

**Eliminating Barriers to Credit and the Challenges of  
Credit Card Use for Latino Consumers**

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Submitted by:  
**Beatriz Ibarra, Assets Policy Analyst  
National Council of La Raza**

National Council of La Raza  
Raul Yzaguirre Building  
1126 16<sup>th</sup> Street, NW  
Washington, DC 20036

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## **INTRODUCTION**

The National Council of La Raza (NCLR) – the largest national Hispanic\* civil rights and advocacy organization in the United States – works to improve opportunities for Hispanic Americans. Part of this mission includes realizing public policy initiatives that improve the ability of Hispanic families to build assets and wealth. The most recent household wealth survey revealed that the median net worth of Hispanic households is \$7,932, compared to \$88,651 for White non-Hispanic households.<sup>1</sup> In addition to experiencing a low net worth, Hispanics have limited access to affordable, mainstream financial services. Approximately 42% of Latinos lack a basic checking or savings account. As a result, many Latinos rely on costly “fringe” financial service providers, such as payday lenders, check cashers, and pawn brokers, to get their financial service needs met.

Latino consumers need greater access to affordable credit, including credit cards with desirable contract terms. As experts and policy-makers determine how to address abusive credit card policies and practices, more information is needed about the challenges facing Latino consumers who use credit cards. In the summer of 2006, NCLR held a roundtable discussion with regulators, credit counselors, and individuals collecting Hispanic consumer complaint information to develop a deeper understanding of the Hispanic credit card experience.<sup>†</sup> Roundtable participants raised serious concerns regarding harmful credit card industry policies and practices, scams targeting Latino consumers, and the lack of effective consumer financial education and counseling strategies. This statement will briefly outline structural barriers in credit markets and credit card-related challenges that Latinos face.

## **STRUCTURAL BARRIERS TO ACCESSING GOOD CREDIT**

Structural barriers in credit markets hamper the ability of Latino consumers to fully integrate into the U.S. financial system. For example, one study revealed that 22% of Hispanic borrowers had no credit score, compared to 4% of Whites and 3% of African Americans.<sup>2</sup> The automated, less flexible systems used to determine creditworthiness favor consumers with robust and easily verifiable credit histories. Alternative credit systems that consider a diverse range of consumer information and data have had limited use among mainstream lenders. As a result, many Latino consumers pay more for credit than their peers or are denied credit altogether. This is true even for Latino consumers who may pose a low risk of default. Even those Latinos with credit scores are more likely to have thin files that companies reflexively consider high risk.

Although wise credit card use is a good method for building a credit history, an increased reliance on credit cards can expose Latinos to predators and lead to a dangerous accumulation of unsecured debt. For low-income Latino families in particular, accumulating high levels of unsecured debt greatly impacts their ability to build the assets and wealth necessary to move into the ranks of the American middle class. Still, credit card use is on the rise in the Hispanic community. In 2001, nearly 53% of Hispanics held a credit card, compared to 43% in 1992.<sup>3</sup> Studies show that many low-income families are forced to rely on credit cards when unexpected circumstances strike, such as job loss or illness.

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

<sup>†</sup> A transcript of the roundtable discussion, *A Conversation of Latino Credit Card Use*, is available at [www.nclr.org](http://www.nclr.org).

## CREDIT CARD-RELATED CHALLENGES

NCLR's substantive work to date reveals several notable challenges for Latinos:

