Preemployment Credit Checks: Employer Practices, Worker Outcomes, and Implications for Practice and Research

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Introduction

About half of US employers review information from credit reports, including collection items, as part of their hiring process (Professional Background Screening Association (PBSA) 2021).[1] Given how widespread these preemployment credit checks appear to be—and the fact that a quarter of US adults with a credit report have debt in collections on their credit report—these credit checks could have the potential to critically impact economic security for workers.[2] Workers with low incomes could be disproportionately impacted because they are most likely to have late payments listed on their credit reports and have the highest amounts in collections (Kramer Mills et al. 2022).

In this brief, we provide an introduction to preemployment credit checks for practitioners working to support individuals with low incomes who may be affected by this practice. We begin by providing a description of what preemployment credit checks are and how they are used. We summarize what is known about how common this practice is based on surveys conducted by employer and trade associations (the only available estimates). We also give a brief overview of the policy landscape that shapes and limits how preemployment credit checks can be used by employers, based on a review of relevant federal and state laws.

To motivate why preemployment credit checks may be of interest and significance to practitioners serving workers with low wages, we summarize what is currently known about how preemployment credit checks relate to worker outcomes such as job finding and employment, with a focus on what is known for workers with low wages. Our summary is not based on an exhaustive or systematic literature review. Instead, it highlights recent (last five years), rigorous, empirical research, primarily from the field of economics.[3]

The brief concludes with a discussion of how the information provided—what preemployment credit checks are, how employers are using them, and how they might affect workers, including low-wage workers—might be useful to programs and practitioners working to improve economic security for workers operating within the current policy environment. We also note directions for future research that could fill important knowledge gaps, better inform practice, and ultimately better support workers with low wages.

Key findings across the evidence reviewed for this brief include the following:

- About half of US employers conduct credit checks as part of their preemployment background check. Credit checks are most common for jobs with financial responsibilities (e.g., handling cash) or jobs with access to highly confidential data (e.g., medical, salary, or employee personal information), though are used for many other occupations (e.g., information technology, administrative services, security guards, heavy equipment operators).
- According to federal policy, employers cannot use financial information (such as credit reports) if it does not help identify responsible and reliable employees and, if at the same time, doing so disadvantages people of a particular race, color, national origin, religion, or sex. Employers must have written consent before checking credit reports and must notify current or prospective employees if they decide not to employ them based on their credit history.

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[1] The PBSA surveyed employers of all types and sizes but did not report the number of employers surveyed.

[2] Jennifer Andrea, Miranda Santillo, Kassandra Martinchek, Breno Braga, and Signe-Mary McKernan, "Debt in America: An Interactive Map," Urban Institute, last updated October 10, 2023, https://apps.urban.org/features/debt-interactive-map/?type=overall&variable=totcoll.

[3] The key studies discussed in this brief are also summarized in endnotes that follow the first reference to each study in the text, and full citations for the reviewed studies are provided in the list of references.

- As a policy response to protect workers, 11 states have restricted employers' use of preemployment credit checks. Some states impose restrictions limiting the use of credit reports in hiring to specific jobs and industries, while others limit their use to situations where credit relates closely to the job. In states that have imposed restrictions, examples of jobs and employers where credit checks are still allowed include banks and financial institutions, state or local law enforcement agencies, emergency medical personnel, firefighters, and debt collectors.
- Evidence from recent research has mostly found preemployment credit checks are negatively related to labor market outcomes for workers with imperfect credit histories.
- Research suggests that workers with low wages are among those harmed by preemployment credit checks, in part because workers with low incomes are the most likely to have imperfect credit records. However, there is little direct evidence on the effects of credit checks for low-wage workers specifically.
- Some evidence suggests that banning preemployment credit checks may be associated with an increase in racial disparities in employment.
- In sources reviewed for this brief, employers reported that they conduct background checks to protect employees and customers, improve the quality of hires, and protect company reputation. Research reviewed for this brief, however, did not find clear evidence of the value of preemployment credit checks for employers.
- For workers seeking jobs where preemployment credit checks are still allowed, evidence points to some forms of interventions, such as financial capability programs, that could improve credit health.

Integrating Financial Capability and Employment Services Project

This brief is part of a broader project focused on understanding the integration of financial capability programs and employment and training (E&T) programs and services. Financial capability programs are programs that seek to help individuals build the capacity to manage financial resources effectively, such as by enhancing their knowledge of financial concepts, supporting their skills to make financial decisions, or providing access to financial services. In recent years, practitioners have increasingly looked to identify opportunities to integrate such financial capability programming with E&T services as a way to support economic security for adults with low and moderate incomes (Treskon et al. 2021).

