

LATINO CREDIT CARD USE: PITFALLS OF SAFETY-NET SPENDING

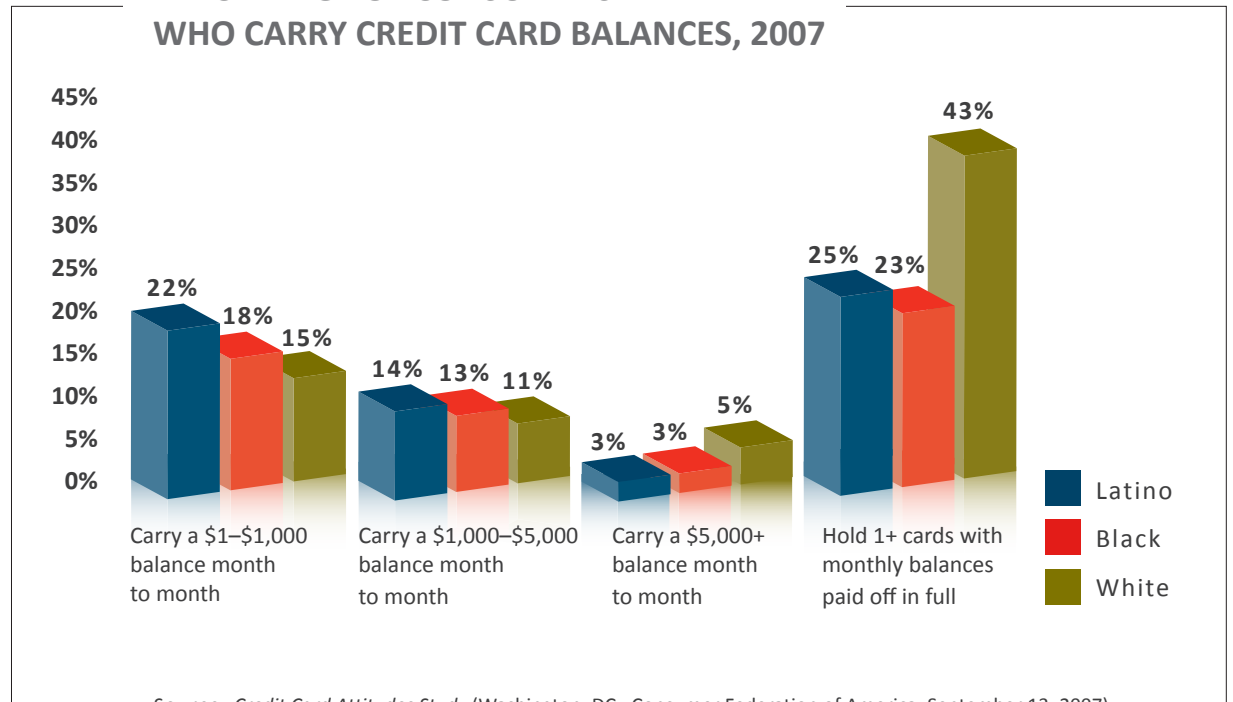
Introduction

Fewer Latinos* carry credit cards than their White counterparts; however, more and more Latinos are relying on plastic to pay for daily necessities, medical bills, and other emergencies in today's economic crisis. Low-income Latinos generally do not have a buffer bank account from which to draw when their households are stretched beyond their means. They use credit cards as their safety nets. This makes Latinos more vulnerable to penalty fees, high rates, and abusive lenders.†

- **Approximately 64% of Latinos have credit cards.** According to a 2007 survey conducted by the Consumer Federation of America, 78% of White respondents have a credit card compared to 64% of Latinos.¹ Latinos' presence in the consumer market is increasing, however, and they and their buying power are expected to continue rising. Between 1992 and 2001, the segment of Hispanic families that held credit cards grew by ten percentage points.²

Figure 1

PERCENTAGE OF CONSUMERS WHO CARRY CREDIT CARD BALANCES, 2007



Source: Credit Card Attitudes Study (Washington, DC: Consumer Federation of America, September 13, 2007).

* The terms "Hispanic" and "Latino" are used interchangeably by the U.S. Census Bureau and throughout this document to refer to persons of Mexican, Puerto Rican, Cuban, Central and South American, Dominican, Spanish, and other Hispanic descent; they may be of any race.

