Costly Credit

African Americans and Latinos in Debt

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While real income gains were realized during the economic boom over the latter half of the 1990s, the average American's credit card debt rose faster than ever before. While balances grew faster for white families than for African-American and Hispanic families, all groups experienced a significant rise in debt between 1992 and 2001. African-American and Hispanic families were more likely, overall, to carry a credit card balance than whites. Costly Credit, *the fourth in a series of briefing papers documenting the dramatic rise in credit card debt, provides a snapshot of these trends by race between 1992 and 2001.*

Key Findings

(The terms "Latino" and "Hispanic" are used interchangeably throughout this report.)

AFRICAN AMERICANS

- Between 1992 and 2001, average credit card debt for African Americans increased from $2,416 to $2,950—a 22 percent increase over the period.
- Nearly 60 percent of African Americans held a credit card in 2001, and nearly 84 percent of these card holders carried a balance.
- In 2001, the average credit card indebted African-American household spent nearly 20 percent of its income on debt payments.
- Nearly one out of five credit card indebted African Americans earning less than $50,000 was in debt hardship—in other words 40 percent of their income was spent on debt service payments in 2001.

HISPANICS

- The average credit card debt among Hispanics increased by nearly 20 percent between 1992 and 2001 from $3,082 to $3,691.
- While just over 50 percent of Hispanics held a credit card in 2001, more than 75 percent of cardholders carried a balance.
- In 2001, the average credit card indebted Hispanic household spent 19 percent of its income on debt payments.
- One in seven credit card indebted Hispanic households earning less than $50,000 was in debt hardship in 2001.

WHITES

- Average credit card debt for white households increased by nearly 41 percent between 1992 and 2001, from $3,111 to $4,381.
- Over 80 percent of white households held a credit card and over 50 percent of these households carried debt in 2001.
- In 2001, the average white household with credit card debt spent 24 percent of income on debt payments, an increase of 8 percent from 1992.
- 20 percent of credit card indebted white households earning less than $50,000 were in debt hardship in 2001.

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Introduction

In the 1990s, credit card debt rose dramatically among households of different income levels, age groups, and races. Driving this trend was a combination of rising costs, stagnant or declining incomes and a deregulated credit card industry characterized by high prices and fees. This brief examines trends in credit card debt by race and ethnicity, revealing important differences in the reliance on credit. Neither Latino or African-American households were immune to the growing need to use credit cards, but our findings indicate that households of color with credit cards are more likely to be in debt than their white counterparts. One potential explanation for this widening debt gap is the continued wealth disparity that exists among racial and ethnic groups, due largely to a long legacy of discrimination in many areas of American life. As longstanding inequalities in wealth and income opportunity by race have continued, households of color are less likely to have the extra safety net of home equity or liquid savings to handle unexpected expenses or a reduction of income. With little savings or no wealth to tap in case of an emergency, households turn to credit cards and other forms of short-term loans in order to make ends meet. In addition, households of color are aggressively targeted by abusive and predatory lenders for short-term loans and second mortgages, putting them at much greater financial risk than white households.

This brief examines the growth in credit card debt, as well as other short-term loans, by comparing trends among three different groups: African Americans, Hispanics and whites.

While increasing numbers of African-American and Hispanic families gained access to credit cards throughout the 1990s, both groups were also more likely to carry a credit card balance.

Methodology. The credit card data analyzed in this brief are drawn from the Survey of Consumer Finances (SCF), a triennial Federal Reserve survey of the assets and liabilities of American families. The survey years 1992 and 2001 (the most recent data available) were chosen to represent a period of national economic expansion—from the end of the 1990-1991 recession through the beginning of the 2001 recession. All debt amounts are in 2001 dollars.

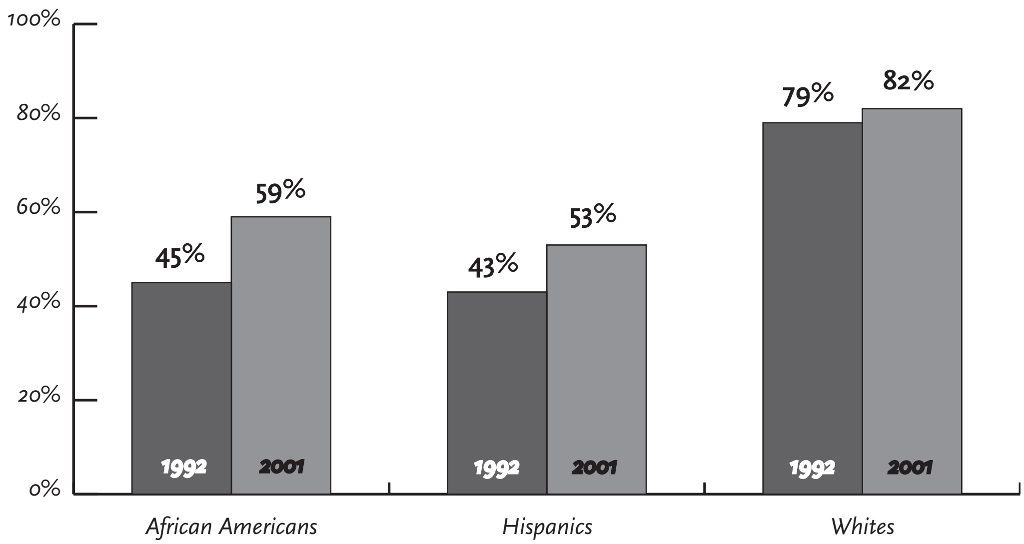
Demos' Findings on Credit Card Debt by Race/Ethnicity, 1992–2001

