

Survival Spending: The Role of Credit Cards in Hispanic Households

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With unemployment and the cost of living on the rise, more Latino families are turning to credit cards to make ends meet. Credit cards were once a reliable way to build a credit reputation. Today, card users rely on their credit line to pay for groceries and household emergencies, such as a trip to the hospital or auto repairs. Greater participation in mainstream credit and financial markets can set many families on the path to financial stability and middle-class life. Unfortunately, many Latino card users face serious challenges when entering the credit market. Too often, this results in families wasting hard-earned income on excessive fees and interest rates. These barriers and consequences are even worse for immigrant families and youth.

The National Council of La Raza (NCLR), the largest national Hispanic civil rights and advocacy organization in the United States, commissioned a series of focus groups to better understand the experiences of Latino adults and youth entering the credit card market, the impact of negative experiences with credit, and the role of credit cards in family finances.

Background

According to the most recent Survey of Consumer Finances (2007), 48.4% of Latinos carry credit card debt, up from 46.7% in 2004. This growth is significant, considering the reduction among non-Hispanic White cardholders, down one percentage point in 2007 from 2004 (45.1% versus 46.1%). The level of debt held by both groups increased between 2004 and 2007, up 22.2% for White borrowers and 17.6% for Hispanic borrowers (see Table 1).

Table 1: Latino Credit Card Ownership

	Percent Owning a Credit Card	Percent Carrying Debt	Average Credit Card Debt
Hispanic	58%	48.4%	\$2,000
White (non-Hispanic)	73%	46.1%	\$3,300

Source: 2007 Survey of Consumer Finances (Washington, DC: The Federal Reserve Board, 2009), <http://www.federalreserve.gov/PUBS/oss/oss2/2007/scf2007home.html> (accessed January 15, 2010).

Credit cards are often seen as a first step to establishing credit. Successful use can build ones credit profile and lead to greater financial opportunities. Less successful use, on the other hand, can pull households into a downward spiral of cyclical debt and onerous high-cost borrowing. A number of factors, including abusive practices, product design, market structures, and a lack of information, create costly hurdles for Latino families that hinder access to more affordable financing, especially those entering the market for the first time. Such issues become even more disconcerting as a greater number of families begin to rely on their card to make ends meet.

Key Findings

NCLR commissioned six focus groups with Hispanic adults and youth who were new to the credit market or struggling with their credit cards. These groups consisted of Spanish- and English-speaking Latinos in Chicago, IL; Atlanta, GA; and San Antonio, TX. Participants were of mixed gender, adults ages 26–60, youth ages 18–25, mostly from middle and lower socioeconomic status groups and education levels, and they reflected a range of moderate to

minimal financial integration. The groups comprised foreign-born Latinos, recent immigrants, and second- and third-generation Latinos living in the U.S.

Participants shared their personal views on their own credit card use, their experience navigating the credit card market, and how they connected to their first card or what prevented them from applying or receiving a card. Card users also discussed negative experiences and how that impacted their use of credit. The key findings reflect the groups' dominant discussion themes and the beliefs, understandings, and perceptions of the participants, which provide insight into the behaviors and decisions of Hispanic consumers. Specifically, we ascertained that Latinos:

Believe building credit is important—many learned this lesson from their friends and family. Most participants understood that having a good credit history could open doors for larger purchases in the future, such as a car or a home. This lesson was often taught by parents or, in the case of recent immigrants, by friends almost immediately upon arriving in the country. One adult in San Antonio recounted advice from his parents:

Like I said, my Dad said it is good to have credit. You're not going to be able to pay for big things [later] because you're not going to have \$30,000 to buy a car or something. Then you're 20 or 30 years old and you've never built any credit, and you go to apply, they might give it to you, but your APR is going to be like 30%.

As a first step, the majority of participants initially obtained credit cards with limits of \$500 or less from their local bank. They viewed their local branch as “trustworthy” and “reputable.” That said, many participants reported being turned down, often repeatedly, before they were approved for a credit card. One adult from San Antonio expressed her frustration:

I applied for a credit card and they said they would call but they never did so I called to see what was going on—because I had one in my country and I always used it responsibly. Like my dad always said, sometimes it is better to have credit than money. So I took it out; I applied for it and they didn't give it to me. I didn't like that but my husband said, “Don't worry.” So he applied and they gave him the card so I have a credit card because of him. They told me it was because I didn't have a credit history and nobody knew me. That's understandable, but like I said to them, based on the amount of money I have they should give me a card, even if it's just for a \$100. But they didn't give it to me.