† Contact Nancy Wilberg Ricks at nwilberg@nclr.org for more information.

- **More than one-third of Latinos use their credit cards to make ends meet.** Thirty-nine percent of Latinos reported that basic living expenses contributed to household debt.³ Many Hispanic consumers indicated that lending money to family members significantly contributed to their overall household debt.⁴ In addition, a separate study showed that low- and middle-income Hispanic households with medical debt held 64% more credit card debt than those that did not claim having medical debt (\$9,200 versus \$5,620).⁵
- **Almost one in two Latino cardholders is likely to carry a balance month to month.** While the majority of American households that use credit cards do not carry a balance, many Latino households do. As indicated in Figure 1, generally more Latino respondents carry balances from month to month than do their Black and White counterparts.
- **Subprime consumers saw credit card solicitations almost double in 2007.**⁶ The research firm Mintel found that subprime consumers saw a 41% jump in direct-mail credit card offers in the first half of 2007. Many Latinos have thin credit histories and limited experience in the U.S. credit market,

and—due to issuers’ prescreening processes—they are less likely than their peers to receive diverse credit card offers. As a result, Latinos spend comparatively more time searching for cards with favorable terms.⁷

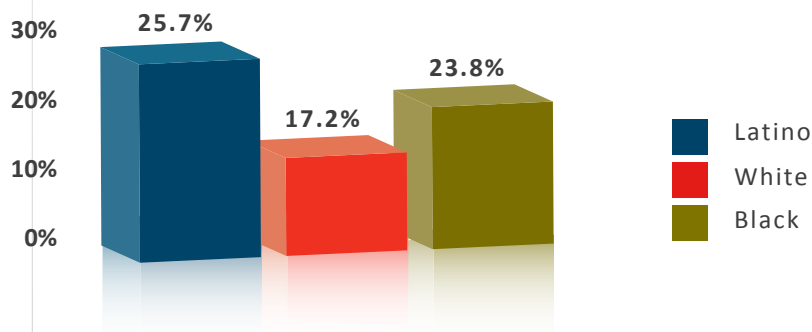
- **According to a 2005 Dēmos study, one in five Latinos reported being overwhelmed by credit card debt.** Approximately 19.3% of Hispanics characterized their situation as “burdensome”; they said they did not have enough money to pay down their balances. Only 12.7% of total respondents claimed the same degree of financial distress.⁸ In addition, 11.4% of Hispanics reported that they had maxed out their credit cards to the point of no longer being able to use them; only 7.3% of total respondents had reached this point.⁹

Conclusion

As low-income Latinos use credit cards for safety-net purposes, they are more susceptible to accruing unmanageable debt. Along with limited industry regulations, these factors can permanently prevent a family from achieving financial solvency.

Figure 2

PERCENTAGE OF CREDIT CARD CONSUMERS WITH DEBT HARDSHIP (40%+ debt-to-income ratio), BY RACE



Source: José García, *Borrowing to Make Ends Meet: The Rapid Growth of Credit Card Debt in America*, (New York, NY: Dēmos, 2007).

Endnotes

1. *Credit Card Attitudes Study* (Washington, DC: Consumer Federation of America, September 13, 2007).
2. Javier Silva and Rebecca Epstein, *Costly Credit: African Americans and Latinos in Debt* (New York, NY: Dēmos, May 2005).
3. Unpublished data from a 2005 Dēmos telephone survey tabulated by the Federal Reserve on behalf of NCLR.
4. Beatriz Ibarra and Eric Rodriguez, *Latino Credit Card Use: Debt Trap or Ticket to Prosperity?* (Washington, DC: NCLR, 2007).
5. Cindy Zeldin and Mark Rukavina, *Borrowing to Stay Healthy: How Credit Card Debt Is Related to Medical Expenses* (New York, NY: Dēmos, 2007).
6. Kathy Chu, "More Americans Using Credit Cards to Stay Afloat," USA Today.com, March 30, 2008, http://www.usatoday.com/money/perfi/credit/2008-02-28-credit-cards_N.htm (accessed January 14, 2009).
7. *Latino Credit Card Use*.
8. *The Plastic Safety Net: The Reality Behind Debt in America* (New York, New York: Dēmos, October 2005).
9. *The Plastic Safety Net*.