To better understand the nature and dimensions of opportunities that might arise from this integration, the Office of Planning, Research, and Evaluation (OPRE) sponsored the "Integrating Financial Capability and Employment Services" project, conducted by MEF Associates and its subcontractor, the Urban Institute. The broader project focuses on understanding financial capability interventions delivered in the context of E&T programs serving people with low and moderate incomes and includes a review of prior research, consultations with experts in the field, a survey of E&T programs, phone interviews with program administrators, virtual site visits, interviews with program participants, and focus groups with program administrators.

In the course of conducting the broader project, the use of credit histories by employers emerged as one specific issue of interest potentially linking financial capability to employment and earnings outcomes for workers with low and moderate incomes. Experts consulted early in the project expressed an interest in understanding both how employers use credit reports, as well as how programs should understand, and potentially work to address, that practice. This publication provides a brief overview of what is known from recent research about employers' use of preemployment credit checks and their relationship with workers' employment outcomes, and identifies potential implications for financial capability and (E&T) programs and practitioners.

For more details about the overall project and links to the full suite of publications, please visit: *https://www.acf.hhs.gov/opre/project/integrating-financial-capability-and-employment-services.*

Preemployment Credit Checks: What, Why, How, and the Policy Landscape

In this section, we provide an overview of what preemployment credit checks are, why employers conduct them, and how they are regulated by the federal Fair Credit Reporting Act and Civil Rights Act and some state laws.

What: Preemployment credit checks are a practice conducted by some employers as part of screening job applicants. The checks consist of employers obtaining permission from the job applicant to check credit, pulling a credit report, and reviewing the information contained in the report to inform their hiring decisions. The credit report employers review will typically include information on an applicant's sources of credit and level of indebtedness, whether the applicant has any unpaid or delinquent debts, and whether the applicant has recently filed for bankruptcy. Within limits established by both federal and state laws, the hiring firm can use this information to inform hiring decisions broadly at its discretion.

Based on our review of available evidence, preemployment credit checks appear to be widespread but how widespread is not yet documented with rigorous evidence, and no known evidence documents how widespread preemployment credit checks are for workers with low incomes.

Credit checks are part of the preemployment background check for about half of US employers, according to two industry surveys of human resources professionals. Neither survey appears to be representative of all employers nor provides findings specifically for workers with low incomes.

- A 2021 survey by the Professional Background Screening Association found that 48 percent of employers conducted credit or financial checks (51 percent of the 95 percent of employers who conducted background checks) (PBSA 2021).[4]
- A 2010 survey by the Society for Human Resource Management (SHRM) found that 47 percent of employers (or an agency hired by the employer) conducted credit background checks for select job candidates (select job candidates are people considered for jobs for which employers consider background checks relevant).[5]

Of employers in the SHRM survey who conducted preemployment credit checks for select candidates:

- 91 percent conducted credit checks for jobs with financial responsibilities (e.g., handling cash).
- 34 percent conducted credit checks for jobs with access to highly confidential employee information (e.g., medical, salary, or employee personal information).[6]

Why: **The top two reasons employers cited for conducting preemployment credit checks on job candidates were to reduce or prevent theft and embezzlement (45 percent) and reduce legal liability for negligent hiring (22 percent).**[7] Corroborating these survey findings, hiring professionals reported in interviews that credit reports could offer insight into the candidate's likelihood of stealing or misbehaving on the job, especially regarding money (Kiviat 2019). Hiring professionals in heavily regulated industries, such as financial services, said that credit reports demonstrate to regulators and outside stakeholders (e.g., investors) that they had done due diligence in vetting candidates. Although these are employers' stated reasons for conducting credit checks, the available empirical evidence on the value of these checks for employers is not clear, as summarized in the next section.

[4] PBSA 2021 does not provide the number of employers surveyed or whether they're representative of all employers. The survey did, however, cover employers of different types and sizes. It included employers from the private (56 percent), nonprofit (19 percent), public (9 percent), and government (8 percent) sectors. It also covered employers with fewer than 100 employees (42 percent), 100–499 employees (32 percent), 500–999 employees (9 percent), and 1,000–4,999 employees (11 percent).

[5] "SHRM Research Spotlight: Credit Background Checks," SHRM (Society for Human Resource Management), 2010, https://www.eeoc.gov/shrm-research-spotlight-credit-background-checks. The finding is based on 343 employers. It's not clear from the publication whether they're representative of all employers.

[6] See "SHRM Research Spotlight: Credit Background Checks," SHRM. Forty-six percent of employers conducted credit checks on candidates applying for senior executive positions, though this finding is less relevant for programs and practitioners serving workers with low and moderate incomes.

[7] SHRM staff, "Background Checking-The Use of Credit Background Checks in Hiring Decisions," *The SHRM Blog*, August 27, 2012, *https://blog.shrm.org/trends/background-checkingthe-use-of-credit-background-checks-in-hiring-decisions*.

