

A good credit history, among other things, can increase access to better financial products such as affordable and safe loans for larger purchases like a car or home. In one effort to create safer and more accessible credit products, increased oversight of the credit card industry through the bipartisan Credit CARD Act of 2009 brought critical consumer protections and transparent practices. Yet, many Latinos remain shut out of the traditional credit market.

National data shows over 72% of U.S. consumers use a credit card.¹ However, for Latinos,[†] that number is significantly lower. When traditional credit products are not available, consumers often resort to alternative financing methods or products—including borrowing money from family and friends and taking out payday loans—to fill the credit gap. Unfortunately, alternative financial services (AFS)[‡] can often be high-cost and predatory, further jeopardizing the financial security of those operating outside the financial mainstream.

This profile features data collected from a survey administered in 2013 by community-based organizations affiliated with the National Council of La Raza (NCLR) in Florida, Illinois, and Texas.[§]

Hispanics relied heavily on cash for everyday financial transactions.

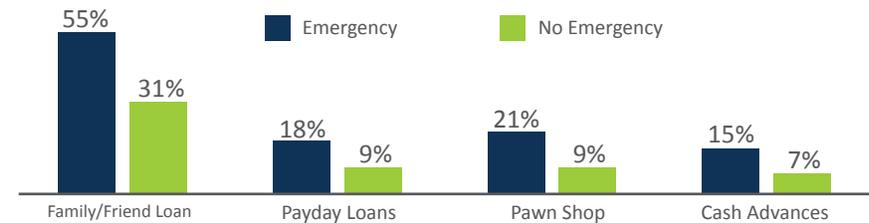
- Like other communities of color surveyed by the National Urban League and the National Coalition for Asian Pacific American Community Development,² a majority of Hispanics surveyed by NCLR used cash for everyday transactions (64%), followed by debit cards (61%) and credit cards (27%).
- Just under half (44%) of Latinos surveyed reported that they did not have a credit card.
- Credit card ownership varied by education. Fifty percent of those surveyed with a high school diploma or less had a credit card, compared to 76% of college graduates.
- Rates of credit card use varied significantly according to income: for those earning less than \$30,000 only 36% reported using one, compared to 70% of those earning \$50,000 or more.

A significant number of Latinos used nontraditional financing options, even in nonemergency situations; use varied by income and education.

- For those needing emergency funds in the past 12 months, 55% indicated they asked family or a friend for a loan, the most common option.^{||} One in three Hispanics surveyed reported they turned to family or friends for money even when there was not a need for emergency capital.

Figure 1

Latino Use of Alternative Financing Options by Emergency Need



Source: NCLR calculation using data from our 2013 survey of 2,310 Hispanic participants in Florida, Illinois, and Texas.

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† 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 American, Dominican, Spanish, and other Hispanic descent; they may be of any race.

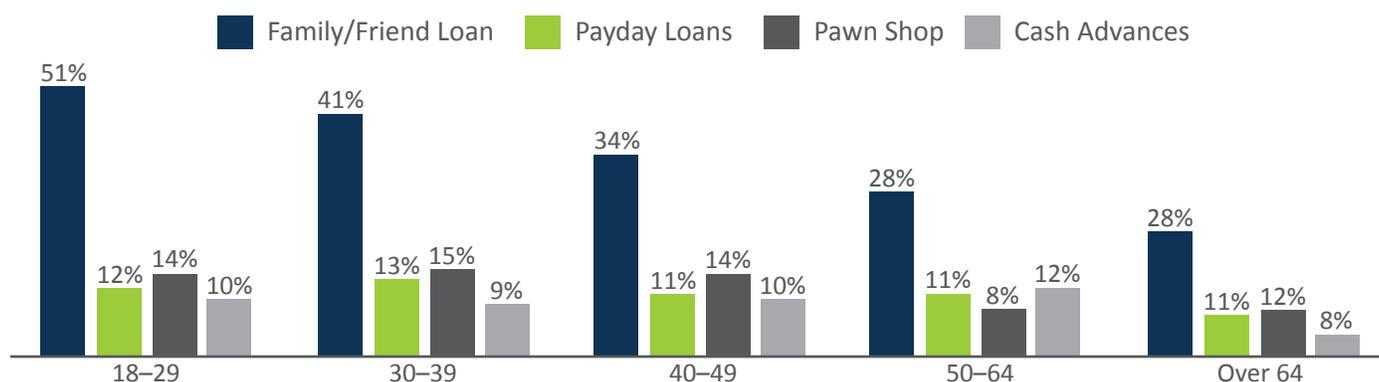
‡ Alternative financial services (AFS) refers to any of the various financial services offered by providers that operate outside of federally insured banks and thrifts. See: *Federal Deposit Insurance Corporation, Alternative Financial Services: A Primer* (Washington, DC: FDIC, 2009), www.fdic.gov/bank/analytical/quarterly/2009_vol3_1/AltFinServicesprimer.html

