

LANDMINES IN THE CREDIT CARD LANDSCAPE: HAZARDS FOR LATINO FAMILIES

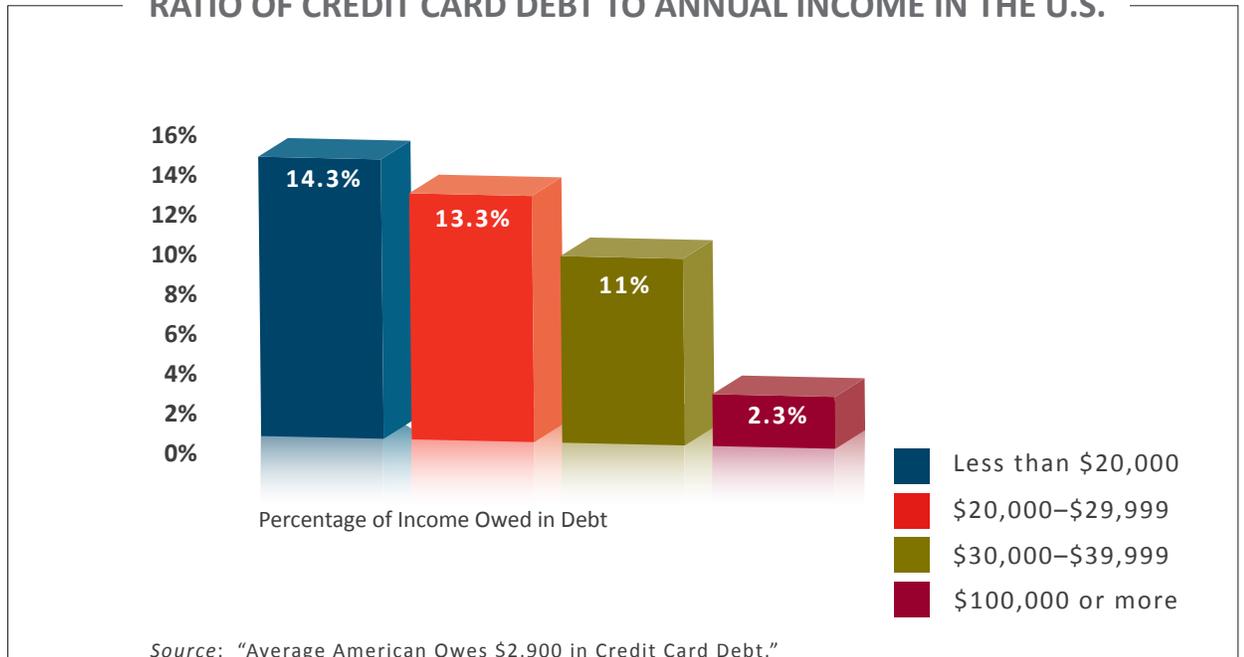
Introduction

Lack of regulatory oversight in the credit card industry has allowed yesterday's unscrupulous practices to become today's acceptable sources of profit for credit card issuers.¹ Low-income Latinos* often use credit cards for necessities and as a form of insurance for health care, auto trouble, and other emergencies. Unethical policies employed by credit card issuers result in Latino families paying high fees and ultimately falling under the burden of unmanageable debt.†

- **Relative to annual earnings, low-income families spend six times more on credit card payments than do upper-income families.** A Gallup poll shows that low-income families with credit card debt earning under \$20,000 a year owed 14.3% of their income in credit card debt. This percentage is significantly higher than the 2.3% of income owed by families earning more than \$100,000.²

Figure 1

RATIO OF CREDIT CARD DEBT TO ANNUAL INCOME IN THE U.S.



Source: "Average American Owes \$2,900 in Credit Card Debt," Gallup Poll News Service, April 16, 2004.

* 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.

- **Nearly four out of five Latino cardholders are subject to high fees.** Latino credit card holders who carry balances are more likely than Whites to pay interest rates higher than 20%.³ Since many Latinos have little or no financial buffer, they are vulnerable to making late payments. One study showed that among the individuals who reported making late payments in 2006, 43.95% were Hispanic.⁴ Industry practices result in Latinos routinely putting their funds toward fees rather than paying down principle or paying for other household expenses.
- **One in seven Latinos is a victim of credit card fraud.** According to a Federal Trade Commission survey, 14.3% of Hispanics are victims of fraud, compared with 6.4% of non-Hispanic Whites.⁵ Affinity card scams, for example,

are often used to target the Latino community.⁶ These scams involve sponsors who purport to offer a credit card that is custom-tailored to meet Hispanic consumers' needs; in reality, the customer is paying for a fraudulent card that cannot be used to purchase any goods or services.⁷

Conclusion

Latinos are deeply afflicted by the market's lack of regulatory oversight. While some households might feel the pinch of limited consumer protections and recent rate hikes, low-income families could experience permanent damage to their fledgling credit scores, making an emergence from paycheck-to-paycheck living insurmountable.

Endnotes

1. Jennifer Wheary and Tamara Draut, *Who Pays?: The Winners and Losers of Credit Card Deregulation* (New York, NY: Dēmos, 2007).
2. "Average American Owes \$2,900 in Credit Card Debt," *Gallup Poll News Service*, April 16, 2004.
3. *Who Pays?*
4. Radovan Vadovic and Jing Jian Xiao, *The Cost of Deregulating the Credit Card Industry and Its Implications for Consumers* (Tucson, AZ: University of Arizona, 2006).
5. Keith Anderson, *Consumer Fraud in the United States: An FTC Survey* (Washington, DC: Bureaus of Economics and Consumer Protection Federal Trade Commission, August 2004).
6. *Consumer Fraud*.
7. Beatriz Ibarra and Eric Rodriguez, *Latino Credit Card Use: Debt Trap or Ticket to Prosperity?* (Washington, DC: NCLR, 2007).