How: Employers receive a substantial amount of information related to the applicant's credit history, including (among other information):

- personal information (e.g., current and former addresses, birth date, last four digits of social security number);
- employment information (e.g., employer and position);
- credit accounts (e.g., balance and payment history);
- collection items;
- inquiries (records of who pulled the report); and
- public records (predominantly bankruptcies, possibly overdue child support) (Kiviat 2019).

One qualitative study investigating how employers use applicant credit history to inform hiring decisions found that employers ask applicants with poor credit (e.g., debt in collections) to explain what led to the problem, and then the hiring decision depended on whether the explanation resonated with the employer (Kiviat 2019). The implication, according to the author, was that this could lead to job offers depending on a particular hiring professional's understanding of the structural causes of poor credit.[8]

Policy: The federal and state policy landscape shapes and constrains employers' use of credit histories. Federal policy is primarily governed by the Fair Credit Reporting Act, as enforced by the Consumer Financial Protection Bureau and Federal Trade Commission.[9] The Fair Credit Reporting Act states that employers must have written consent before checking credit reports and that employers must provide notices to current or prospective employees both before and after they make a final decision if they decide not to hire them (or make any other employment-related decision that adversely affects them) based on their credit history. The Consumer Financial Protection Bureau provides clear information for consumers and a summary of rights under the Fair Credit Reporting Act.[10]

Preemployment credit checks also must be used in a manner consistent with equal employment protections under the federal Civil Rights Act and related laws governing employment discrimination, as enforced by the Equal Employment Opportunity Commission. Employers cannot use financial requirements if they do not help identify responsible and reliable employees and if doing so disadvantages people of a particular race, color, national origin, religion, or sex.[11] This could be an important protection because adults with a credit record living in communities of color are more likely to have debt in collections on their credit reports than those living in white communities (35 percent in communities of color versus 22 percent in white communities).[12] These racial disparities reflect historical inequities that reduced wealth and limited

[8] Kiviat's (2019) findings are based on in-depth interviews with 57 employers in 2014. The sample was purposive and so not representative. The author began with a list of large (Fortune 1000) and fast-growing (inc. 5000) employers in the Boston area and then further assessed to identify those likely to conduct preemployment credit checks.

[9] Fair Credit Reporting Act, 15 USC § 1681 et seq. (2023); employer practices are additionally governed by bankruptcy law, which allows private employers to consider bankruptcies in hiring but not in termination decisions; see 11 U.S.C. § 525(b), at: *https://www.law.cornell.edu/uscode/text/11/525.*

[10] "Could I Be Turned Down for a Job Because of Something in my Credit Report?," Consumer Financial Protection Bureau, last updated August 28, 2020, https://www.consumerfinance.gov/ask-cfpb/could-i-be-turned-down-for-a-job-because-of-something-in-my-credit-report-en-1345/.

[11] "Pre-Employment Inquiries and Financial Information," US Equal Employment Opportunity Commission, accessed May 8, 2023, https://www.eeoc.gov/pre-employment-inquiries-and-financial-information; Fair Credit Reporting Act, 15 USC § 1681 (2023).

[12] Jennifer Andre, Miranda Santillo, Kassandra Martinchek, Breno Braga, and Signe-Mary McKernan, "Debt in America: An Interactive Map," Urban Institute, last updated October 10, 2023, https://apps.urban.org/features/debt-interactive-map/?type=overall&variable=totcoll.

economic choices for communities of color.[13] The racial disparity in debt in collections suggests that preemployment credit checks could disadvantage people of color because employers conducting preemployment credit checks are more likely to find negative credit information for people living in communities of color.

Most states have not regulated preemployment credit checks, though many have considered it (Ballance, Clifford, and Shoag 2020). We found eleven states regulating preemployment credit checks.[14] These regulations fell into roughly three clusters of state-level policy:

(1) restrictions limiting use in hiring to specific jobs and industries (California, Illinois, Maryland);
(2) restrictions to situations where credit relates to the job (Colorado, Connecticut, Hawaii, Nevada, Oregon, Vermont, Washington); and
(3) restrictions on use for public employment (Delaware).[15]

For example, in **California**, employers are allowed to conduct preemployment credit checks for jobs with access to bank or credit account information, social security numbers, and date of birth (e.g., jobs at a bank or financial institution), law enforcement, or regular access to cash totaling $10,000 or more. In **Colorado**, organizations are allowed to conduct credit checks during hiring where credit information is "substantially related" to the employee's current or potential job, such as banks and financial institutions, state or local law enforcement agencies, employers of private domestic servants or farm and ranch labor, and employers who employ fewer than four employees. **Vermont's** exceptions allow for preemployment credit checks for emergency medical personnel, firefighters, workers with authority to collect debts, financial institutions, credit unions, and law enforcement. And **Delaware** restricts public employers (only) from inquiring into or considering credit checks during the initial application process and through the first interview. Public employers may consider credit checks after the first interview.