The increased reliance on credit cards by African-American and Hispanic families is reflective of unfavorable economic conditions, including higher levels of unemployment, stagnant incomes, and little or no savings and wealth. Combined with aggressive credit card marketing, lack of mainstream financial services, and an over abundance of higher-cost credit in communities with high concentrations of African-American and Hispanic families, the causes of credit card indebtedness are clear.

While increasing numbers of African-American and Hispanic families gained access to credit cards throughout the 1990s, they were also more likely to carry a credit card balance than whites. African-American and Hispanic families held lower credit card balances than that of white families throughout the 1990s but the growth of their credit card balances far outpaced that of white families in the latter half of the 1990s. Debt hardship, a strong indicator of financial stress, rose for all African-American and Hispanic families.

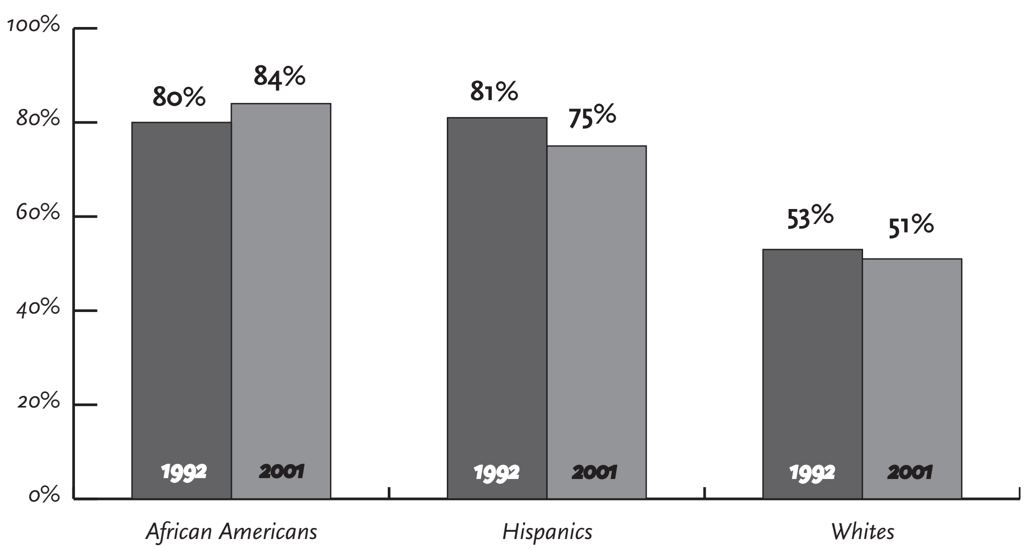
Prevalence of Credit Cards and Indebtedness. In 1992, 45 percent of African-American and 43 percent of Hispanic families held credit cards. About a decade later, nearly 60 percent of African-American and 53 percent of Hispanic families held credit cards. (Figure 1) Of these households, 84 percent of African Americans and 75 percent of Hispanics carried a balance—a slight rise for African Americans and a decrease for Latinos between 1992 and 2001. (Figure 2)

Figure 1. Percent With Credit Cards, 1992-2001



Source: Demos' calculations from the Survey of Consumer Finances, 1992 and 2001.

