

# UNDERSTANDING THE CREDIT AND FINANCE NEEDS IN LIMITED-INCOME HOUSEHOLDS

**Findings from 2022 National Limited-Income Customer Credit and Finance Survey**



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## Introduction

Financing difficulty is a substantial barrier to adopting energy-efficient technology among limited-income communities. Financing method such as applying for a loan often requires an applicant’s credit qualification, which is more difficult for limited-income households to establish compared with higher-income classes. In 2021, EPRI partnered with GLYNT.AI in conducting a national survey (representative of four census regions) and a local survey (Modesto, CA) to understand the purchase journey of home energy equipment in limited-income households [1]. The national survey provided scalable learning across the nation, while the local survey served as part of the community engagement effort in the project titled “Innovative Low-GHG Residential Space Conditioning Technologies” funded by the California Strategic Growth Council (CA SGC).

Following the 2021 surveys, the 2022 survey explored the financing aspect in-depth. The objective is to understand the current state of credit score experience among limited-income households and to further explore their interest level in a new credit card design to improve their credit scores. Traditionally, credit card products have not been purposely tailored to associate credit scores with payments of utilities. The new credit card design concept introduced in this survey proposes to reward the behaviors of paying utility bills on time and saving energy by boosting a card user’s credit score and providing cashback. The survey findings can help understand the potential of this new credit development mechanism and the possible challenge if such credit card product is available for limited-income customers in the future.

## Survey Design and Administration

The survey consisted of the following question themes:

- Credit-related products experience – including the experience of using credit products, the knowledge of their credit scores, and the past bad experience related to credit and payments.
- The needs in purchases and credit score boosting – the next big purchase and the importance of boosting credit scores
- Important credit card features – the features that customers consider the most important when choosing a credit card
- Credit card use in paying utility bills – among other methods that customers currently use for utility payment

- Interest in a new credit card specially designed for utility payment – the level of interest and the reasons behind it
- Perception of different financing methods – interest in on-bill financing, on-tax financing, and green mortgage.

The survey targeted respondents who met the following requirements:

- Annual household income ranging from \$38K-\$100K per year (this income range includes both low- and medium- income groups, which enables comparison of findings between the two different income levels.)
- Respondents pay at least one type of utility bills (electricity, natural gas and/or water)

The survey sampled 1600 respondents nationwide, consisting of 63% homeowners and 37% renters, with 46%, 33%, and 21% of respondents in the income brackets of \$30-60K, \$60-80K, and >\$80K respectively. 96% of the respondents pay at least electricity bills in their household.

## Results

### Credit Product Experience

The use of credit products: The use of credit products: As shown in Figure 1, credit cards are common among respondents in all three income groups, with the lowest income bracket (\$30-60K) being less likely to have used a credit card (78%) compared to the other higher income brackets (88% in \$60-80K group and 84% in \$80-100K group).

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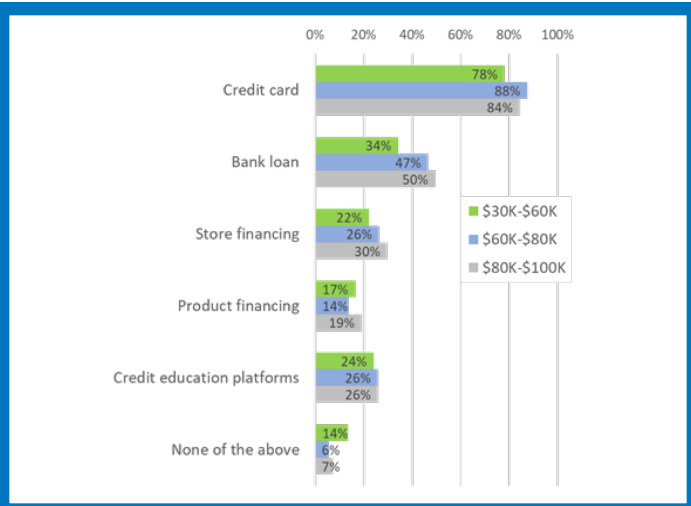