Why This Matters: Preemployment Credit Checks and Worker Outcomes

Preemployment credit checks are widespread among employers, and people with low incomes are most likely to have no or imperfect credit records. As a result, this practice has the potential to affect economic security outcomes for workers, including workers who earn low wages. In instances where preemployment credit checks are the basis for denying employment, the effect could be to impair employment prospects and reduce earnings; this could, in turn, weaken their financial health and further damage their credit,

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[13] Kilolo Kijakazi, Jonathan Schwabish, and Margaret Simms, "Racial Inequities Will Grow Unless We Consciously Work to Eliminate Them," *Urban Wire* (blog), Urban Institute, July 1, 2020, *https://www.urban.org/urban-wire/racial-inequities-will-grow-unless-we-consciously-work-eliminate-them*.

[14] Some cities also limit preemployment credit checks. For example, New York City does not allow preemployment credit checks for people applying for jobs or employed as bank tellers, cashiers, movers, construction workers, salespeople, clerical and administrative staff, and restaurant and bar workers but allows them for police and peace officers ("Credit Check Law" New York City, accessed August 22, 2023, *https://www.nyc.gov/site/cchr/media/credit-check-law-for-employees.page#:~:text=Under%20the%20NYC%20Human%20Rights,about%20current%20or%20potential%20employees)*.

[15] California Labor Code § 1024.5 (2011); Employee Credit Privacy Act, Illinois Gen. Assem., Public Act 096-1426 (2011); "Job Applicant Fairness Act (FAQs)- Employment Standards Service (ESS)," Maryland Department of Labor, accessed August 7, 2023, https://www.dllr.state.md.us/labor/wages/essjobappfairness.shtml; "Employment Opportunity Act (Credit History)," Colorado Department of Labor and Employment, accessed August 7, 2023, https://cdle.colorado.gov/workplace-conditions/employment-opportunity-act-credit-history; An Act Preventing the Use of Credit Scores by Certain Employers in Hiring Decisions, Public Act No. 11-223 (2011); Hawaii Rev. Stat. § 378-2.7 (2011); Nevada Rev. Stat. § 613.580 (2013); Oregon Rev. Stat. § 659A.320 (2010); Vermont Stat. Ann., 21 § 495i (2012); Fair Credit Reporting Act, § 19.182.020 (2007); Delaware Code, 19 § 711 (2014).

potentially trapping workers with low wages in a vicious cycle (Corbae and Glover 2018). In addition to potential effects on workers, preemployment credit checks have the potential to affect the labor market more broadly, as workers with better credit may have advantages in employment opportunities. Preemployment credit checks could also result in equity implications for both the labor market and worker financial health outcomes, if employers use, for example, perceptions of how credit health correlates with factors such as race in hiring decisions.

Whether such effects arise, however, depends on a range of factors related to how preemployment credit checks actually influence employers' hiring decisions and subsequent employment outcomes for workers. Recent, rigorous research investigating these effects remains limited in scope but has provided credible and generally consistent evidence on how preemployment credit checks relate to worker outcomes, how preemployment credit checks interact with racial disparities in labor markets, and the broader effects of these checks for labor markets. Below, we summarize findings from this growing body of research.[16]

Preemployment Credit Checks and Worker Outcomes

Recent research has largely found that preemployment credit checks are associated with negative employment outcomes for affected workers. One body of work investigates the relationship between preemployment credit checks and outcomes for workers who are either observed or inferred to have imperfect credit histories. In instances where researchers do not observe credit histories directly, research looks at outcomes for workers who report other financial difficulties, for example, or for overall employment outcomes in neighborhoods with low credit scores. These affected workers are those who are exposed to the risk of being denied employment when preemployment credit checks are conducted. This research has typically found negative relationships between preemployment credit checks and outcomes among these workers on employment, and in some instances, wages and earnings.

One set of research findings has examined outcomes for workers related to changes in state policy that have restricted employers' ability to use preemployment credit checks. This research has generally found that restricting the use of preemployment credit checks is associated with improved employment outcomes for affected workers, which suggests that when employers do use preemployment credit checks it creates barriers to employment for affected workers. For example:

- One study found that when states restricted employers' use of preemployment credit checks, this was associated with unemployed workers who reported difficulty meeting expenses in the past year—a measure of financial distress indicating they may have an imperfect credit history—having greater success finding a job (Friedberg, Hynes, and Pattison 2021).[i]
- In that same study, workers with difficulties meeting expenses were more likely to be Black, Hispanic, and female, and tended to have lower earnings on their previous job (discussed further below), than unemployed workers not reporting difficulties.
- In another study, researchers found that state restrictions on employers' use of preemployment credit checks was associated with employment gains for workers from neighborhoods with low credit scores (Ballance, Clifford and Shoag 2020).[ii]

[16] This section discusses key findings from recent research—largely work published in the last five years—investigating the effects of preemployment credit checks in the United States. This body of work has emerged relatively recently in part because one important source of variation used in much of this research to credibly identify effects—namely, changes in and variability across state laws governing when these checks are either allowed or restricted—was generated only as states began to pass these laws in recent decades. Partly as a result, the body of rigorous research on this topic remains somewhat limited, though it has generated a broadly consistent set of findings.