Feel strongly that credit lines should be used responsibly, which for participants meant reserving the card for unforeseen expenses or for covering necessities in between paychecks. Overwhelmingly, participants agreed that cardholders have a responsibility to spend wisely and within their own budgets. An adult participant from Chicago explains how cards should be used within the context of the family budget:

It is better if you pay the bills out of your budget and the credit card is for things that, for example, things like...[when] we have less work, but the expenses are the same so the card would be for what you did not have money for.

One Atlanta participant warned against overspending:

My opinion is that one card is enough, used responsibly... If your card has a limit of \$1,000 because your financial institution thinks that that is all that you can pay, and you take out eight more cards in other places, you're going to have problems.

Most also felt that credit cards should be used mostly for emergencies. Definitions on what constituted an emergency varied widely, however. While some identified emergencies as unexpected expenses, such as auto repairs and travel for an illness or death in the family, many were quick to point to daily expenses such as groceries, diapers, doctor visits, and utility bills as emergency expenses. A San Antonio participant shared the perspective that cards should be used responsibly and recounts a time the family card was used for an unexpected expense:

I think that credit cards should [be used] in case of emergency, but they should always be used responsibly. For example, last week my car—I have a new car—it needed maintenance. They gave it to me with a three-year warranty so I went to the Toyota dealership thinking that they would cover it and what happened? The man told me it would be \$16 and I said, “Well what about the warranty?” He said that the warranty is for when something goes wrong or if it breaks down but not for maintenance. So I didn't know what to do but then I remembered that I had my credit card. I didn't want to use it because I'm really afraid of debt, but I didn't have any other choice, like she said earlier, and I used it.

One adult from San Antonio described using the family card to pay for gas since before they received their paycheck:

Maybe for an emergency. Yesterday I was driving all over San Antonio and I ran out of gas. I hadn't gotten paid yet because it was a holiday. I got paid today. So I filled up my tank with my credit card.

A Chicago participant described using a credit card to cover a child's unexpected doctor's appointment in between paychecks:

For that reason, because sometimes I paid bills and all, an emergency situation comes up suddenly with the children, for the doctor and you have no money. It is a situation you have not foreseen. So you don't have the money. So I said to myself, “I need something to fall back on, I need something for when I have nothing.”

Express concerns about overspending at a time when jobs are unstable and income may be unpredictable. New and experienced card users alike referenced the current job market as a reason for curtailing their spending, deciding whether to apply for credit, or leaving their cards at home. A Chicago participant discusses the impact of economic decline on once stable families:

A lot of people are losing their jobs, even in places [there was] work before. They're making a person who was earning—who is earning—a certain amount to live on take a week off without pay. This is affecting the overall economy no matter how stable a

person is economically. You can no longer think about the future, because the future is unknown.

Their concerns were generally grounded in their own experiences and those of their friends or family. In some cases, participants had paid down large balances and called their mishaps with credit a “learning experience.” Others, however, were concerned about falling into a debt trap they could not escape. For those still grappling with high card balances, debt levels were a source of stress and anxiety. One participant in the adult group from Atlanta struggled to balance her credit card payments along with the other bills:

Well, over the last three years because of the economy, we've all been in this situation. Should I pay this bill, or pay off the credit card? You have to balance out whatever is more important at any one time than the credit card... Well, you pay the electricity or the credit card bill, you do the groceries or pay the credit card bill.

A participant from Chicago described how her plans to pay off her debt were sidetracked when her husband had an accident and could not work:

I am almost at [my limit], because on one I have a limit of \$5,000 and I am almost at \$4,900 and the other one, of \$1,000, I spent \$960... But on the \$1,000 [card] I must pay more than \$100 dollars a month and [now] I still owe \$300. It was my intention to pay more and get out of debt, but my husband had an accident and has been left without work, so our financial situation is very bad. So what I thought of doing with the card did not turn out, so I will pay \$100 on each one.

Several participants described debt as leading to a downward spiral. What started out as a small balance quickly mushroomed out of their control. Several participants described it as a “snowball effect,” as did this adult from Chicago:

Yes, it becomes a snowball that does not stop. I asked for a loan to pay off the credit card because I could not, the debt grows a lot and you cannot even sleep, is that not so?

Lack awareness of the potentially negative consequences of some consumer behaviors, but often feel burned by traps couched in fine print and consequences perceived as too severe.

