

Survival Spending: The Role of Credit Cards in Hispanic Households

With unemployment and the cost of living on the rise, more Latino families are turning to credit cards to make ends meet. Greater participation in mainstream credit and financial markets can set many families on the path to improved credit and broader asset ownership opportunities. Unfortunately, many Latino card users face serious challenges when entering the credit market. In some cases, 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.

KEY FINDINGS

Many struggled to obtain their first credit card. Participants reported being turned down, often repeatedly, before they were approved for a credit card. Few participants reported having a secured credit card, which was once the common introductory credit card.

Personal responsibility is highly valued. All groups agreed that personal responsibility was extremely important in using their credit card. Each reported that cardholders have a responsibility to spend wisely and understand their own budgets.

Building credit was the most-cited reason for obtaining a credit card. Most understood that having a good credit history could open doors for larger purchases in the future, such as a car or a home.

Credit habits did not always support positive credit-building. 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 score.

Most participants expressed concern about the cost of credit and job instability when evaluating card offers. Debt was often described as a “scary” prospect when job situations are unpredictable.

Credit cards should be used for emergencies. Most participants said credit cards should be used for emergencies, including times when they did not have money to pay for diapers, utility bills, auto repairs, and travel for an illness or death in the family.

Several participants struggled with their level of debt. Reasons for high debt levels varied by group and by individual. Some described having paid down their debt, calling it a “learning experience.” Others were in the midst of grappling with their payments.

In some cases, a negative experience with credit resulted in a withdrawal from the credit market. While many participants with negative experiences “learned from their own mistakes,” others became disenfranchised from the credit market. Some reserved one or two cards for emergencies and others withdrew altogether.

Many participants got their first card from their bank or through mail solicitation. 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.”

Introductory card limits often led to multiple cards with low limits. Those with an initially low credit line were more likely to obtain multiple cards to help cover the cost of a major purchase or emergency. Having multiple cards often proved difficult to manage.

Common “tricks” and confusing marketing materials are a primary source of frustration. 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.

CONCLUSION

The structure of the credit market has failed to meet the needs of Latino credit card users, especially those entering the market for the first time. The market must be shaped to serve new entrants better so that families can be set more firmly on a path of financial stability.

RECOMMENDATIONS*

Invest in “starter credit.” Corporate and federal policymakers should invest in various 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.

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

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.

Build a financial counseling infrastructure. Policymakers and corporations 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 other financial products.

* NCLR is in the process of developing further recommendations to address the issues stated above.