Figure 1. Percentage of the income group that have used the financial products

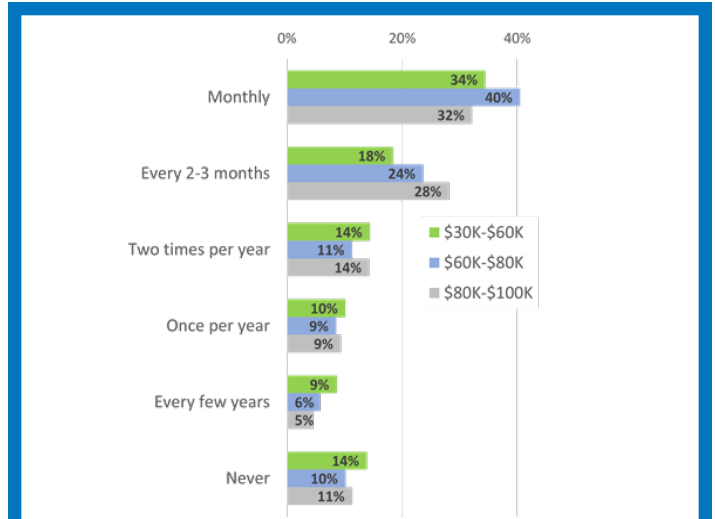


Figure 3. Frequency of checking credit scores

**Knowledge of credit scores:** The majority of respondents keep track of their current credit scores. The income group of \$60-80K has a slightly higher level of knowledge of current scores than the other two lower/higher income groups. The lower income bracket (\$30-60K) shows lower awareness of credit scores – 21% of the group do not know current or previous scores versus 14% and 17% in the \$60-80K group and \$80-100K group respectively. Most respondents check their credit scores monthly or every 2-3 months (Figure 2). The income group of \$60-88K is slightly more likely to check the scores monthly than the other two groups, which explains that they are more knowledgeable of their current scores.

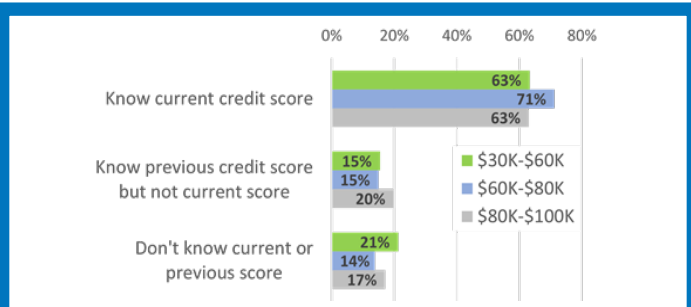


Figure 2. Knowledge of credit scores

**Negative experience:** The three most cited negative experiences by respondents are late payment fees, unpaid balances, and denied credit card applications (Figure 4). There are slightly more respondents in the \$80K-100K income groups who have experienced a large purchase item that got repossessed.

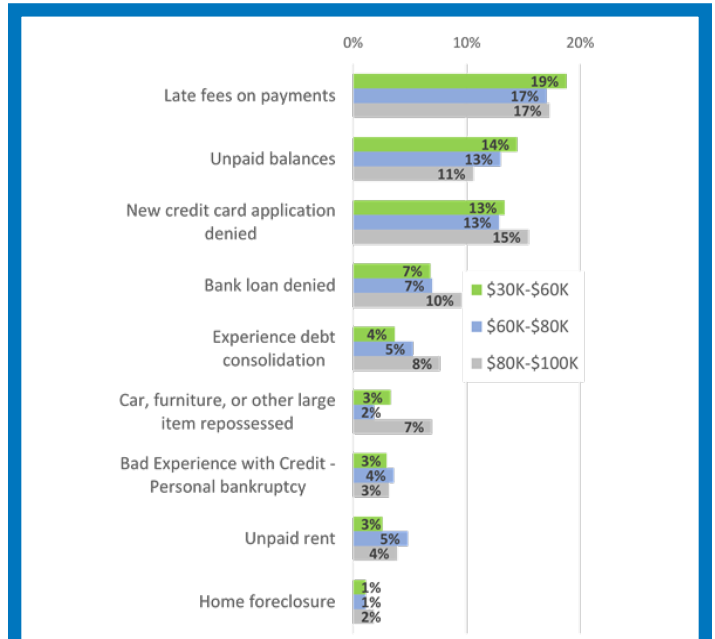


Figure 4. Negative experiences with credit and payments in the past 10 years

### About Boosting Credit Scores

The need for boosting credit scores: To understand whether there are motivators to boost credit scores, the survey first asked about their next big purchases that likely need financing. Renovating a home, buying/leasing a car, and buying a home are the top three next big purchases. Consistent with these finance needs, 69%-74% of respondents considered it “somewhat” to “very” important to boost their credit scores (Figure 5).