§ NCLR surveyed 2,310 Hispanic participants as part of a larger data collection effort contained in *Banking in Color: New Findings on Financial Access for Low- and Moderate-Income Communities* (Washington, DC: NCLR, 2014), <http://publications.nclr.org/handle/123456789/1203>.

|| NCLR and our Affiliates—community-based organizations serving the Latino community—recognize the reliance on small-dollar loans from friends and family and have been working to implement peer lending circles and other mechanisms to promote access to small-dollar credit outside the traditional financial sector. For California-specific work, see NCLR, *Latino Financial Access and Inclusion in California*, (Washington, DC: NCLR, 2013), <http://publications.nclr.org/handle/123456789/1123>.

- Those with lower incomes were more likely to use AFS. For example, for those who reported using payday loans, 51% had incomes less than \$30,000 compared to only 18% with incomes above \$50,000.
- Older Latinos relied less on loans from friends and family, while use of other credit-based AFS shows little variation from age 18–64.

Figure 2
Latino Use of Alternative Financing Options by Age



Source: NCLR calculation using data from our 2013 survey of 2,310 Hispanic participants in Florida, Illinois, and Texas.

- A significant share of individuals using AFS reported being denied access to a mainstream financial service because of their credit history. Twenty-nine percent of those who have used pawn shops reported having been denied access to a financial service because of their credit history, and 26% of payday loan users and 25% of cash advance users also reported being denied.

Even though Latinos utilized credit cards and other financial products, a majority were unfamiliar with their credit score.

- Only 33% of Latino survey respondents reported knowing their credit score. Knowledge of credit score seemed to vary by language proficiency: 28% of those speaking Spanish at home were aware of their score, compared to 45% of those speaking Spanish and English equally at home.
- Knowledge of credit score varied by the type of financial products individuals reportedly used. Those using pawn shops to secure funds were most likely to know their credit score (50%). Rates fell for users of other sources of funds: credit card users (48%), payday loan and cash advance (39%), and family/friend loans (36%).
- Of those who reported knowing their credit score, most learned it through a bank (40%) and others through the website AnnualCreditReport.com (21%) or a nonprofit organization (19%).

Several factors, including education, income, and language ability can affect access to and understanding of credit in the Latino community. Credit is a valuable tool that, when accessible and understood, can help Latinos become more financially stable. Opportunities to increase access and information about credit could include additional outreach and education to Spanish-speaking communities, the provision of affordable small-dollar loan products to fill the credit gap and lessen the reliance on predatory products like payday loans, regulatory oversight for nonbank industries that provide credit products, and free product features to increase consumer knowledge about credit such as access to one's FICO score.

Endnotes

- 1 Scott Schuh and Joanna Stavins, *The 2011 and 2012 Surveys of Consumer Payment Choice*, (Boston, MA: Federal Reserve Bank of Boston, 2014), 28, www.bostonfed.org/economic/rdr/2014/rdr1401.pdf (accessed September 2015).
- 2 NCLR, NUL, NCAPACD, *Banking in Color: New Findings on Financial Access for Low- and Moderate-Income Communities* (Washington, DC: NCLR, 2014), <http://publications.nclr.org/handle/123456789/1203>.