Figure 2. Percent of Cardholders With Credit Card Debt, 1992-2001

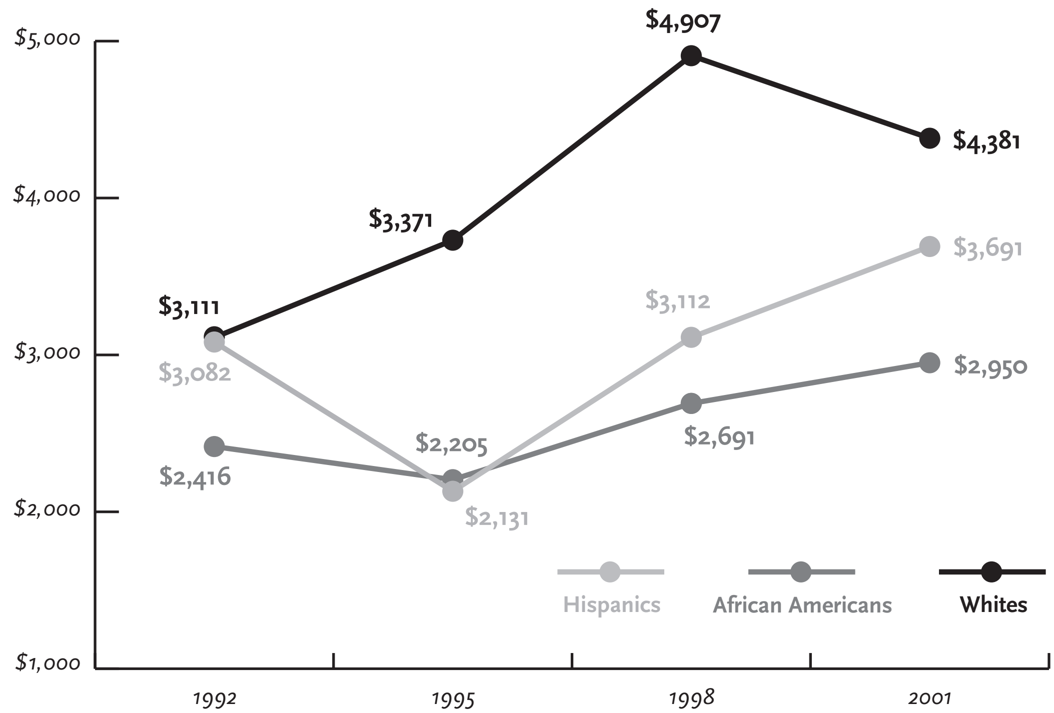


Source: Demos' calculations from the Survey of Consumer Finances, 1992 and 2001.

Comparing African-American and Hispanic households to whites reveals that people of color have lower levels of card holding but are more likely to be in credit card debt. The number of white households with credit cards rose 3 percentage points between 1992 and 2001 to 82 percent. Of these, only 51 percent of white households carried a balance in 2001, a 2 percentage point decrease since 1992.

Growing balances. Between 1992 and 2001, the average credit card balance of Hispanic households rose by 20 percent to $3,691 and African-American households saw their average credit card debt rise by 22 percent to $2,950. During this same time period, white household debt increased by 41 percent to $4,381. A closer look at the period between 1995 and 2001 reveals a dramatic rise in credit card debt for Hispanic (73 percent) and African American (34 percent) families. (Figure 3)

Figure 3. Average (Mean) Credit Card Debt by Race and Ethnicity (2001 Dollars)



Source: Demos' Calculations of the Survey of Consumer Finances, 1992, 1995, 1998, and 2001.

Regardless of racial or ethnic backgrounds, debt hardship remained high throughout the 1990s for very low-income families.

Debt hardship. Debt hardship is a key indicator of household financial health. A family is considered to be in debt hardship when monthly debt service payments equal 40 percent or more of household income. Regardless of racial or ethnic backgrounds, debt hardship remained high throughout the 1990s for very low-income families. As a result of increasing debt hardship, families must make tough choices to remain solvent. To manage debt payments which take a larger and larger share of monthly income, many families turn to predatory lenders such as payday lenders and pawnshops. Unfortunately, African-American and Hispanic families are more likely to fall victim to high cost financial services because many predatory lenders open offices, and market aggressively, in these communities. These predatory lenders provide illusory solutions and contribute to worsening household finances.

AFRICAN AMERICANS

While nearly one out of eight credit card indebted African-American families was in debt hardship in 2001, nearly one out of five lower-income African-American households, those earning less than $25,000, was in debt hardship. Middle-income African Americans, those earning between $30,000 and $49,999, saw a significant increase in debt hardship between 1992 and 2001 from 4 percent to 14 percent.

HISPANICS

Similar to African Americans, nearly one out of eight credit card indebted Hispanic families was in debt hardship in 2001. While the overall percentage of Hispanic families in debt hardship changed little between 1992 and 2001, Hispanics earning less than $14,999 saw a rise in the number of families in debt hardship—to 20 percent. Debt hardship at income levels between $15,000 and $49,999 remained constant or declined.

WHITES

Overall, the number of credit card indebted white households in debt hardship rose by 3 percentage points between 1992 and 2001. Credit card indebted white families earning less than $50,000 saw an increase in debt hardship throughout the 1990s from 13 percent to 20 percent in 2001. The number of moderate-income white families in debt hardship, those earning between $15,000 and $29,999, increased dramatically to 21 percent. As with African-American and Hispanic families, the largest incidence of debt hardship also fell on white families earning less than $15,000.

Figure 4. Percent of Credit Card Indebted Families in Debt Hardship (Debt to Income Ratio > 40%), 1992-2001

	1992	2001
African Americans		
Overall	9%	13%
Income Group		
$0 - $14,999	31	31
$15,000-$29,999	7	13
$30,000-$49,999	4	14
$50,000 or more	3	3
Hispanics		
Overall	14%	13%
Income Group		
$0 - $14,999	17	20
$15,000-$29,999	8	8
$30,000-$49,999	22	17
$50,000 or more	13	11
Whites		
Overall	11%	14%
Income Group		
$0 - $14,999	19	28
$15,000-$29,999	13	21
$30,000-$49,999	11	16
$50,000 or more	6	6

Source: Demos' Calculations from the 1992 and 2001 Survey of Consumer Finances (income groups in 2001 dollars)

Other Forms of High Cost Debt

The dramatic rise in predatory lending to African-American and Hispanic borrowers has served to further destabilize family economic security. Predatory lending strips family wealth and diverts needed income from basic needs. Faced with the prospect of losing the family nest egg, households will go to great lengths to save their version of the American Dream.