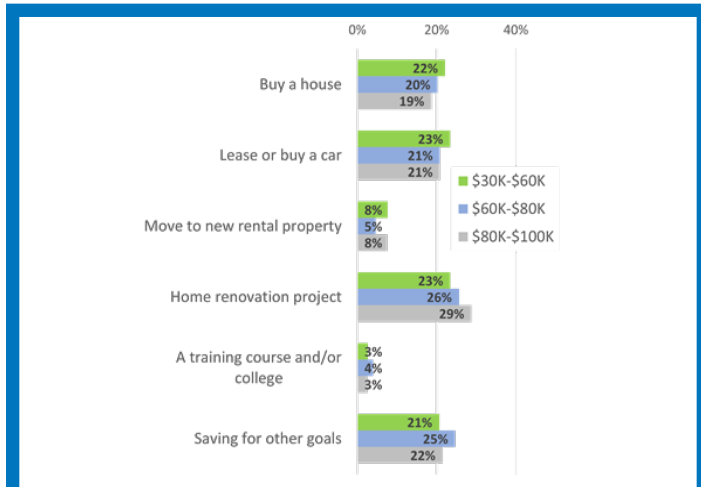


Figure 5. Next big purchase and financing (respondents were asked to select only one)

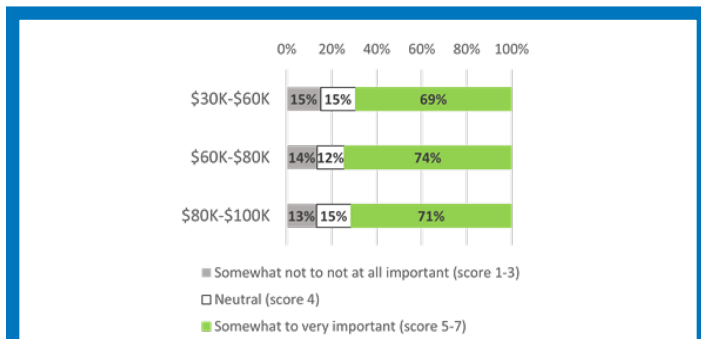


Figure 6. Importance of boosting credit scores

**Important credit card features:** The top five most important features for a general credit card are “no annual fee”, “low interest rates”, “cashback”, “data safety and security”, and “reward points for products”. Four out of the five top features relate to finance benefits. The \$60-80K income group particularly emphasized “no annual fee”. The same group also slightly cared more about data safety than the other two groups (data safety ranked higher than cashback). “Helping raise credit score” was ranked in the 6<sup>th</sup> place, not as important as other financial benefits such as no annual fee, low interest rates and cashback. This suggests that although respondents consider boosting credit scores important (in the question shown in Figure 6), a credit merely designed for boosting credit scores but falling short on other benefits is unlikely to attract consumers.