- **Credit card industry policies and practices.** NCLR's roundtable discussion revealed that Hispanic consumers are often unaware of credit card policies, such as universal default and change-in-terms provisions, or lack an understanding of the relationship between the minimum balance requirement and their credit card balance. Additionally, true comparison shopping is close to impossible with the infinite number of credit cards available in the market and the use of complicated legal language in credit card agreements. Furthermore, policies that affect the cost to the consumer are hidden in the fine print of agreements. Finally, charging a foreign conversion fee on purchases made outside the U.S. on top of additional fees associated with the purchase constitutes double-billing and particularly impacts immigrants. The combination of these challenges ensures that many low-income Latino credit card users will have difficulty avoiding unnecessary fees and interest. A more detailed analysis of these challenges will be available in an upcoming NCLR report entitled, *The Credit Card Trap: Unfair Credit Card Practices Hinder Latino Movement into the Middle Class*. The report will be available at [www.nclr.org](http://www.nclr.org).
- **Credit card-related scams.** Credit card-related scams continue to strip income from Latino families. The Federal Trade Commission (FTC) reported that 14.3% of Hispanics are victims of fraud, compared to 6.4% of non-Hispanic Whites.<sup>4</sup> The NCLR roundtable discussion documented that many of the credit card-related scams consist of affinity and fake credit cards targeted to Hispanic consumers. Affinity credit card scams involve individuals who sell credit cards to Hispanic consumers, claiming that they are custom-tailored to meet their needs. Similar to fake credit card scams, these affinity credit cards are worthless and cannot be used to purchase goods or services. Consumers who are victims of scams may file a complaint with the FTC. Unfortunately, because the FTC often does not collect data by race/ethnicity, it is difficult to document harmful trends in the Latino community or fully understand the range of scams targeted to them. Collecting data by race and ethnicity would enable regulators to detect trends within segments of the population, help to shape efforts to eradicate scams, and develop strong cases against predators.
- **Obscure consumer complaint system.** Hispanic consumers who use credit cards and want to file a complaint against their issuer may find it difficult to determine which federal agency to contact. Currently, the burden is on the consumer to determine if the Office of the Comptroller of the Currency (OCC), the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, or the Office of Thrift Supervision is the appropriate regulatory agency. The OCC, the principal regulator of national banks in the U.S., created the Customer Assistance Group (CAG) to receive, track, and resolve consumer complaints against national banks. However, the CAG does not market its toll-free hotline on materials that credit card issuers send to their customers. Further, the CAG does little to reach out to Hispanic consumers who have a tendency not to file consumer complaints. The OCC must do more to market its services in languages and formats that all consumers understand, and partner with community-

based organizations, local consumer protection agencies, and the media to highlight and address abusive practices in the community.

- **Ineffective financial education structure.** Investing in effective financial education and counseling programs would help Latino consumers spot credit card-related scams, avoid unmanageable debt, and learn about abusive industry policies and practices. Currently, there are a variety of financial education programs targeted to the Hispanic community which include a credit component. These programs include brochures, videos, Internet-based seminars, classes, and workbooks, and some are translated or “transcreated” into Spanish. However, many of these programs are not custom-tailored to address the unique needs of Hispanic consumers in credit markets. Furthermore, distribution of these materials has been limited, and there is minimal, if any, follow-up with consumers to test whether or not behavioral change has occurred.

NCLR’s research shows that custom-tailored, community-based, one-on-one financial counseling (not to be confused with creditor debt counseling) is the most effective method for increasing financial literacy and building assets in the Hispanic community.<sup>5</sup> Resources are needed to build a financial counseling infrastructure, to hire and train community-based financial counselors, and to develop software to track client progress.

## CONCLUSION

With the enactment of effective consumer protections and enhanced community awareness of harmful industry policies, Hispanic consumers will be better equipped to save their hard-earned money for asset building. Increasing wealth-building opportunities among Hispanics and reducing household debt is not a narrow special interest. There are now more than 41 million Hispanics in the U.S. – compared to 35 million in 2000. National economic prosperity will increasingly depend on the extent to which wealth is shared more widely among the U.S. population. It will also depend on the level of debt that the growing Hispanic population will own.

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<sup>1</sup> Kochhar, Rakesh, *The Wealth of Hispanic Households: 1996 to 2002*. Washington, DC: Pew Hispanic Center, 2004.

<sup>2</sup> Stegman, Michael, et al., “Automated Underwriting: Getting to ‘Yes’ for More Low-Income Applicants,” Presented before the 2001 Conference on Housing Opportunity, Research Institute for Housing America Center for Community Capitalism, University of North Carolina-Chapel Hill, April 2001.

<sup>3</sup> Draut, Tamara and Javier Silva, *Borrowing to Make Ends Meet: The Growth of Credit Card Debt in the ‘90s*. Demos, September 2003.

<sup>4</sup> “Consumer Fraud in the United States: An FTC Survey,” Federal Trade Commission Staff Report, August 2004.

<sup>5</sup> Muñoz, Brenda, *Financial Education in Latino Communities: An Analysis of Programs, Products, and Results/Effects*. Washington, DC: NCLR, 2004.