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The Incidence, Costs, and Correlates of High-Cost, High-Risk Consumer Credit Among Black and Latino Households

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Abstract:

Black and Latino households regularly have a lot less wealth than white households. Many people of color, mainly Black and Latino households, also often have to resort to more costly and risky debt than is the case for white households. We present data from FINRA's nationally representative 2021 Financial Capability Survey on the distribution of various forms of household credit by race and ethnicity. The data show that incidences of high-cost, high-risk consumer credit is higher among Black and Latino households than among white households. Loan denials, credit market discrimination and credit steering all factors likely contributing to this greater incidence. Further, the costs associated with those forms of credit are also higher for Black and Latino households than they are for white households, even within the same types of credit. Finally, these forms of credit correlate with lower savings, especially among Black and Latino households. The results indicate that the more widespread incidence of consumer credit among Black and Latino households likely contributes to the persistence of the racial wealth gap.

Key words: consumer credit, racial wealth gap, discrimination, credit steering

JEL codes: D12, D14, D31

I. Introduction

Black and Latino households have a lot less wealth than their white counterparts. This massive gap – the average white household, for example, had seven almost five times the wealth of the average Black household at the end of 2022 (Fed, 2023a) – stems mainly from unequal access to homeownership and financial assets such as retirement accounts.

Many people of color, mainly Black and Latino households, also often have to resort to more costly and risky debt than is the case for white households. Credit cards, car loans, student loans, and a variety of predatory forms of credit become more prevalent among Black and Latino households as well as households of other and multiple races in three ways. First, many Black and Latino households are denied loans, especially relatively lower-cost forms of credit such as mortgages and home equity lines (Barlett et al., 2019; Bhutta et al., 2022; Blanchflower et al. 2003; Butler et al., 2021; Canner et al. 1994; Cavalluzzo & Wolken, 2005; Cavalluzzo et al. 2002; Choi & Mattingly, 2022; Dymski 2001; Gabriel and Rosenthal 1991; Holloway & Wyly 2001; Ky & Lim, 2022; Munnell et al. 1996; Ross 2005).

Second, Black and Latino borrowers often end up with higher cost consumer credit, even when lower cost options are available (Faber, 2013; DOJ, 2012; Davis, 2005; Joassart-Marcelli & Stephens, 2010; Williams, 2020; Hawkins & Penner, 2021). Many banks tend to steer Black and Latino households as well as people of other or multiple races and ethnicities to higher cost forms of credits.

Third, banks often charge Black and Latino borrowers higher interest rates and fees for the same types of loans as white households (Freeman, 2017; Ruetschlin & Asante-Muhammad, 2008; Weller, 2009). This can stem from outright racial and ethnic discrimination and from so-called statistical discrimination, whereby algorithms – credit scores – characterize Black and Latino households as higher risks due to past and ongoing discrimination (NCLC, 2016; Campisi, 2021; Singletary, 2020; Heaven, 2021).

Higher-cost debt translates into slower wealth growth. Black and Latino households have higher debt payments relative to income (Hanks et al., 2018; Solomon & Weller, 2018), leaving less money to save.

Our analyses add to the existing and detailed literature on consumer credit by race and ethnicity in several ways. First, the data include the most detailed breakdowns of consumer credit types of any publicly available data set. This allows for a better understanding how different forms of consumer credit correlate with different factors such as discrimination. Second, the data include detailed heritage questions for Asian households, allowing for some additional information for this very diverse population. Third, the data include a range of self-reported cost measures such as credit scores and whether people have been contacted by collections agencies that do not exist in other publicly available financial data. This allows for a more nuanced understanding of the costs associated with different forms of credit.

We summarize data on consumer credit by race and ethnicity from FINRA's triennial National Financial Capability Study (NFCS), supplemented by data from the Federal Reserve's annual Survey of Household Economics and Decisionmaking (SHED). Chapter 2 summarizes some of the relevant literature, chapter 3 presents our data summaries and chapter 4 concludes.

II. Literature Review

Black and Latino households often have higher-cost and higher-risk consumer debt for a number of reasons.[1] First, Black and Latino households are more likely to be denied loan applications, especially for mortgages but also for other forms of credit (Barlett et al., 2019; Bhutta et al., 2022; Blanchflower et al. 2003; Butler et al., 2021; Canner et al. 1994; Cavalluzzo & Wolken, 2005; Cavalluzzo et al. 2002; Choi & Mattingly, 2022; Dymski 2001; Gabriel and Rosenthal 1991; Holloway & Wyly 2001; Ky & Lim, 2022; Munnell et al. 1996; Ross 2005). Most research concludes that disparate loan denial rates by race or ethnicity are in part a result of discrimination in financial markets. As a result, Black and Latino households are forced to use more costly forms of credit to start or grow a business, support their families' education and pay their bills.