Subprime Mortgage Lending. Several reports on subprime lending all draw the same conclusion: That African-American and Hispanic families are more likely to receive a disproportionate amount of subprime loans. Between 1993 and 2001, subprime loans to low-income, predominately African-American and Hispanic communities grew from 2.4 percent to 13.4 percent. The share of refinancing loans considered subprime loans in these same communities increased from 6.8 percent to 27.5 percent.[1] Recent research reveals that one out of five subprime refinance loans originated in 1999 entered foreclosure. The same study found that abusive loan terms increase the likelihood of foreclosure—even after controlling for other factors.[2]

According to a study released in 2002, the trends continue unabated into the new century.[3] Across the nation, African-American and Hispanic borrowers were 2.8 times and 1.7 times more likely to receive a subprime loan than white borrowers. In cities such as

The Federal Reserve noted in mid-2004 that half of subprime borrowers had FICO scores above 620 which is the threshold to qualify for a prime loan.

Buffalo, NY, Chattanooga, TN, Sarasota, FL, and Mobile, AL, African Americans received over 60 percent of subprime refinance loans. In the Southwest, with large Hispanic populations, nearly half of all subprime refinance loans go to Hispanic borrowers. In none of the metropolitan statistical areas (MSAs) studied were African-American or Hispanic borrowers as likely as white borrowers to receive a conventional loan. Even comparing upper-income African-American and Hispanic borrowers to upper-income white borrowers reveal they are more likely to receive a subprime loan in far too many cities. In 34 MSAs studied, upper-income African American and Hispanic borrowers were 3 times and 2.2 times more likely to receive a subprime loan than upper-income white borrowers.[4]

While subprime lenders claim that higher fees and interest rates are necessary to offset the added risk of extending credit to people with little borrowing history or poor credit, new evidential research tells a different story about the reasons so many borrowers are forced to accept subprime terms. One of the most revealing statistics on the true nature of subprime borrowing come from Federal Reserve Governor Edward Gramlich, who noted in mid-2004 that half of subprime borrowers had credit scores above 620—the threshold to qualify for a prime loan.[5] An analysis of the lending practices of Wells Fargo, the nation's fourth largest bank, revealed widespread racial disparities in their mortgage lending operations.[6] As new data on pricing for high cost loans becomes available from the Home Mortgage Disclosure Act (HMDA) it is apparent that African Americans and Latinos continue to receive a disproportionate share of subprime loans. A recent National Community Reinvestment Coalition (NCRC) examination of HMDA data revealed that a third of mortgage loans made to African-American and 15 percent of mortgage loans to Latino borrowers are subprime.[7] While subprime lending is more likely to affect African-American and Hispanic families, all families with subprime loans stand to lose billions. Although it is difficult to put a cost on predatory lending practices, an estimated $2.3 billion of home equity is lost each year due to prepayment penalties alone in subprime loans.[8]

Payday Lending. As the payday lending industry has grown into a multi-billion dollar business, the financial strain on the family budget has been tremendous. The financial strain comes in the form of extremely high fees and ends up costing U.S. families nearly $3.4 billion each year. A typical fee on a $300 payday loan is $45, or around an annual percentage rate of 400 percent. These insidious loans pretend to assist families during economic times of need but end up ensnaring them in a vicious debt cycle. More than 90 percent of payday loans are made to borrowers with five or more payday loans per year.

Lower incomes, higher unemployment, and lower wealth all help explain why African-American and Latino families are more likely to be in credit card debt than white families.

Numerous studies of the payday lending industry reveal they are highly concentrated in predominantly low-income and neighborhoods with high populations of African Americans and Hispanics. Two studies of typical payday lenders in Illinois and North Carolina provide a glimpse into their proliferation. In Illinois, payday lending is far more prevalent in zip codes with high concentrations of African Americans and Hispanics than zip codes that were mostly white.[9] In North Carolina, payday lenders were disproportionately located in African-American neighborhoods.[10]

What is Driving Credit Card Debt?

African-American and Hispanic families are increasingly relying on credit cards for much of the same reasons as other groups: to bridge the gap between falling incomes and rising costs. In addition to being historically cut-off from financial services and asset building opportunities in the past, lower incomes, higher unemployment, and lower wealth all help explain why African-American and Hispanic families are more likely to be in credit card debt than white families. There is also a compounded threat to family economic security due to a high concentration of predatory lenders in African-American and Hispanic communities.[11] Often, these predatory lenders provide payday loans or car title loans at annual interest rates exceeding 400 percent. All of these factors combined with a deregulated credit card industry and a history of discriminatory lending practices not only put African-American and Hispanic families at greater risk of financial ruin, but essentially serves as a blockade toward entering the middle class.

Industry Practices. A deregulatory revolution in the credit card industry coincided with increased economic vulnerability among all credit card indebted households and record profits for the industry. State usury laws limiting interest rates and fees were dismantled by two Supreme Court cases, in 1978 and 1996.[12] As a result, usuriously high interest rates, sharp hikes in fees, lower minimum payment requirements, and relentless credit extension is now the industry standard. Unscrupulous industry practices combined with aggressive marketing during the 1990s foreshadow an increased reliance on high cost credit cards.