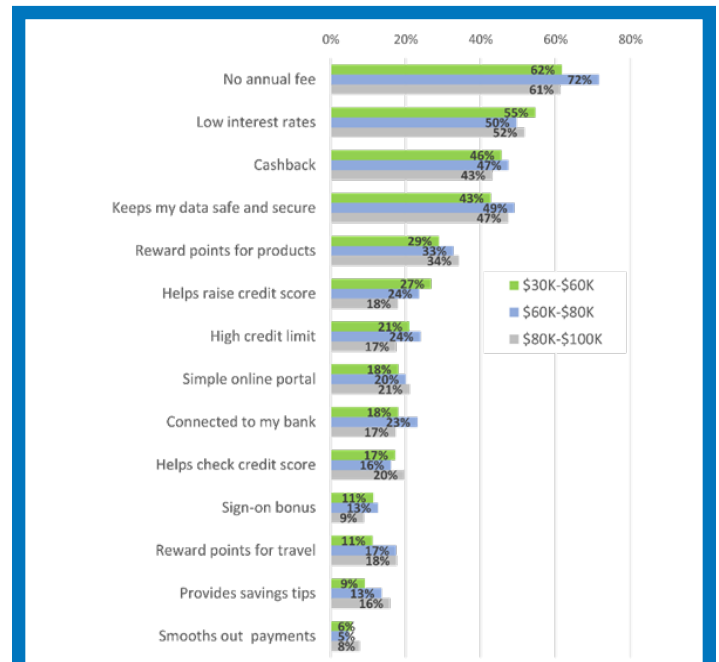


Figure 7. Important credit card features

**Perception of how to boost credit scores:** Respondents are likely to already associate credit score improvement with on-time payments, clearance of debts, and correct credit reporting. This finding supports that there is a potential for introducing the concept of linking credit score boosting with regular payment activities (such as utility bill payments considered in this study).

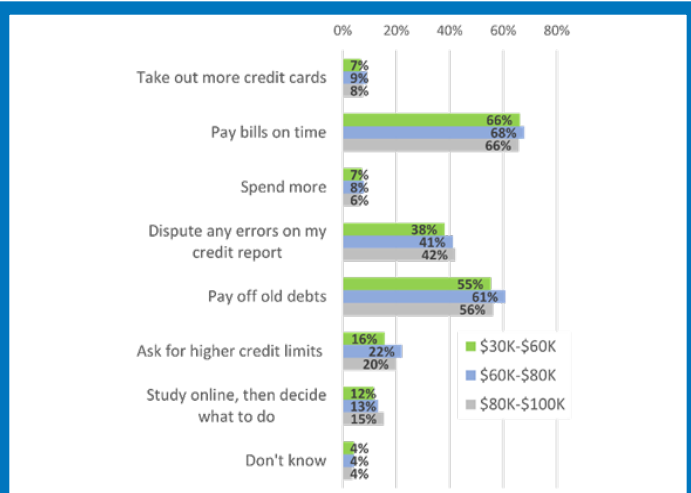


Figure 8. Actions that respondents think would help improve credit scores

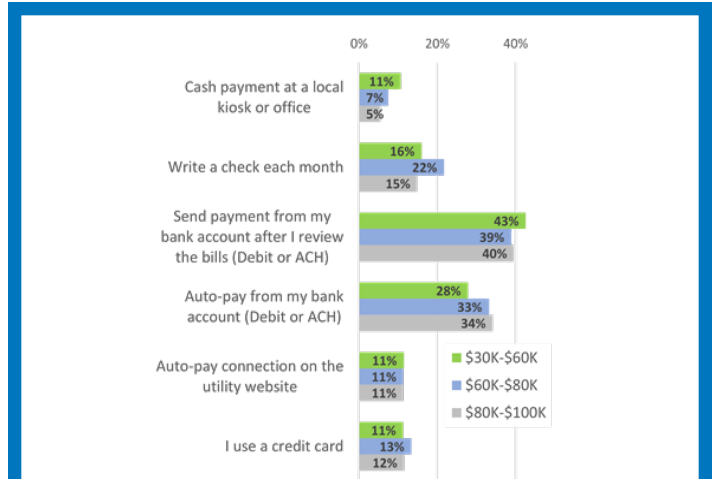


Figure 9. Current payment methods for utility bills

### A New Special Credit Card for Utility Payment

Using a credit card for utility payments: 11%-13% across the three income groups currently use credit cards to pay utility bills (Figure 9). The most popular payment method is sending payments from bank accounts, either after reviewing the bills or through auto-pays. For the respondents who are not already using credit cards to pay utility bills, we asked if they would be interested in a new credit card specially designed for utility bill payments. 30-33% of the respondents across three income groups showed a “slight” to “high” level of interest, while about half of the respondents were not attracted to this idea, see Figure 10. It should be noted that respondents were not given a specific description of what the “special” credit card features may look like at the point of this question. The respondents who expressed low interest in a new card were asked about the reasons for the low interest. The primary reason was the unwillingness to change their current bill payment methods (67%-71% of the respondents with low interest selected this reason, see Figure 11). This suggests that overcoming the current habits of utility bill payments is likely to be a challenge for introducing a new special credit card.