- Notably, that same study also found that these gains in employment were largest in jobs that pay relatively higher wages, which suggests that credit checks may disproportionately create barriers to employment in relatively higher-paying jobs.[17]

Credit reports create a false sense of security in the employment process, leading hiring managers to believe they have protected their workplace and customers. And, egregiously, the use of credit reports in employment effectively bars qualified workers from opportunities where they could contribute their best work to build a company.
—written testimony of Nancy Huntington Stager (2023), Executive Vice President, Eastern Bank

A related but distinct set of findings comes from research that has studied whether workers' employment outcomes are worse when they have particular pieces of negative information on their credit reports. It informs whether employers conducting preemployment credit checks use particular information to deny workers employment. For example, one study focused on credit report indicators that a worker has gone through a bankruptcy filing found that a 7- to 10-year-old bankruptcy did not have a significant effect on labor market outcomes for workers, including both employment and earnings (Dobbie et al. 2020).[iii] This result suggests that while preemployment credit checks may have negative effects for employment outcomes in general, a potential worker's declaration of a dated bankruptcy alone might not lead to these effects.[18]

Preemployment Credit Checks and Workers Earning Low Wages

Research suggests that workers with low wages may be harmed by preemployment credit checks, though there is little direct evidence on low-wage workers specifically. While research has found negative relationships between preemployment credit checks and outcomes for affected workers in general, impacts for workers earning low wages are of special interest. Knowing more about how these workers might be affected by this practice can potentially inform the design and implementation of programs that seek to support workers earning low wages.

The available research does include low-wage workers or lower-paying jobs, but it has not, in general, examined the effects of credit checks for low-wage workers in isolation, or investigated whether those effects are different than for affected workers overall. Some partial evidence is provided by one study that identifies affected workers as those who report difficulty meeting expenses in the past year (Friedberg, Hynes, and Pattison 2021). Workers who report this indicator of financial distress have lower earnings on average than workers who do not. That is, in at least this study finding of a negative relationship between credit checks and employment outcomes, affected workers tended to be relatively lower wage workers.

It is also important to consider the direct evidence on preemployment credit checks and worker outcomes together with the evidence that workers with low incomes are the most likely to have imperfect credit records, or no credit record at all. Among adults who have established a credit record, for example, those

[17] The authors separately examined effects for employment in jobs paying less than $15,000 annually, jobs paying between $15,000 and $40,000, and jobs paying more than $40,000. They found the largest employment effects, in percentage terms, for the highest-paying category. The authors note, however, that the number of higher-paying jobs is expected to be smaller in neighborhoods with lower scores.

[18] Bos, Breza, and Liberman (2018) conducted a similar analysis using Swedish data and variation induced by a policy change that affected the duration that nonpayment stays on people's credit history. They found negative effects on wages for some workers.

with low and moderate incomes are most likely to be late in making payments, and among people with an account in collections, adults with low incomes have the highest amounts in collections (Kramer Mills et al. 2022). Almost 30 percent of adults in lower-income neighborhoods do not have a credit record (as compared with only 4 percent in upper-income neighborhoods) (CFPB 2015). This broader body of evidence suggests that when employers make hiring decisions disadvantaging workers with negative credit information, or a lack of credit history, the workers affected by this practice are likely disproportionately low-wage workers, although further research is needed to specifically examine this relationship (CFPB 2017).

How Preemployment Credit Checks Interact with Racial Disparities

Some evidence shows that restricting the use of preemployment credit checks may be associated with increased racial disparities in employment outcomes. While preemployment credit checks appear to harm employment prospects for affected workers, the effects may be unevenly distributed across groups of workers. Some evidence finds that, in the *absence* of preemployment credit checks, employers may exhibit greater racial bias against hiring Black workers. For example, one study found that when states restricted employers' use of preemployment credit checks, Black workers were more likely to be unemployed (Ballance, Clifford and Shoag 2020). Another study found that state restrictions on credit checks were associated with unemployed Black workers returning to employment at reduced rates (Bartik and Nelson 2021).[iv] The hypothesis this research has put forward to explain these results is that when employers cannot conduct preemployment credit checks they may discriminate against Black applicants.