The abatement of rules governing the industry has led to record profits for credit card issuers. Between 1990 and 2004, credit card industry profits grew nearly fivefold from $6.4 billion to $30.2 billion.[13] In 2004 alone, late fees and over-the-limit fees totaled $14.8 billion. And while the relentless marketing of cards by the industry would indicate a competitive market at work, the bulk of the market share is in the hands of just a few companies. Today, the top ten credit card issuers control nearly 90 percent of the market share compared to 56.5 percent in 1990.[14]

When family income is insufficient to cover expenses, all too often the difference is made up with credit card debt.

Economic Insecurity

Stagnant Income Growth. Family income plays a crucial role in American life. Income is the gateway to a middle class lifestyle. It serves as the basis for family economic security and, over the long-term, sufficient and steady income is essential toward saving and accumulating assets. When family income is insufficient to cover expenses, all too often the difference is made up with credit card debt. Longer trends over the last twenty years have shown family income for African-Americans and Hispanics has fallen short of whites. In fact, since 1989 the ratio of African-American and Hispanic family income to white family income has never reached higher than 63.5 percent and 65.2 percent, respectively. While income gains were achieved during the economic boom of the late 1990s for both African Americans and Hispanic families, a significant portion of these gains were reversed during the recent recession and subsequent jobless recovery. However, white families were much more likely to hang on to their income gains during the recession.

Family incomes for African Americans and Hispanics grew little during the first half of the 1990s. Beginning in the mid-1990s, median family incomes of African American and Hispanic families grew at an accelerated pace. From 1995 to 2000, family income of African-American and Hispanic families grew at an annual rate of 2.9 percent and 4.9 percent respectively—outpacing income growth of white families. While income growth during the boom years benefited all, income levels of African Americans and Hispanic families still fell far short of white families. By 2000, African-American and Hispanic families earned 63.5 percent and 64.9 percent of white family earnings.

Because African-American and Latino families suffer higher levels of unemployment, even during economic booms, they are more likely to rely on debt to smooth out income losses due to job loss.

As impressive as income gains were during the boom years of the late 1990s, they were short lived. The onset of the recession erased many of the gains created during the booming economy. Between 2000 and 2003, median family income growth actually declined by -1.5 percent and -2.3 percent for African-American and Hispanic families respectively. In contrast, annual wage growth for white families during the boom years reached 2.1 percent but declined considerably less, by -0.5 percent, than African-American or Hispanic family income.[15]

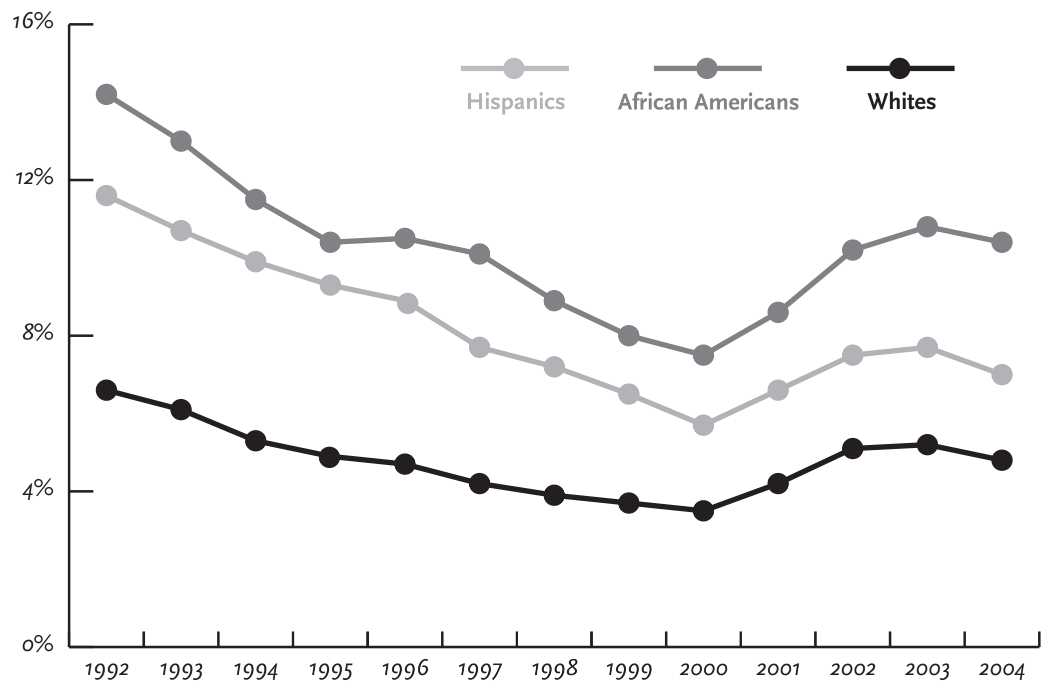
Increased reliance on credit cards by African-American and Latino households coincided with high unemployment rates of 10.3 percent and 8.4 percent between 1992 and 2001.

Employment. Research shows that interruptions in income from job loss can lead to higher debt levels. Because African-American and Hispanic families suffer higher levels of unemployment, even during economic booms, they are more likely to rely on debt to smooth out income losses due to job loss. Increased reliance on credit cards by African-American and Hispanic households coincided with high unemployment rates of 10.3 percent and 8.4 percent compared to 4.7 percent for whites between 1992 and 2001.

