factors)	Coefficient (with wealth-building factors)
Median household income	$62,074.50	0	0	$46,908.43	0	0
Educational attainment	27.45%	0.89	0.86	14.09%	0.74	0.77
Employment status	81.39%	–0.35	–0.34	76.98%	–0.46	–0.51
Mortgage holding	83.38%	0.40	0.40	76.09%	0.37	0.37
Home values	108.68%		15.26	79.85%		–1.63
Residential segregation	28.60%		–2.95	40.59%		12.58
Constant		626.18	599.73		597.68	598.24

Source: Author's analysis of Urban Institute credit bureau data, American Community Survey data, and Mobility Metrics data (as published in Kassandra Martinchek, "Young Adults' Use of Debt and Credit During the COVID-19 Pandemic Data Tables," last modified April 15, 2024, https://datacatalog.urban.org/dataset/young-adults%E2%80%99-use-debt-and-credit-during-covid-19-pandemic-data-tables) in a threefold Oaxaca-Blinder decomposition.
Notes: This table shows means and coefficients for stage 1 decomposition results, as specified in equation 1. Young adults are classified as living in a majority-Black or majority-Latinx community if they live in Zip Code Tabulation Areas where more than 50 percent of the population identifies as a particular race or ethnicity in the 2015–19 five-year American Community Survey in February 2020.

TABLE 4

Full Oaxaca-Blinder Results for Majority-Latinx Communities

	Points
Median household income	1.8
Educational attainment	11.7
Employment status	–1.5
Mortgage holding	2.9
Home values	4.4
Residential segregation	0.4
Explained by differences in community characteristics	**19.7**

	Points
Median household income	−16.2
Educational attainment	2.5
Employment status	14
Mortgage holding	3.2
Home values	18.4
Residential segregation	−4.4
Unexplained because of unobserved factors	1.5
Unexplained by differences in returns to community characteristics	**18.9**
Unexplained because of interacted factors	**−5**
Overall difference in mean credit scores	**33.6**

Source: Author's analysis of Urban Institute credit bureau data, American Community Survey data, and Mobility Metrics data (as published in Kassandra Martinchek, "Young Adults' Use of Debt and Credit During the COVID-19 Pandemic Data Tables," last modified April 15, 2024, https://datacatalog.urban.org/dataset/young-adults%E2%80%99-use-debt-and-credit-during-covid-19-pandemic-data-tables) in a threefold Oaxaca-Blinder decomposition.
Notes: This table shows how much of the mean difference in credit scores between young adults living in communities of color and in majority-white communities (majority-white communities are the reference group) is explained by differences in levels, returns, and interactions for certain factors, as measured in points. The factors in this model are median income, educational attainment, employment status, homeownership (mortgage holding), home values by race and ethnicity, and residential segregation for different racial and ethnic groups. Young adults are classified as living in a majority-Black or majority-Latinx community if they live in Zip Code Tabulation Areas where more than 50 percent of the population identifies as a particular race or ethnicity in the 2015–19 five-year American Community Survey in February 2020. Because of rounding in presentation of estimates, totals may not sum.

NOTES

1 I use the terms "racial disparities" and "racial inequities" to refer to both racial and ethnic populations to streamline the discussion.

2 Kassandra Martinchek, "Young Adults Are Feeling the COVID-19 Recession's Effects Three Years Later, Especially in Communities of Color," *Urban Wire* (blog), Urban Institute, February 12, 2024, https://www.urban.org/urban-wire/young-adults-are-feeling-covid-19-recessions-effects-three-years-later-especially. Young adults are classified as living in a majority-Black, majority-Latinx, or majority-white community if they live in Zip Code Tabulation Areas where more than 50 percent of the population identifies as a particular race or ethnicity in the 2015–19 five-year American Community Survey in February 2020. Majority-Black and majority-white communities are defined by non-Hispanic Black or non-Hispanic white populations in the relevant Zip Code Tabulation Area.

3 Subprime credit scores below 600 can result in barriers to credit access and higher borrowing costs (Elliott and Lowitz 2018). Kassandra Martinchek, "Young Adults' Use of Debt and Credit During the COVID-19 Pandemic Data Tables," last modified April 15, 2024, https://datacatalog.urban.org/dataset/young-adults%E2%80%99-use-debt-and-credit-during-covid-19-pandemic-data-tables. Data originally sourced from credit bureau data, developed at the Urban Institute, and made available under the ODC-BY 1.0 Attribution License.

4 Martinchek, "Young Adults' Use of Debt and Credit During the COVID-19 Pandemic Data Tables."

5 Kassandra Martinchek and Andrew Warren, "Gen Zers Are Financially Struggling during the COVID-19 Pandemic," *Urban Wire* (blog), Urban Institute, May 22, 2020, https://www.urban.org/urban-wire/gen-zers-are-financially-struggling-during-covid-19-pandemic.

6 Redlining was an explicit race-based policy implemented in the 1930s, where the Home Owners' Loan Corporation classified communities as hazardous investments based on their racial and ethnic compositions and limited mortgage lending in these areas.

7 Credit scores reflect consumers' ability to repay loans. These scores are influenced by consumers' payment history, share of available credit used, length of credit history, credit product mix, and recent credit inquiries. Young adults ages 18–19 are excluded from this analysis, because roughly 80 percent of them do not have a credit record or their records are insufficient

to generate a credit score. This share declines to about 35 percent for young adults ages 20–24 and to about 20 percent for those ages 25–29. In contrast, 11 percent of all US consumers do not have a credit record, with young adults and Black and Latinx consumers less likely to have a credit record or scorable file (Brevoort, Grimm, and Kambara 2015).

[8] Although I use "homeownership" to refer to this variable, this is not a perfect measure of homeownership; some homeowners may not hold mortgages because they paid off their loans or were able to pay in cash, among other reasons.

[9] Martinchek, "Young Adults' Use of Debt and Credit During the COVID-19 Pandemic Data Tables."

[10] Martinchek, "Young Adults' Use of Debt and Credit During the COVID-19 Pandemic Data Tables."

[11] Jung Hyun Choi, Liam Reynolds, and Vanessa G. Perry, "How Place-Based Special Purpose Credit Programs Can Reduce the Racial Homeownership Gap," *Urban Wire* (blog), Urban Institute, February 1, 2022, https://www.urban.org/urban-wire/how-place-based-special-purpose-credit-programs-can-reduce-racial-homeownership-gap.

[12] Aaron R. Williams, Gabriel Morrison, Kevin Werner, Tina Chelidze, Claudia D. Solari, Gregory Acs, Vincent Pancini et al., "Boosting Upward Mobility: Metrics to Inform Local Action 1.0," Urban Institute, last modified June 12, 2023, https://datacatalog.urban.org/dataset/boosting-upward-mobility-metrics-inform-local-action-10. Data originally sourced from various sources, developed at the Urban Institute, and made available under the ODC-BY 1.0 Attribution License.

[13] Martinchek, "Young Adults' Use of Debt and Credit During the COVID-19 Pandemic Data Tables."

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