

# ISSUE BRIEF

## EXECUTIVE SUMMARY

### Latino Credit Card Use: Debt Trap or Ticket to Prosperity?

With a new Congress pledging to help the American middle class, a spotlight on the credit card industry is timely. Credit card use among Americans influences the extent to which middle-class families can become financially secure. As the fastest-growing and largest minority group in the country, Latino families continue to face several roadblocks to accessing affordable credit. Barriers to affordable credit can help to explain the wealth gap between White and Latino households; in 2002 the median White household maintained eleven times the wealth of similar Latino households.

For any legislative effort to be effective, policy-makers must deliberate on how credit card industry policies and practices adversely affect Latino consumers. Latinos still tend to have less personal savings and fewer assets than other American families, and for low-income Latino families in particular, an unhealthy reliance on credit cards can expose them to predators within financial markets. Additionally, accumulating high levels of unsecured debt will greatly impact their ability to move into the ranks of the American middle class. This policy brief is the first analysis of Latino credit card

use. The National Council of La Raza's (NCLR) major findings include the following:

- ▶ **The vast majority of American households use credit cards, but a substantial share of Latino households do not.** A national survey revealed that 80% of American households use credit cards compared to only 56% of Hispanic households.
- ▶ **Credit card use and credit card debt is on the rise in the Hispanic community.** Between 1992 and 2001, the share of Hispanic families who held credit cards grew from 43% to 53%, and the average credit card debt among Hispanics increased by nearly 20% for that same period.
- ▶ **The majority of American households who use credit cards do not carry a balance, but most Latino credit card users do.** More than 45% of credit cards users report revolving a balance, compared to 77% of Latinos.
- ▶ **A substantial share of all credit card users and a proportionately larger**

**share of Latino credit card users have difficulty managing their credit card debt.** A recent Demos study on household debt showed that 7.3% of all respondents were “maxed out,” while 12.7% characterized their debt situation as “burdensome...not enough money to pay down [the balance].” However, 11.4% of Hispanics reported they were “maxed out and can’t use [their cards], while 19.3% described their situation as “burdensome and not enough money to pay down [the balance].”

Additionally, Latino consumers face several structural barriers in the credit card market which lead to disparities in participation. For example, 22% of Hispanic borrowers had no credit score compared to 4% of Whites and 3% of African Americans. Because of overall credit status and limited experience in the U.S. credit market, Hispanic consumers are also less likely than their peers to receive multiple credit card offers and, thus, need to spend relatively more time and energy searching for cards with desirable terms. Further, the 2004 Survey of Consumer Finances showed that only 7% of Hispanic consumers who carry a balance report “substantial” shopping for the best credit rates and fees, compared to 12% for similar White consumers. Moreover, data reveal that negative experiences with shopping for credit can cause some Latino consumers, especially those with balances, to stop shopping altogether. Twenty-five percent of Hispanic consumers who use cards and were denied a loan did not reapply for fear of rejection.

Recent studies show that many low-income Latino consumers depend on credit cards to

make ends meet. Almost 39% of Latinos reported basic living expenses and 30% reported medical expenses as contributing to household debt. For these consumers, credit card issuer policies and fees can exacerbate their financial troubles.

NCLR’s analysis of the data revealed the following:

- ▶ **Because of the structure of the credit card market, Latinos have limited access to affordable, unsecured credit cards.** For example, the industry’s reliance on a consistent and verifiable payment history as a principal means of determining who receives a solicitation for a card excludes creditworthy Latinos.
- ▶ **Latino consumers who do have access to credit cards are more likely than their peers to receive inferior offers.** The factors that credit card firms use to set rates and terms on offers (e.g., recorded payment history, household income) result in Hispanics receiving inferior offers.
- ▶ **Because Hispanic card users are proportionally more likely to be among those struggling to manage their debt, they are more susceptible than their peers to adverse industry policies and practices.** For instance, one study showed that 43.95% of Hispanics surveyed reported making late payments. Consequently, universal default policies and change-in-terms provisions disproportionately harm Latino customers.

Unfair and abusive credit card policies and practices trap Latinos into a cycle of debt. Credit card debt can strip wealth from low- and moderate-income Latino families and exacerbate their financial troubles. The following are a few of the many policies and issues that NCLR believes are problematic:

- ▶ Unilaterally changing the terms of a consumer's credit card contract.
- ▶ Charging perverse fees to consumers, which are not associated with the cost or additional risk to the lender.
- ▶ Double-billing consumers on purchases made outside of the U.S.
- ▶ A weak regulator, unable to proactively protect consumers from abusive practices in the industry.

Latino consumers need and demand strong consumer protections and greater enforcement from regulators if they are to successfully navigate the mainstream credit card market. More specifically, policy-makers must enact a monthly minimum payment warning; ban universal default, change-in-terms policies, and mandatory arbitration clauses; and stop double-billing on foreign conversion fees. Furthermore, regulators must work harder to meet their congressionally-mandated mission to examine and penalize bad actors and set higher standards for the industry. Finally, policy-makers must support community-based financial counseling programs, which would go a long way in helping consumers distinguish between good and bad debt and prevent credit card debt from becoming unmanageable.