

FACT SHEET

USURY: THE IMPACT OF CREDIT CARD DEBT AND HIGH INTEREST RATES ON AFRICAN AMERICAN WEALTH

American families are turning to high-cost credit cards to keep afloat given the volatile and crippling economy. In 2008, Americans owed approximately \$850 billion in revolving credit card debt,¹ and 73 percent of all American households had credit cards, 60 percent of which carried a balance.²

Characteristics of Those with Credit Card Debt and Disparities in Interest Rates

People of color:

- In 2004, of those with credit cards, 84 percent of African American households carried credit card debt compared with 54 percent of white households. Greater than 90 percent of African American families earning between \$10,000 and \$24,999 had credit card debt.³ Of those with credit cards, 79 percent of Latino households carried credit card debt compared with 54 percent of white households.⁴
- African American and Latino credit card holders pay higher credit card interest rates than do whites. About 15 percent of African Americans and 13 percent of Latino cardholders pay interest rates greater than 20 percent, versus only 7 percent of white cardholders.⁵

Lower-income Americans:

- In 2004, cardholders with household incomes below \$25,000 who had credit card balances were twice as likely as households earning \$50,000, and five times more likely than households earning more than \$100,000, to pay interest rates higher than 20 percent.⁶
- In 2004, 46 percent of very-low-income (under \$9,999/year) credit card–indebted households spent more than 40 percent of their income to pay off debt.⁷
- From 1989 to 2004, credit card debt among very-low-income households quadrupled from an average of \$622 in 1989 to \$2,750 in 2004.⁸

Young adults:

- College students are a prime target for credit card issuers in an attempt to lure valuable first-time card holders—a population that typically holds no job and has no credit history. Many students do not have the experience to manage this debt and end up with bills that they cannot pay at the end of the month. Fifty-six percent of undergraduates get their first card at age 18, and 91 percent of students have at least one credit card by their final year.⁹ By graduation, 56 percent of students carry four or more cards. The average outstanding balance on undergraduate credit cards is \$3,000.¹⁰
- In 2004, young adults between the ages of 18 and 24 spent 40 percent of their monthly income on debt payments. The average debt-to-income ratio for this age group is 22 percent.¹¹

Senior citizens:

- Between 1989 and 2004, people aged 65 and older experienced an increase of 21.8 percent in the percentage of households carrying credit card debt. On average, senior citizens spent 16 percent of their income on debt payments.¹²

Credit Card Debt Burden

- Even though white households are more likely to have credit cards, their outstanding balance represents a lower percentage of their total available credit, and a larger percentage of African American and Latino families carry credit card debt.¹³
- In 2004, according to Consumer Finances, 84 percent of all African Americans were indebted, 79 percent of Latinos, and roughly 54 percent of whites.¹⁴

- In 2005, the average credit card debt of a low- and middle-income indebted household in America was \$8,650; the median was \$5,000.¹⁵
- In 2005, one-third of U.S. households had credit card debt in excess of \$10,000, while another third reported credit card debt of less than \$2,500.¹⁶

Mean and Median Credit Card Debt by Age, Income Level, and Race/Ethnicity		
	Mean	Median
All	\$8,650	\$5,000
By Age		
18–34	\$8,182	\$4,700
35–49	\$8,938	\$5,500
50–64	\$9,154	\$5,000
65 and older	\$7,382	\$4,000
By Income Level		
Less than \$35,000	\$6,504	\$4,000
Between \$35,000 and \$50,000	\$8,391	\$5,000
Greater than \$50,000	\$10,472	\$5,100
By Race/Ethnicity		
White	\$8,972	\$5,000
Latino	\$6,432	\$4,100
African American	\$7,926	\$5,000

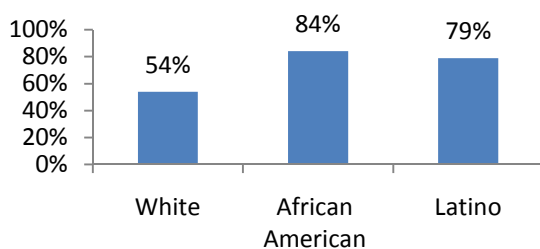
Source: Demos and Center for Responsible Lending, “The Plastic Safety Net: The Reality behind Debt in America,” 2005,