Despite naming credit-building as a leading reason for obtaining their first card, the participants often lacked an understanding about how their behavior could impact their credit history or score. For example, several participants carried high levels of debt relative to their credit limits, paid late, spent beyond their limit, or canceled accounts soon after opening them—behaviors that are generally scored negatively in the calculation of a credit score. An Atlanta participant was not concerned about a late payment fee until it was reported to the credit bureau:

It was like \$29 if you are late. But that wasn't so important to me because I didn't mind at that time paying the \$29. It was the reporting it to the credit bureau. That's what I was concerned about. And they did.

Most participants could not define or identify common credit card terminology such as their Annual Percentage Rate (APR). A San Antonio participant stated plainly that he did not understand the term “APR” until his rate began to climb:

I don't understand very well what APR is, but I've heard of some people that have like nine. That's low. I was at 19.9% and now that I went over with my card, they charge me 24%.

While participants were quick to take responsibility for their spending, they reported deep aggravation with what they described as common tricks by the credit card companies. One youth from San Antonio discussed having a difficulty making his payments after his interest rate was increased:

I had a pretty high balance, and all the sudden out of nowhere I got a letter saying they were going to raise my APR. It was at around seven and they raised it to almost 20. Just like that, out of nowhere. They told me, “Next month when you get your bill, it's going to be 20.” And I couldn't do anything. Practically nothing. So if my payment was around \$20 or \$30, it doubled or tripled. So it was harder to make the payments.

A participant from Chicago expressed frustration that card offers and contracts are difficult to understand:

That you have to be very careful, obviously, that the credit card companies are like, are like, legitimate bandits, because of the way they present things. They are within the law. But because of the way they offer...Wow they really suck you dry!

Another Chicago-based participant admitted not understanding all the details of the card, but expressed frustration that issuers seemed to absolve themselves by putting terms in the fine print:

It is true that at the beginning one doesn't realize, several people have told me that when you start having negative experiences you start looking at the small type, because they give you the contract with all the conditions, but you are so overcome emotionally that...They wash their hands by giving you the paper.

While many participants with negative experiences “learned from their own mistakes,” others became disenchanted from the credit market. Some treated credit cards like short-term loans, obtaining them for a specific purpose and then “tearing them up” once they were paid off. As one adult from San Antonio’s English-speaking group put it, “I paid it all off and I canceled all my cards.” Another adult from San Antonio put it this way:

Well, [my experience was] somewhat positive. Just a little bit because it has helped me out of problems, but I'd say overall it has been 90% negative because as someone who has tried to stay on top of things—I've never gotten behind on payments—I always pay on time and such. But all the sudden the bank goes crazy and says, “Instead of paying me \$30, you're going to pay \$80. Instead of this, you're going to pay more.” And you can't do anything because you're in debt. You owe them such an amount that you can't

eliminate that card from one day to the next. You can't just say, "You want to do this to me? Fine. I'll cancel it right here." So I'm close to paying them off, and when I finish, I'm going to close the accounts and that's that.

Recommendations

Latino families need better access to more fairly priced and transparent credit. These elements can help households establish strong credit and ultimately join the ranks of the middle class. To give a first-time card user a chance at real financial success, they should be offered objective financial advice, strong starter products, and honest terms that lend themselves to building a strong foundation of credit.

Build a financial counseling infrastructure. Public-private partnerships should invest in the creation of a community-based financial counseling infrastructure that can provide families with advice on building credit, obtaining credit cards, and accessing other financial products.

Invest in “starter credit.” Corporate and federal policymakers should invest in the creation and delivery of various financial products that could meet the needs of modest-income families and market entrants, including well-designed and favorably priced secured cards, and short-term, small-dollar loans that report to credit bureaus.

Make graduation automatic. Automatically graduate consumers who start with cards with low limits or high interest rates to more attractive cards.

Expand technology for products targeting first-time card users. Recent advancements in technology must be channeled to improve credit access and options for new and inexperienced credit users.

Introduce innovative payment options. Improved payment tools can help individuals pay down high levels of debt.

Additional Resources

For more information on Hispanic credit card use, visit www.nclr.org/wealthbuilding.

- *[A Conversation on Latino Credit Card Use, 2006](#)*
- *[Landmines in the Credit Card Landscape: Hazards for Latino Families, 2009](#)*
- *[Latino Credit Card Use: Debt Trap or Ticket to Prosperity?, 2007](#)*
- *[Latino Credit Card Use: Pitfalls of Safety-Net Spending, 2009](#)*