While the economic boom brought unemployment rates to a 30-year low, in 2000 the number of unemployed African Americans and Hispanics remained relatively high—at 7.5 percent and 5.7 percent—compared to unemployment rates of 3.5 percent for whites.

Since the official end of the recession in November of 2001, African-American and Hispanic workers have experienced continued employment losses. Hardest hit have been African-American workers with an average unemployment rate of 10.4 percent between December 2001 and January 2005. The Hispanic unemployment rate for the same period averaged 7.3 percent and unemployment for whites was 5 percent. (Table 5)

Table 5. Yearly Unemployment Rate by Race/Ethnicity, 1992-2004



Source: US Department of Labor, Bureau of Labor Statistics

Lack of Wealth. Any meaningful discussion of debt must take into consideration the persistent racial wealth gap. Income inequality is an important part of the picture, but does not tell the whole story. In recent decades, wealth inequities have become worse. Families with substantial assets are often able to absorb life's unexpected shocks. Those without liquid assets, home equity, or inherited wealth struggle to stay out of debt, given stagnant or falling wages, rising unemployment, and increasing costs of living.[16] For such households, unexpected life circumstances can often be the tipping point into debt and bankruptcy.

In 2001, the percentages of households with zero or negative net worth stood at 30.9 percent of African Americans and 35.3 percent of Hispanics—more than double the percentage of white households, which stood at 13.1 percent. These percentages have remained relatively constant since the early 1990s for all groups with the exception of Hispanics, who experienced a decrease in the proportion of households with zero or negative net worth from 41.2 percent in 1992 to 35.3 percent in 2001. (Table 6)

Table 6. Percent of Households With Zero or Negative Net Worth

	1992	1995	1998	2001
Whites	13.8%	15.0%	14.8%	13.1%
African Americans	31.5	31.3	27.4	30.9
Hispanics	41.2	38.3	36.2	35.3

Source: Edward N. Wolff (2004)

The racial wealth gap widened throughout the 1990s. In 1992, African Americans held 16 cents for every $1 of white wealth. By 2001, African Americans held only 10 cents for every $1 of white wealth. Similarly, Hispanics held 6 cents for every $1 of white wealth in 1992. Almost a decade later in 2001, Hispanics held nearly 3 cents for every $1 of white wealth.[17]

One cannot overestimate the effects of barriers to asset accumulation, particularly of homeownership opportunities on family economic security of African-American and Hispanic households today. Given large disparities in net worth, it should be no surprise that homeownership rates for African Americans and Hispanics are lower than that of whites. Today, less than half of African-American and Hispanic households own their own home compared to three quarters of white households who enjoy homeownership. Racial and ethnic discriminatory practices in the housing and mortgage lending markets have exacerbated disparities in wealth and asset accumulation. In times of economic distress, where the use of home equity could weather the gap between income and expenses, housing wealth remains elusive for a majority of African-American and Hispanic households. Instead, African Americans and Hispanics resort more frequently to credit card debt and other forms of high cost debt in the absence of a wealth driven safety net.

Between 1992 and 2001, nearly a third of Hispanics and a fifth of African Americans had no health insurance.

Rising Costs

Lack of Health Insurance. Although the boom years of the late 1990s provided needed gains in income and employment, it fell far short of providing needed healthcare coverage. Between 1997 and 2001, there was only a 1.2 percentage point decrease in the percentage of people under the age of 65 that lacked health insurance coverage.[18] However, health coverage trends during the 1990s reveal Hispanics and African Americans are far more likely to be uninsured. Between 1992 and 2001, nearly a third of Hispanics and a fifth of African Americans had no health coverage.[19] (Table 7)

Table 7. Percent With No Health Insurance, 1992-2003

	1992	2001	2003
Hispanics	32.9%	33.2%	32.7%
African Americans	20.2	19.0	19.4
Whites	11.5	10.0	11.1

Source: Census Bureau, Historical Health Insurance Tables

Structural changes, economic trends, and discriminatory practices in the economy collectively contribute to the economic insecurity of African Americans and Latinos.

The lack of health insurance coverage continues well beyond 2001. In 2003, well into the economic recovery, nearly 45 million people in the U.S. still lacked health insurance.[20] Large percentages of Hispanics and African Americans still remain uninsured. High levels of either no insurance or underinsurance put Hispanics and African Americans at greater risk of experiencing medical debt and its disastrous effects on family economic well-being.

While differences in health coverage exist by race and ethnicity, the effects on individuals and families are the same. The stark reality for many families is to forgo basic healthcare and manage necessary medical care with a combination of credit card debt, loans, or by paying other bills either late or not at all. Some estimate that as many as 29 million Americans, or 14 percent of all adults, are in serious medical debt.[21] Sadly, not all Americans are able to manage healthcare costs by foregoing necessities or taking on more debt. A recent Harvard study found that medical problems were a contributing factor in nearly 50 percent of bankruptcy filings. The same Harvard study found that nearly a third of all bankruptcies are a direct result of injury or illness.[22]

The consequences of being unable to manage not only medical calamities but regular services can be felt through the population. Last year, 37 percent of the U.S. population reported denying themselves health care services due to the high cost, up from 29 percent in 2001.[23] A fifth reported accruing large credit card debt or taking out loans to cover medical bills.[24] Two out of five (41 percent) of all Americans reported difficulties paying medical bills in the last 12 months or paying back medical debt accrued over the last three years.[25] Even after filing for bankruptcy, nearly a third of those saddled with medical bills reported that they were still unable to pay for basic necessities, including food, rent, or heat, due to medical debt.[26]

Conclusion

Today, there are no legal bounds to the amount of fees and interest credit card companies can charge borrowers.

