

## THE COLOR OF DEBT: Credit Card Debt by Race and Ethnicity

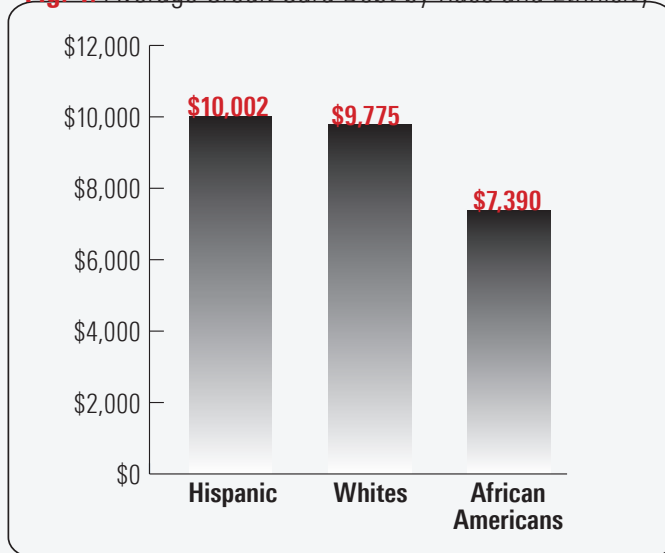
Historically, communities of color have not had equal access to credit, dampening their ability to build assets. The deregulation of the lending industry during the 1980s led to a deluge of credit for consumers of color, but at terms and conditions that were often economically detrimental. Recently, the effects of predatory lending in the mortgage market garnered international attention, shedding light on similar patterns among credit card lenders. “The Credit Card Debt Household Survey of Low-and Middle-Income Households” conducted by Demos in 2008 explores the nuances of credit card debt, total debt, income and assets among Hispanic, African American and White households. Its findings highlight the burdensome level of monthly debt obligations of communities of color which often places families in precarious financial straits and impedes their ability to build assets.

Thankfully, recent federal action, including the passage of the Credit Card Bill of Rights of 2009 and the creation of the Consumer Financial Protection Bureau, provided needed regulation and oversight of the credit card industry. However, past debt continues to haunt families even as they add on new debt. The findings below, from the 2008 Credit Card Debt Household Survey of Low-and Middle-Income Households, demonstrates that the means used by consumers of color to pay down debt further chips away at their economic viability.

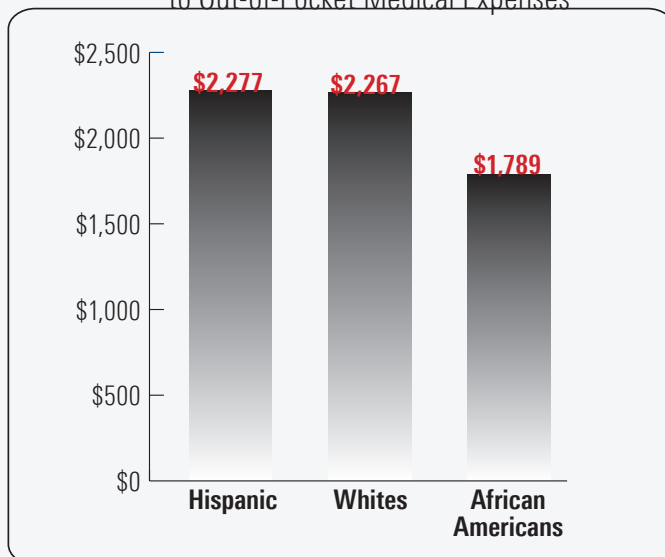
### Credit Card Trends by Race

- » In 2008, low- to middle-income Hispanic families had an average of \$10,002 in credit card debt, while Whites had an average of \$9,775 and African Americans had an average of \$7,390.
- » In 2008, the estimated Annual Percentage Rate (APR) paid on the credit card with the highest balance for African Americans was an average of 17 percent, while for Hispanics it was 16 percent and 14 percent for Whites.
- » Thirty-nine percent of Hispanics and African Americans have, in the past year, used their credit cards to pay for basic living expenses—rent, mortgage payments, groceries, utilities or insurance—because they did not have enough money in their checking or savings account, compared with thirty-five percent of Whites. Hispanics and Whites reported that they relied on credit cards to cover basic living expenses, on average, for five out of twelve months; African Americans four months out of the last twelve months.