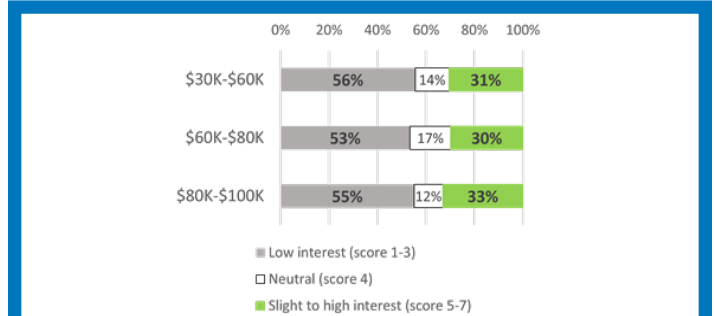


Figure 10. Interest in a new special credit card for utility bills (respondents were not yet presented with the potential new credit card features)

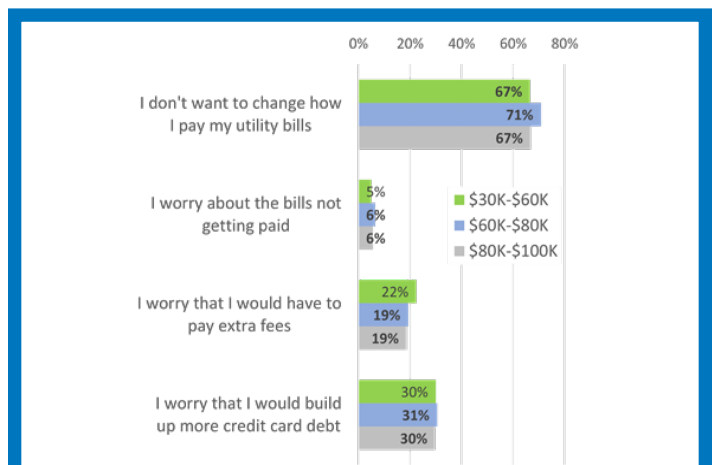


Figure 11. The reasons why respondents would NOT be interested in a new special card for utility bills

Interest in new special features: respondents were less interested in the information features alone (i.e. credit improvement tips or utility saving reports) but more interested in the actual financial rewards based on a cardholder’s actions (i.e. utility bill payment and energy saving are linked to credit score boosting and cashback). Similar preferences were observed across three income groups. In this question context, 51%-54% of the respondents showed a

“slight” to “high” level of interest in a credit card specially designed for combining paying utility bills, boosting scores, and cashback. In contrast to the previous question in Figure 10, in which respondents were not told about these special features, they showed lower interest in a special card for utility bill payment (only 30%-33% stated that they are “somewhat” to “very” interested).