Given the changing face of America, continued economic insecurity by a growing share of the population has serious implications for society. Today, the Hispanic and African-American population account for nearly a quarter of the U.S. population. Projections for the coming decades predict that a majority of the population will be comprised of African Americans and Hispanics. Structural changes, economic trends, and discriminatory practices in the economy collectively contribute to the economic insecurity of African Americans and Hispanics. The recently enacted bankruptcy bill is a step in the wrong direction. The policy recommendations below present a starting point to begin to address the various causes of rising credit card debt not only for African-American and Hispanic families, but all U.S. families.

Policy Recommendations

ADDRESSING INDUSTRY PRACTICES

Enact a Borrower's Security Act. Today there are no legal bounds to the amount of fees and interest credit card companies can charge borrowers. In addition, credit card companies, unlike other lenders, are allowed to change the terms on the card at anytime, for any reason. As a result, cardholders often borrow money under one set of conditions and end up paying it back under a different set of conditions. Legal limits on interest rates and fees have traditionally been established by the states. But because card companies can export interest rates from the state in which they are based, consumers are left unprotected from excessive rates, fees and capricious changes in account terms.

A Borrower's Security Act would restore responsible credit practices to the lending industry by extending fair terms to borrower. Specifically, legislation is needed to:

- Require card companies to provide a reasonable late-payment grace period to protect responsible debtors from being unduly penalized by a run-of-the mill tardy payment; limit rate increases to 10 percent above the card member's original rate.
- Ensure card companies are accountable to the original contract with the card member for all purchases up to any initiated change in terms. Any change to the annual percentage rate should be limited to future activity on the card.
- Establish a floating interest rate ceiling that is indexed to a federal interest rate. A floating limit would ensure the continued profitability of the credit industry during periods of high inflation when interest rates climb. Likewise, it would ensure savings are passed on to customers when national interest rates decline.
- Require disclosure of the full costs of only paying the minimum payments, including the number of years and total dollars it will take to pay off the debt. Raise the minimum payment requirement to 5 percent of the total balance for new cardholders to curtail excessive debt loads and interest payments.
- Require credit cards issued to individuals under 21 to have a co-signer, unless they can prove they have independent means of support.

Combat Predatory Home Mortgage Lending. African Americans and Hispanics have become special targets for brokers and lenders selling costly sub-prime home financing products. Congress must pass strong anti-predatory lending legislation and resist industry pressure to preempt state laws in favor of more lax federal guidelines.

Allow States to Continue Protecting Consumers. In January 2003, the Office of the Comptroller of the Currency proposed a broad expansion of its authority to preempt state laws affecting large national banks. Considering the paucity of correlating federal protections, these rules would effectively roll back years of broad-based community efforts to protect citizens from predatory lending practices nationwide.

ADDRESSING ECONOMIC INSECURITY

Expand Health Insurance Coverage. The 45 million Americans without health insurance should not be forced to borrow on high-cost credit cards to get necessary medical care. The large number of African Americans and Hispanics who are uninsured give new urgency to the need for broad access to quality health insurance coverage.

Raise the Minimum Wage. The real value of the minimum wage has fallen over time. Although the minimum wage was raised in the early 1990s and again in the mid-1990s, its real value is significantly less than it was in the 1960s. Today, a quarter of all workers make $8 or less an hour. The minimum wage should be increased gradually to $8.40 an hour by 2010—a level that would help increase wages of not only African-American and Hispanic workers but a significant number of white workers as well. The new minimum wage should be indexed to inflation, so that it retains its purchasing power.

Bolster Unemployment Insurance. Job loss is one of the three most commonly cited precursors to bankruptcy. Today, most American workers are ineligible for unemployment insurance benefits, and the benefit levels replace only about one-third of an average worker's earnings. States need to modernize the rules governing the system, including expanding coverage to more contingent and low-wage workers.

[CASE STUDY]

Juan and Maria de la Garza

Brooklyn, NY
Married with two children
Total Debt: Mounting

After 16 years as the information technology specialist at a major hospital in New York, Juan was laid off last summer. In a cost cutting move, Juan's former employer outsourced its technology function to an IT consulting firm which in turn rehired Juan as a contract worker with no benefits and little job security. The timing for Juan couldn't have been worse. Shortly after Juan lost his health benefits, he was diagnosed with Hodgkin's disease.

While he is expected to fully recover from his illness, Juan will need three months in the hospital undergoing treatment. As the medical bills mount he is increasingly uncertain about his family's financial future. "I already tapped out my home equity to pay down credit cards a few years ago," Juan explains.