Broader Labor Market Effects of Preemployment Credit Checks

The overall effects of preemployment credit checks on labor markets may include broader changes in employment and hiring. Workers who are turned down for a job based on preemployment credit checks are not the only ones affected by this practice; such credit checks potentially have broader effects on other groups of workers. For instance, workers with better credit may benefit from the use of credit checks, as they are able to fill the jobs of workers with poor credit histories who are turned down for jobs. Research has found that restrictions on the use of preemployment credit checks were associated with not only employment gains in neighborhoods with low credit scores, but also reductions in employment in neighborhoods with slightly higher scores (Ballance, Clifford, and Shoag 2020). In other instances, broader groups of workers may be affected by preemployment credit checks because of other hiring practices employers may use to either complement or substitute for the use of credit checks. For example, some evidence suggests that employers may raise skill and experience requirements when credit checks are prohibited, which may mean that the use of preemployment credit checks serves to expand opportunities for workers with fewer skills and/or less experience (Ballance, Clifford and Shoag 2020). Finally, it may be the case that preemployment credit checks lead employers to make more jobs available to broader groups of workers. Research has found that restrictions on preemployment credit checks are associated with reductions in job postings, as employers appear to reduce hiring in labor markets or for occupations where knowledge of credit histories might be relatively valuable to inform hiring practices (Cortés, Glover, and Tasci 2022).[v]

The Value of Preemployment Credit Checks for Employers

Whether and how employers benefit from using preemployment credit checks is not clear from available research. In addition to the question of how preemployment credit checks affect outcomes for workers, it is also important to consider if and how credit checks affect outcomes that matter to employers, such as whether they help employers identify workers who are better matches for the jobs they are filling when hiring. This question has not been the focus of much recent research, although what evidence is available has generally failed to find clear evidence that preemployment credit checks benefit employers. For example, there is little evidence that workers with poor credit who are hired go on to perform worse on the job than workers with better credit. One study with a large employer found that a worker's credit history did not predict either their performance reviews or chances of being fired (Koppes Bryan, and Palmer 2012).[vi] There is also little evidence that workers who face difficulties with their credit do worse in the labor market overall. One study comparing earnings over workers' careers between those with and without credit difficulties found that while workers with credit difficulties initially earn lower wages, over time their wages grow at similar rates to otherwise similar workers without credit difficulties (Weaver 2015).[vii] Finally, the fact that some aspects of poor credit histories, such as 7- to 10-year old bankruptcies, do not seem to hurt workers' chances of employment suggest that some employers do not view some aspects of credit histories as closely related to how workers will perform on the job (Dobbie et al. 2020).

Credit as a Barrier to Employment More Broadly

Preemployment credit checks are one way that a worker's credit health can affect their employment and labor market outcomes, but not the only way. Other uses of credit histories for noncredit purposes may also affect employment outcomes. For example, workers may have difficulty moving to a new area for a job if credit checks in rental applications make it challenging to find a place to live. Credit scores are also sometimes used by insurance companies to set auto or homeowner insurance rates, or utility companies to determine whether to require a security deposit. For a discussion, see Wu and Nelson (2022) or Martinchek, Santillo, and Andre (2022).

These other uses of credit histories, in addition to preemployment credit checks, underscore the importance of efforts to assist workers with building and protecting their credit, improving their underlying financial health, and limiting the use of credit histories.

Implications For Practice and Research

This brief provides an introduction to preemployment credit checks for practitioners working to support individuals with low incomes who may be affected by this practice. While there is not yet rigorous research, the limited available evidence finds that approximately half of US employers conduct preemployment credit checks, suggesting that many low-wage workers are at least potentially affected by this practice. We also discuss key findings from recent research that investigates the relationship between preemployment credit checks and worker outcomes, with a focus on workers with low wages. We conclude that available evidence to date suggests these credit checks potentially impose a barrier to employment for workers with imperfect credit yet may be unrelated to future job performance. However, we also note that the overall body of research on this topic remains limited in scope and provides little direct evidence on the effects of credit checks for low-wage workers specifically.

Nevertheless, these findings support several important implications for practitioners working to improve the employment prospects and economic security of workers with low wages who may be affected by this practice. We focus specifically on implications for employment and training (E&T) practitioners and financial capability practitioners because these practitioners are the focus under the broader "Integrating Financial Capability and Employment Services" project and were identified as programs that could support workers in response to preemployment credit checks. In light of limitations and gaps in the evidence base on preemployment credit checks, their effects, and what works to support workers facing them, we also discuss implications for future research to better inform practice in the E&T and financial capability fields.

Considerations for Programs and Practitioners

One way for practitioners to potentially better support clients with low or moderate incomes (who are more likely to have no or imperfect credit reports) is by integrating financial capability programs and employment services. Financial capability programs provide interventions such as financial education (e.g., how to reduce debt or manage credit), financial counseling (to address individual financial difficulties), or financial coaching (to address individual financial goals). They also provide interventions such as access to public benefits, access to low-cost financial products (such as checking accounts, savings and retirement accounts, direct deposit options, and small-dollar loans), or credit-building programs that help people with no credit record or a poor credit record build credit (for example, by opening and remaining current on new lines of credit) (Treskon et al. 2021). Employment services aim to help people build skills, get and hold jobs, and increase earnings. They include job search assistance and training on basic skills, industry- or job-specific skills, soft skills (such as communication), and resume and cover letter writing.