**Fig. 1:** Average Credit Card Debt by Race and Ethnicity



**Fig. 2:** Average Credit Card Debt Attributed to Out-of-Pocket Medical Expenses

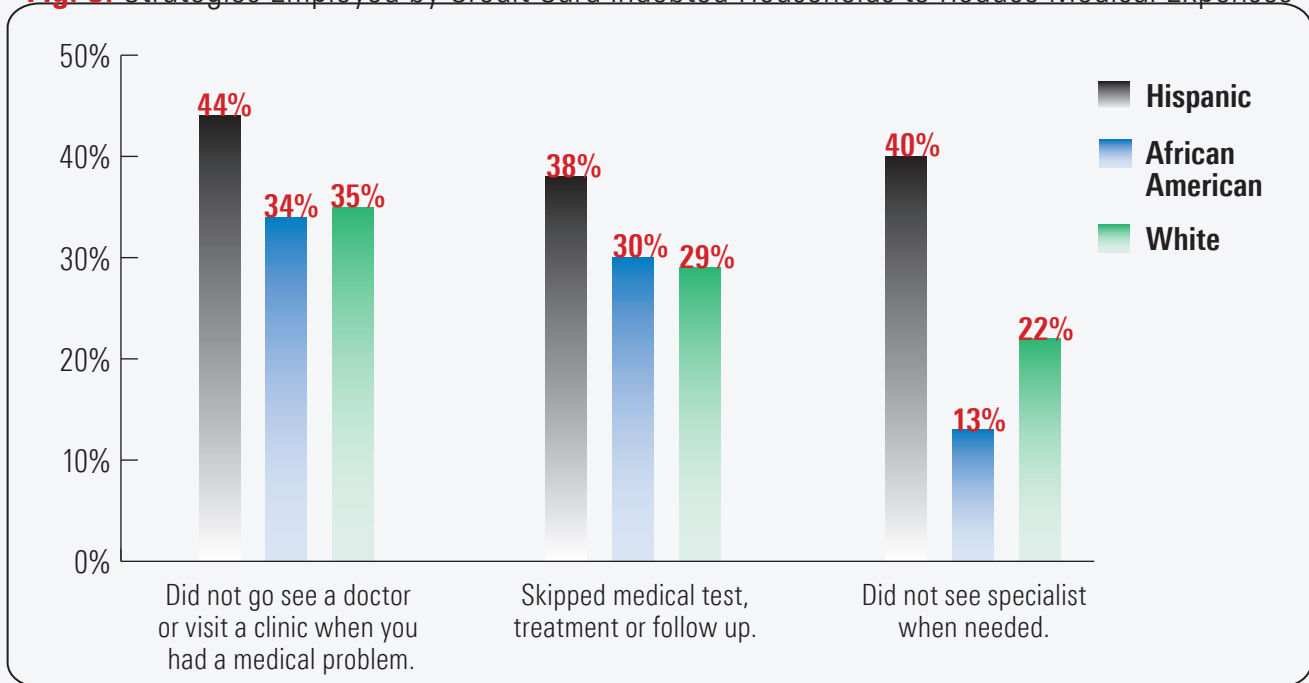


## Out- of- Pocket Medical Credit Card Debt

In 2008, 55 percent of African Americans, 53 percent of Hispanics and 48 percent of White low- and middle- income households had out-of-pocket medical debt on their credit cards. In 2008, Hispanics attributed an average of \$2,277 of their credit card debt to outofpocket medical expenses, Whites had an average of \$2,267, while African Americans averaged \$1,789.

- » In 2008, Hispanic families were more likely to sacrifice needed medical services than African Americans and Whites in order to diminish their out- of- pocket medical debt. (See fig. 3)

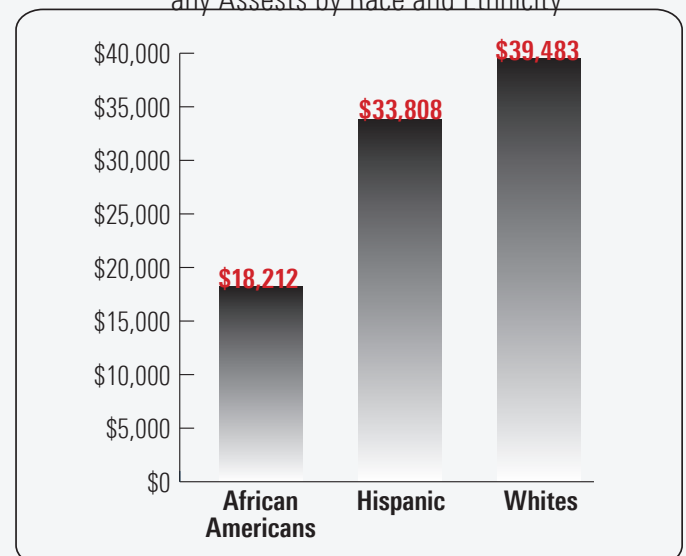
**Fig. 3:** Strategies Employed by Credit Card indebted Households to Reduce Medical Expenses