Before Juan's illness the balance on his family's Capital One card was about $1,300 and growing. Juan spent two weeks in the hospital but left before he was diagnosed because he needed to get back to his consulting work. A few weeks later Juan fell ill again and returned to the hospital, where he was diagnosed. As Juan continues treatment he has no income but his bills are mounting. The de la Garzas have already resorted to using credit cards to make ends meet. His main concern is getting health insurance for his wife and two children before another medical calamity strikes.

While he contemplates his family's future, Juan isn't sure how he is going to manage the current crisis. He already owes thousands in medical debt, most of his bills are overdue, and his credit card balances have grown so quickly he's unsure of the total amount owed.

[CASE STUDY]

Nina

Philadelphia, Pennsylvania
Receptionist, Age 25
Total Debt: $45,000

Nina has $9,000 of credit debt spread over five cards and nearly $30,000 in student loans. While Nina started carrying a credit card balance during college to purchase groceries and manage expenses, it wasn't until she left school that her balances started to grow.

"During the recession it was hard to find a job that paid the bills," Nina recalled.

Nina's goal of finding a job that would pay enough to pay her bills, pay for school, and allow her to pay down her credit card debt never materialized. Unable to find a full-time position, she eventually signed up with a temporary agency. She also moved back in with her family to help stretch her paycheck. Today, Nina's temp job as a receptionist has turned into a permanent position. Soon she'll have full benefits.

Nina feels fortunate to have a large family she can depend on. Without her family's assistance she would have had to rely even more on credit cards for everyday expenses. But even with the help of her family, Nina is vulnerable to the penalties of life without a safety net. While she was without health insurance, she wound up in the emergency room for medical treatment. She now has an additional $6,000 of medical debt with which to contend.

[CASE STUDY]

Willie Mae

Brooklyn, NY
Single, Visiting Nurse, mid-50s
Credit Card Debt: $80,000
Predatory Loan Costs: $100,000+

Willie Mae's quest for the American Dream has turned into an American nightmare. Willie Mae has nearly $80,000 in debt over 6 credit cards. The bulk of her credit card debt is a direct result of her efforts to make payments on an investment home she purchased from a subprime lender. So far Willie has forked over nearly $143,000 of her life savings to purchase a property in the Brooklyn neighborhood where she was raised.

The company that owned the home suggested they use their own lender, lawyer, appraiser, and broker. Since Willie Mae has purchased several houses throughout her life, she felt comfortable with the process. She put $57,500 as a down payment. At closing she was asked to bring an additional $55,000 as well as $7,000 for closing costs. The next day her lawyer (the one who worked for the finance company) informed her she needed to pay an additional $7,000 to process the deed. About a month later Willie Mae contacted the lawyer to inquire about the deed to the property. "At this point, I didn't even know if even owned the house," she lamented. The lawyer informed her she owed an additional $7,000. Worried she would never receive her deed and with no one to turn to for help, she paid the additional amount requested.

Willie Mae is now trying to figure out what happened and how much she paid in extra fees. Her interest rate on the mortgage is 6.25 percent. However, in trying to refinance the loan and pull out equity to rehabilitate the home, her new lender has informed her she only has $40,000 of equity in the home, much less than the $112,000 she placed as a down payment.

To make matters worse, all of her credit card companies have raised her rate to 25 percent or higher even though she hasn't paid any of them late. The future looks grim for Willie Mae. She has a few thousand dollars left in savings. Her future strategy is to raid her 401(k) in order to save her home when her savings run out. In the meantime, she hopes she doesn't have a medical emergency, because even though she works in the health care industry, she doesn't have insurance coverage.

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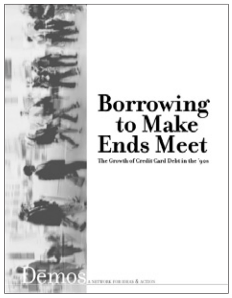
Related Resources from Dēmos

Borrowing to Make Ends Meet: The Growth of Credit Card Debt in the ’90s
by Tamara Draut and Javier Silva

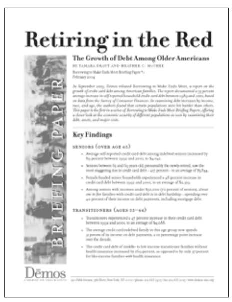


Using new data, this report illustrates how families are increasingly using credit cards to meet their basic needs. Also examines the factors driving this record-setting debt and the impact of financial services industry deregulation on the cost, availability and marketing of credit cards.

House of Cards: Refinancing the American Dream
by Javier Silva

This report looks at the new financial insecurities facing homeowners as Americans cash out billions of dollars of home equity to cover rising living expenses and credit card debt.

Retiring in the Red: The Growth of Debt Among Older Americans
by Tamara Draut and Heather McGhee



This briefing paper documents the rise of credit card and mortgage debt of older Americans since 1992 and also delves into what is driving this disturbing trend.

Generation Broke: The Growth of Debt Among Younger Americans
by Tamara Draut and Javier Silva

This briefing paper documents the rise in credit card and student loan debt between 1992 and 2001 and examines the factors contributing to young adults’ increased reliance on credit cards.

For more information about Dēmos’ work on debt and assets, please contact:
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