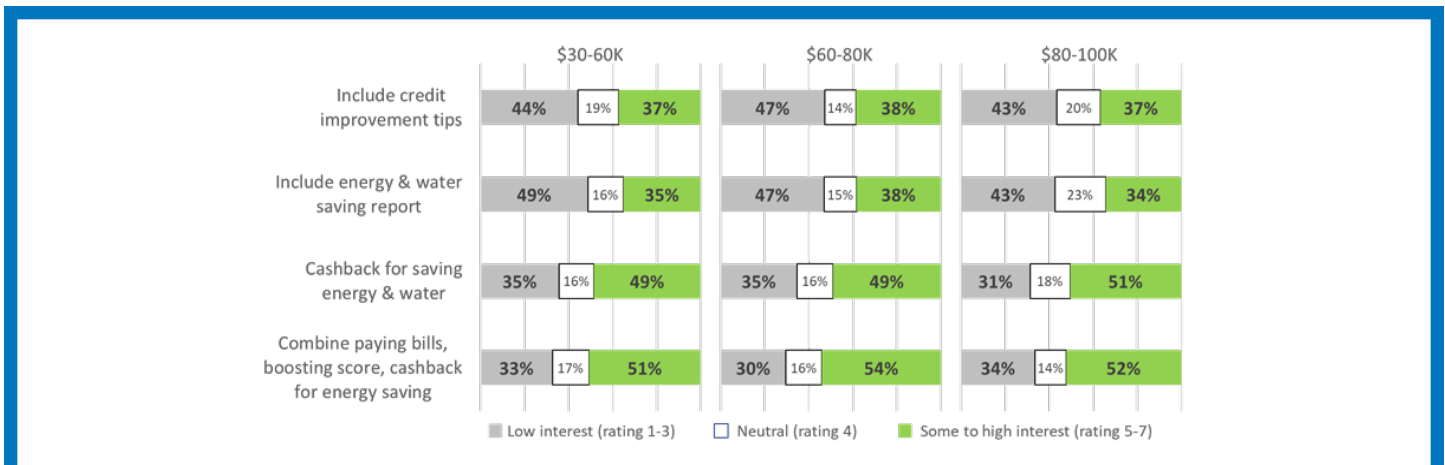


Figure 12. Interest in new special features that link credits to utility bill payments

### Perception of Financing Methods

The survey explored respondents’ interest in three types of financing methods that may help homeowners pay for home energy efficiency upgrades. Respondents were asked to rank three potential financing methods in the context of future energy efficiency upgrades. The three financing methods introduced to respondents are:

- On-Bill Financing – “you get a loan from your utility provider to pay for the upgrades, then you pay back through your energy bills.”
- On-Tax Financing – “some financial institution pays for the upgrades, and the repayments are made through property assessments on property tax bills.”
- Green Mortgage – “you get a loan that rolls into the existing primary mortgage, then you pay back along with the regular monthly mortgage amount.”

On-bill financing was ranked on top of the three financing methods, especially for the \$30-60K income group (Figure 13). The \$80-100K group was more interested in green mortgage than the other two lower income groups. This may relate to how likely mortgages applies to the given income groups.

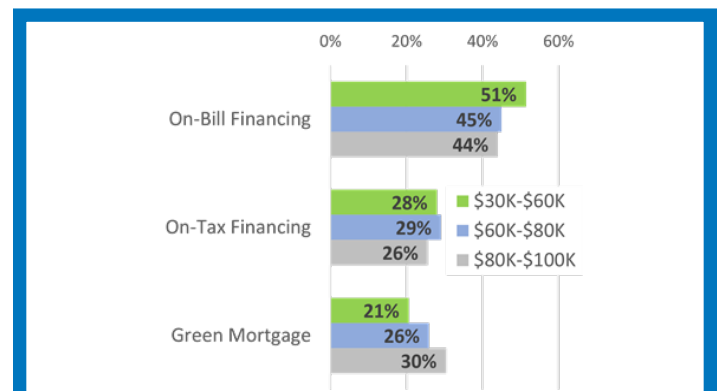


Figure 13. The percentage of respondents that rank the financing model concept as the top preference (comparison among three financing models)

## Conclusions

The use of credit cards is currently common among limited income customers. In the need for paying for their next big purchase such as home renovation, car or home purchase, customers expressed general interest in boosting their credit scores in our survey, and they showed awareness of the importance of on-time bill payments and debt clearance in establishing good scores. Thus, there is a good potential for introducing a new type of credit card specially designed for boosting credit scores through on-time utility bill payments. However, to attract consumers, the credit score boosting feature needs to team up with other top-ranked credit card features which customers consider as more important than boosting scores, such as “no annual fee”, “low interest rate”, “cashback”, and “data security”.

A foreseen challenge is that customers might already be used to their current payment methods and may hesitate to switch to new payment method or a new card. Therefore, explaining to customers about the special benefits of the credit card design (i.e. linking utility bill payment to credit score boosting, and providing cashback rewards based on energy saving) is the key to increasing the acceptance of this new type of credit cards.

## References

- [1] *Understanding the Purchase Journey of Home Energy Equipment in Limited Income Households: A Comparison of U.S. National and Regional Surveys*. EPRI, Palo Alto, CA: 2021. 3002021632.

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