## Debt and Assets

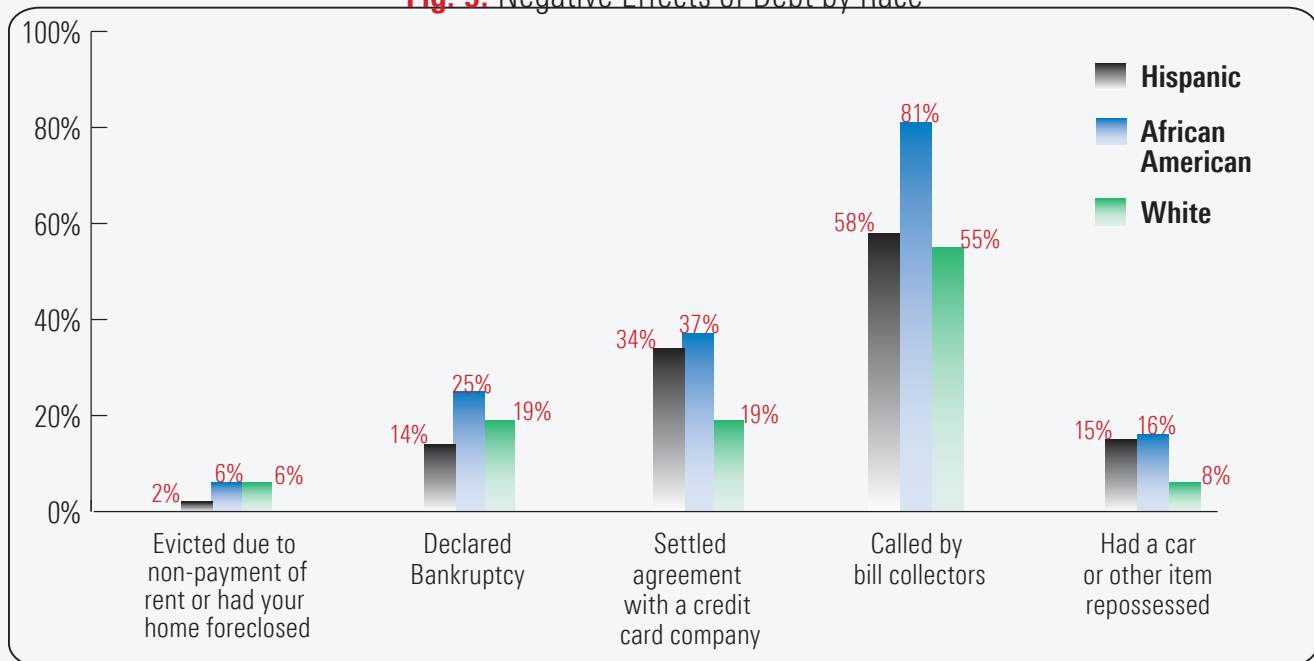
- » There is a clear difference in the levels of assets among African Americans, Hispanics, and Whites. In 2008, 78 percent of African Americans had assets with an average of \$18,221 while 86 percent of Hispanics had assets with an average of \$33,808, and 87 percent of Whites had assets with average of \$39,483.
- » In terms of total monthly debt obligations, African Americans have a monthly debt obligation of \$1,521, while Hispanics have \$2,028 and Whites have \$1,653.
- » This level of indebtedness is not surprising when you compare the level of monthly debt to the level of monthly income. Hispanics dedicate 56 percent of their monthly income to pay monthly debt, while African Americans dedicate 53 percent and whites dedicate 47 percent.
- » In 2008, when asked about the negative consequences of debt, a higher percentage of African Americans reported being closer to bankruptcy, called by bill collectors or having their cars repossessed. In 2008, 81 percent of credit card-indebted African Americans, 58 percent of Hispanics and 54 percent of Whites had

**Fig. 4:** Average Assets for Households with any Assests by Race and Ethnicity



been called by bill collectors. In the same year, 37 percent of Hispanics, 34 percent of African Americans and 18 percent of Whites had a settlement agreement with a credit card company. Furthermore, in other areas like car repossession, African American and Hispanics are more likely to have their car repossessed. (See fig. 5.)

**Fig. 5: Negative Effects of Debt by Race**



### Paying Credit Card Debt

- » In 2008, Americans paid down their credit cards using similar means: tax refunds, working extra hours and savings. However, Hispanics and Blacks also used alternative financial services with greater frequency to pay down their credit card debt. 15 percent of Blacks, 11 percent of Hispanics and 4 percent of Whites used loan sharks to pay credit card debt. 19 percent of African Americans and 17 percent of Whites used their retirement funds to pay their credit card debt compared to only 8 percent of Hispanics.
- » A particularly disturbing trend is that 15 percent of African Americans and Hispanics stopped going to school to pay for credit card debt compared to 5 percent of Whites, putting their future earning potential at risk.
- » When asked if they were saving money on a monthly basis, 57 percent of African Americans, 50 percent of Whites and 42 percent of Hispanics indicated that they were.

### Conclusion

Households of color are facing a devastating recession with large asset inequity and high levels of monthly debt obligations, including credit card debt. The recession has exacerbated the trend toward greater economic insecurity that has been forming over the last several decades. Under mounting debt and with few assets to turn to, low- and middle-income households of color are having a harder time recuperating from the economic downturn. Much of this debt has been accumulated to pay for basic living costs or essential expenses—health care, car repairs and home repairs—as more low- and middle-income households confront rising costs amidst stagnant or falling incomes.

The findings of Demos' 2008 "Credit Card Debt Household Survey of Low-and Middle- Income Households" highlight the need to properly implement and enforce the Credit Card Bill of Rights of 2009, so that consumers no longer fall victim to predatory credit card practices. The combination of monthly debt obligations and low assets jeopardizes the financial security of many low-and middle-income African American and Hispanic families. Whether putting away a little less for rainy days or going to a loan shark as a means to pay down debt, families should not be forced to jeopardize their financial future to pay their debt obligations today.