Practitioners who integrate financial capability programs and employment services could, for example, provide financial counseling to assess credit report health and offer credit building to improve credit health prior to job search assistance. This integration could improve people's ability to obtain a job, especially for workers in the majority of states that allow the unrestricted use of preemployment credit checks or in jobs where preemployment credit checks are still allowed even in states with restrictions (e.g., at banks and financial institutions, law enforcement agencies, emergency medical personnel, firefighters, and debt collectors).

Employment and training (E&T) programs could consider integrating financial capability interventions in their programs to build workers' healthy credit reports in the same way E&T programs build job interviewing and job search skills. E&T programs could integrate financial capability by partnering with external collaborators, such as Financial Opportunity Centers and Financial Empowerments Centers, as well as integrating financial coaching initiatives in workforce centers and American Job Centers.

Financial capability programs and practitioners could meet their goals of supporting the financial security of their clients by partnering with E&T programs to help workers qualify for jobs and earn income. To support E&T program participants in obtaining a job without being disqualified by a preemployment credit check, financial capability practitioners could provide information on safe, affordable financial products to prevent credit health from being damaged in the first place, use financial coaching to clean credit reports and dispute inaccurate information, and use credit building to build healthy credit reports, among other financial capability tools. Research has found that financial coaching can improve credit health when offered by programs serving people with low and moderate incomes (Treskon et al. 2021).

Directions for Future Research

In highlighting available evidence on the use and effects of preemployment credit checks, this brief also identifies important gaps in knowledge where future research could be valuable for informing programs and policy. These gaps include a lack of representative evidence on how widespread preemployment credit checks are, both broadly and for low-paying jobs specifically. There is also, as discussed, limited direct evidence on how credit checks affect workers by earnings levels, and on the effectiveness of either financial capability or employment interventions that seek to better prepare workers to obtain employment in labor markets where preemployment credit checks remain common.

To fill these knowledge gaps, future research could explore the development, implementation, and targeting of financial capability services to identify the contexts in which they perform best and the types of workers for whom they work best. This includes research to identify whether there are forms of financial capability programming best suited for addressing the needs of workers directly affected by preemployment credit checks. New research could also focus on the timing of delivering such interventions to reach workers at the right time to improve employment prospects.

Future research would also be valuable to build richer and more detailed evidence on how the relative effects of preemployment credit checks vary across groups of affected workers, with a focus on workers earning low wages, but also by race, geography, industries and occupations, and skill and education levels. Research could seek to better understand which specific elements of credit (e.g., bankruptcy, any debt in collections, or specific types of debt in collections such as medical, auto, or student loan, and whether recent or many years ago) are affecting which groups of workers when facing preemployment credit checks. For example, did recent voluntary medical debt credit reporting reforms reduce the volume of debt in collections on credit reports and benefit affected workers? Medical debt in collections is the most common type of debt in collections on credit reports (CFPB 2022). Findings from new research on these questions could help both employment and financial capability practitioners better understand which groups to target with interventions (e.g., people with no or low-quality health insurance) and what to emphasize in the interventions themselves (e.g., removing medical debt information from credit reports). A related area for exploration is whether workers are being hurt by inaccuracies or outdated information on credit reports, and if any shorter-term interventions could effectively address such issues. Finally, better evidence on these issues could inform efforts at both the state and federal levels to balance the use and limits of preemployment credit checks to support both workers and employers.

Notes

[i] Friedberg, Hynes, and Pattison (2021) studied the effects of preemployment credit checks on employment using a quasi-experimental approach. They identify changes in employment outcomes by exploiting changes in and variability across state laws governing when and for whom these checks are either allowed or restricted. The study used data from the Survey of Income and Program Participation (SIPP) on employment status; their sample includes 10,249 observations of individuals experiencing unemployment between 2008 and 2013. The study also used data from the SIPP to identify whether individuals report experiencing financial hardship, as an indicator for whether they are likely to be affected by preemployment credit checks. (The study further reports evidence from the FINRA National Financial Capability Study (NFCS) showing that self-reported measures of financial distress are typically correlated with measures appearing on credit reports, such as delinquencies.) The study estimated whether the length of unemployment spells is affected by state restrictions on credit checks, controlling for individual-level characteristics and state and year fixed effects. It found that implementation of bans on the use of preemployment credit checks was associated with significant improvements in job-finding rates among unemployed workers with financial hardship.