Causes of Credit Card Debt

As household wealth has declined in the economic downturn, more American families are facing financial distress due to high debt burdens:

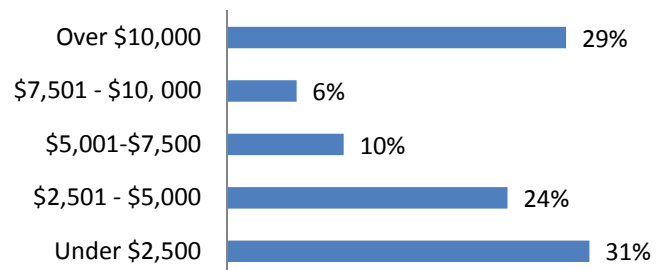
- In 2007, before the recession began, 14.7 percent of U.S. families had debt exceeding 40 percent of their income. Families with credit card debt are often thought to be ill disciplined or “living beyond their means.” However, research shows that credit card debt for low- and moderate-income households is “safety net” debt. That is, families are going into credit card debt as a way to cope with unemployment, drops or stagnations in income, medical expenses, and other unexpected expenses.¹⁷
- In fact, seven out of 10 low- and moderate-income households reported using their credit cards as a safety net for car repairs, basic living expenses, medical expenses, or house repairs.¹⁸

Credit Card Debt of Credit Card Holders by Race/Ethnicity, 2004



Source: Survey of Consumer Finances, 2004.

Percent of Households by Level of Credit Card Debt



Source: Demos and Center for Responsible Lending, “The Plastic Safety Net,” 2005.

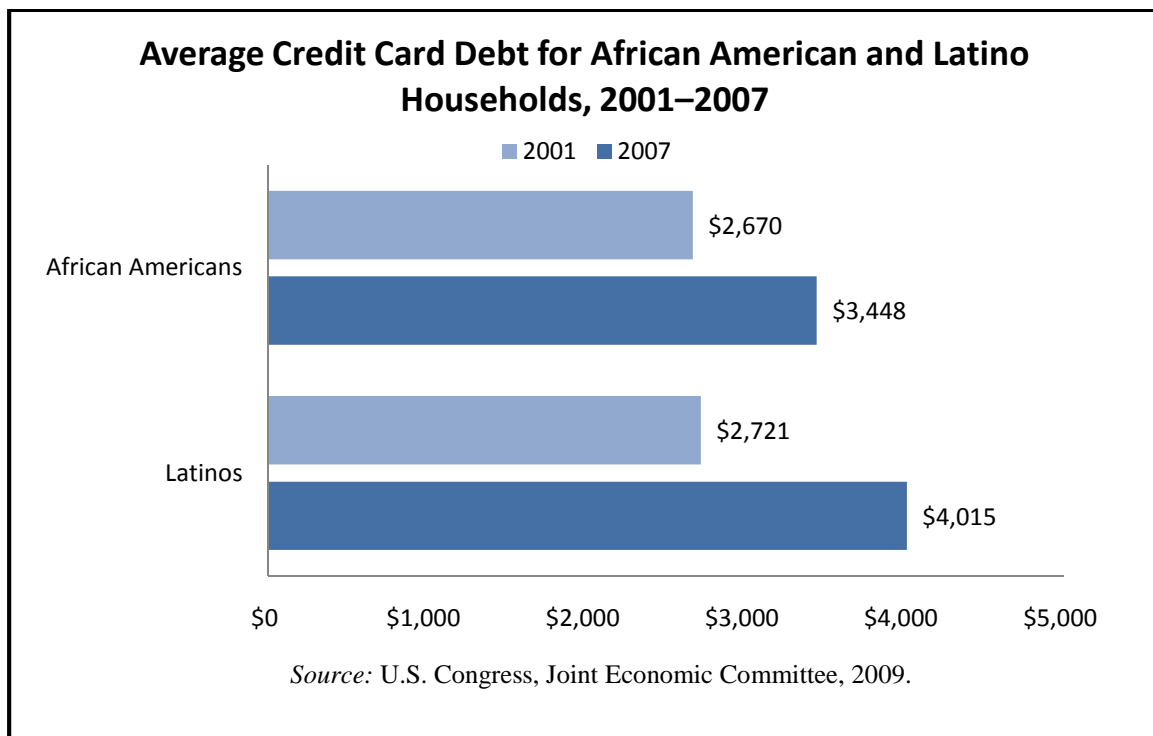
The Ripple Effect of Reliance on Credit Card Debt on Families of Color

