Public-Private Sector Research Center

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The Unintended Consequences of Employer Credit Check Bans on Labor and Credit Markets

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ABSTRACT

Lenders have traditionally used credit reports to measure a borrower's riskiness, but credit agencies also market reports to employers for use in hiring. Since the onset of the Great Recession, eleven state legislatures have restricted the use of credit reports in the labor market. We document that county-level unemployment rose faster in states that restricted employer credit checks. Furthermore, counties with high sub-prime populations experienced larger increases in the unemployment rate than average. Underlying the increase in unemployment rates post-restriction is a higher separation rate in those states, which we interpret as evidence that employer credit checks are an ex-ante screening device that improves the matching process. We provide further evidence of deteriorating credit market outcomes. Using a credit panel, we find that credit inquiries and delinquencies increase significantly after the state-level policy changes.