[ii] Ballance, Clifford, and Shoag (2020) also studied the effects of preemployment credit checks on employment using a quasi-experimental approach. They identified changes in employment outcomes by exploiting changes in and variability across state laws governing when and for whom these checks are either allowed or restricted. The study used employment data from the Longitudinal Employer-Household Dynamics (LEHD) Origin-Destination Employment Statistics (LODES) on total employment at local levels, combined with credit history data from the Federal Reserve Bank of New York's Consumer Credit Panel (CCP). They created a census tract–level panel dataset of 619,235 tract-year observations on employment and credit scores covering the years 2002 to 2013. The study estimated whether employment is affected by state restrictions on credit checks, controlling for census tract, year, and state-year fixed effects. It found that implementation of bans on the use of preemployment credit checks was associated with significant increases in employment in low credit score tracts.

[iii] Dobbie and coauthors (2020) studied the effects of credit on employment outcomes using a quasi-experimental approach. They identified changes in employment outcomes by exploiting the fact that indicators that an individual has gone through a bankruptcy are removed from credit histories after seven or ten years, depending on the type of bankruptcy filing. To study employment effects of bankruptcy flags, the study used individual-level earnings and employment data from Social Security administrative records linked to data on individual-level bankruptcy filings from federal bankruptcy court records. They created an individual-level panel dataset covering the years 2002 to 2011, including a total of 32,797,030 person-year observations. The study estimated whether employment outcomes are affected by the removal of a bankruptcy flag by comparing differential changes in outcomes between filers for whom the flag is lifted after seven years to those for whom the flag is lifted after ten years, controlling for year fixed effects and fixed effects for type of bankruptcy. The study found no significant differences in employment or earnings outcomes.

[iv] Bartik and Nelson (2019) studied the effects of preemployment credit checks on employment outcomes, with a focus on differential effects by race. They used a quasi-experimental approach that identified changes in employment outcomes by exploiting changes in and variability across state laws governing when and for whom these checks are either allowed or restricted. The study used data on employment outcomes, with a focus on job flows, from two sources: data on job finding and separation from the Current Population Survey (CPS) from 2003 to 2018, forming a sample of 342,049 observations. The study also presents estimates using data on job finding from the Longitudinal Employer-Household Dynamics (LEHD) Job-to-Job (J2J) flows data from 2005 to 2017. The study estimated whether employment outcomes are affected by state restrictions on credit checks separately for Black, Hispanic, and white workers, controlling for year and state fixed effects. It found that bans on the use of preemployment credit checks were associated with statistically significant reductions in job finding rates for Black workers.

[v] Cortés, Glover, and Tasci (2022) studied the effects of preemployment credit checks on job vacancies, using a quasi-experimental approach. They identified changes in vacancies by exploiting changes in and variability across state laws governing when and for whom these checks are either allowed or restricted. The study used data from the Conference Board's Help Wanted Online (HWOL) data series on job vacancies at local levels, combined with credit history data from the Federal Reserve Bank of New York's Consumer Credit Panel (CCP), to create a county-level panel dataset on vacancies and credit scores covering the years 2005 to 2016. The dataset had 2,473,367 county-quarter observations. The study estimated whether posted vacancies are affected by state restrictions on credit checks, controlling for county-quarter fixed effects. It found that implementation of bans on the use of preemployment credit checks was associated with a statistically significant reduction in posted vacancies in occupations affected by the bans, and that this effect is larger in low credit score counties.

[vi] Koppes Bryan and Palmer (2012) studied whether credit histories were predictive of employee performance. The study used data on a sample of 200 personnel files randomly drawn from a single, large employer in the financial services industry, of which 178 included credit files. The personnel files also included information on performance appraisal ratings (an overall rating on a 5-point scale) and termination decisions. The study assessed the relationship between information on credit reports, such as late payments, and performance ratings and terminations. It found correlations between nearly all credit indicators and employee performance were small and not significantly different from zero. It found that only one credit indicator (late payments of 120 days) predicted employee termination at conventional levels of statistical significance.

[vii] Weaver (2015) studied the relationship between credit and labor market outcomes by comparing earnings over workers' careers between those with and without credit difficulties. The study used data from the 1979 to 2010 waves of the National Longitudinal Survey of Youth 1979 (NLSY) on individual employment and earnings, as measures of labor market outcomes, and responses to questions such as being rejected for credit or having negative net worth as indicators for credit difficulties; yielding an analytical sample 2,061 individuals using the former and 3,307 using the latter. The analysis identifies the effects of credit difficulties on labor market outcomes by estimating whether individuals who report credit difficulties in later periods (survey waves starting in 2004) have different earnings profiles in earlier periods (between 1979 and 1992), controlling for other worker characteristics including worker demographics and education levels. The study found that while individuals with credit difficulties have lower initial wages, their wages grew at similar rates to observably similar workers without such indicators.

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