Due to the economic crisis in our nation, African Americans have faced the following:

- Stalled wage growth: During the last nine years, African American inflation-adjusted wages grew at an annual rate of just 0.2 percent compared with 0.8 percent (four times as much) during the 1990s recovery.¹⁹
- Rising unemployment: As of 2009, 871,000 jobs held by African Americans have vanished since the recession began in December 2007 and 2.7 million African Americans are unemployed, an increase of 71 percent. As of April 2009, the overall unemployment rate for African Americans has increased to 15 percent, which is well above the national unemployment rate of 8.9 percent.²⁰

Like millions of households, families of color are forced to rely heavily on debt financing to pay their bills in the face of the grim economic crisis:

- Credit card debt has a great impact on the overall net worth of households of color because, on average, African American and Latino households have only one-tenth of the wealth of white households.²¹
- The fact, that African American and Latino households are more likely to be indebted than the average household should be considered in the context of continued disparities in earnings and employment among white households and households of color. On average, African Americans and Latinos earn 62 and 69 cents, respectively, for every dollar earned by their white counterparts.²²
- The average credit card debt for African American households grew by 20 percent, from \$2,670 to \$3,448, between 2001 and 2007. Average credit card debt for Hispanic households grew by 48 percent from \$2,721 to \$4,015, between 2001 and 2007.^{23,24}
- Overall, variable interest rates and other credit card practices mean that households of color are diverting an increasing share of their incomes toward servicing their credit card debt, which puts a further strain on family finances.²⁵



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- ¹ Consumers Union, "Credit Card Facts and Stats," 2009, www.creditcardreform.org (accessed September 4, 2009).
- ² Ibid.
- ³ Jose Garcia, *Borrowing to Make Ends Meet* (New York: Demos, 2007).
- ⁴ Ibid.
- ⁵ Ibid.
- ⁶ Jennifer Wheary and Tamara Draut, *Who Pays? The Winners and Losers of Credit Card Deregulation* (New York: Demos, 2004).
- ⁷ Ibid.
- ⁸ Ibid.
- ⁹ Sallie Mae, "How Undergraduate Students Use Credit Cards," 2009, <http://www.salliemae.com/NR/rdonlyres/0BD600F1-9377-46EA-AB1F-6061FC763246/10744/SLMCreditCardUsageStudy41309FINAL2.pdf> (accessed September 4, 2009).
- ¹⁰ Americans for Fairness in Lending, "Credit Cards: Targeting College Students," http://www.affil.org/consumer_rsc/credit_cards2.php (accessed September 2, 2009).
- ¹¹ Cindy Zeldin and Mark Rukavina, *Borrowing to Stay Healthy* (New York: Demos, 2007), http://www.accessproject.org/adobe/borrowing_to_stay_healthy.pdf (accessed September 4, 2009).
- ¹² Garcia, *Borrowing to Make Ends Meet*.
- ¹³ Demos and Center for Responsible Lending, "The Plastic Safety Net: The Reality behind Debt in America," 2005, www.demos.org/pubs/PSN_low.pdf (accessed September 1, 2009).
- ¹⁴ Consumers Union, "Credit Card Facts and Stats."
- ¹⁵ Demos and Center for Responsible Lending. "The Plastic Safety Net."
- ¹⁶ Ibid.
- ¹⁷ Ibid.
- ¹⁸ Ibid.
- ¹⁹ U.S. Congress, Joint Economic Committee, "Easing the Squeeze on African American Families," 2009, http://jec.senate.gov/index.cfm?FuseAction=Reports.Reports&ContentRecord_id=7e90889c-e48d-ea0d-fd33-97db36d1d124&Region_id=&Issue_id= (accessed September 4, 2009).
- ²⁰ Ibid.
- ²¹ Demos and Center for Responsible Lending. "The Plastic Safety Net."
- ²² Ibid.
- ²³ U.S. Congress, Joint Economic Committee, "Easing the Squeeze on African American Families."
- ²⁴ U.S. Congress, Joint Economic Committee "Easing the Squeeze on Hispanic Families," 2009, jec.senate.gov/index.cfm?FuseAction=Files.View&FileStore (accessed September 4, 2009)
- ²⁵ Ibid.