Second, banks tend to steer Black and Latino households towards costlier forms of consumer debt. Jacob Faber (2013), for example, concluded that Black borrowers were much more likely to be targeted for subprime mortgages before the financial crisis of 2007 to 2009 than was the case for white households. Moreover, the Department of Justice reached a settlement with Wells Fargo after the bank had steered African-Americans and Hispanics into subprime mortgages with higher fees and interest rates before the financial crisis (DOJ, 2012). Further, payday lenders often target African–Americans among other financially vulnerable populations. They are more likely to locate in predominantly Black neighborhoods (Davis, 2005; Joassart-Marcelli & Stephens, 2010; Williams, 2020) and they market more to African-American households than to white households (Hawkins & Penner, 2021).

An insidious form of financial steering – the widespread use of racially biased credit scores -- is baked into the structure of the financial system (NCLC, 2016). Qualifying for credit and the terms of debt depend on people's credit score. Yet, credit scores reflect both individual and group past experiences with a discriminatory financial system (Campisi, 2021; Singletary, 2020). Black and Latino households have often been excluded from the formal banking system and thus could not build up credit experience and thus improved credit scores at the same rate as white households. Credit scores ultimately portray people of color as worse credit risks than they actually are due to a history of financial exclusion (Heaven, 2021).

Costlier and riskier forms of credit are then more widespread among Black and Latino households (CFA 1998, 1999; Stegman & Faris 2003). They need to rely more heavily on payday lenders (Bourke et al., 2012; Logan & Weller, 2009; Morgan & Pan, 2012). Moreover, non-white or Hispanic borrowers were more likely to repeatedly use overdraft loans (James & Smith 2006). And, car title loans tended to be more prevalent among lower-income families and thus possibly among more widespread among Black and Latino households (Fox & Guy 2005). Further, credit card debt was relatively more prevalent among Black and Latino households (Hanks et al, 2018; Solomon & Weller, 2018).

Modern forms of credit steering are the logical extension of longstanding financial racial discrimination and exclusion (Solomon et al., 2020). Black people were often, though not always prohibited from doing business with formal banking institutions through federal, state and local laws in the 1800s and well into the first part of the 20th century(Todd, 2019). For example, Black households could not do business in the same institutions as white households, which had vastly more wealth and formal credit than Black households, until the passage of the 14th amendment in 1868 (Todd, 2019). African Americans tried to create their own financial institutions, but they were hampered by limited financial resources within

Black communities, constrained business opportunities since they could only serve Black businesses and violent destruction due to racial resentment (Todd, 2019). Even after removal of legal barriers for African-Americans to participate in the financial system, Black households in particular faced decades of systematic housing and credit discrimination, mainly through redlining – explicit exclusion of certain properties in predominantly Black neighborhoods from mortgage lending (Baradaran, 2019; Gross, 2017). This meant that many Black households remained largely unbanked – a disparity which continues today (Durante & Chen, 2019).

Financial exclusion has not been limited to Black households. Asian households often faced unequal financial access in the decades following the Chinese Exclusion Act (Rice 2022). This unequal access results in slower wealth accumulation over generations. Further, many Latino households in the United States face their own obstacles to accessing mainstream financial institutions. These obstacles include low credit scores because of past and ongoing financial market discrimination, less access to financial institutions on predominantly Hispanic communtiies, language barriers (Osilli & Paulson, 2005)as well as challenges and fees associated with remittances (Suro et al, 2022).

Importantly, some of the types of consumer credit more readily available to Black and Latino households come with exorbitant interest rates and fees. Interest rates on payday loans average typically almost 400 percent per year (CFPB, 2021). Fox and Guy (2005) estimate that the median annual interest rate for a car title loan is about 300 percent and Duby et al. (2005) argue that overdraft fees – which are in effect high interest rates on short-term loans -- can quickly translate into triple-digit annualized interest rates. Further, Pew (2015) finds that fees for car title loans averaged $1,200 for loans that averaged less than $1,000. Moreover, credit card debt often costs more than other forms of credit (Manning 2000) due to higher interest rates and additional fees (Westrich and Bush, 2005).

Third, many Black and Latino borrowers pay higher interest rates for the same forms of consumer credit than white households do (Freeman, 2017; Ruetschlin & Asante-Muhammad, 2008; Weller, 2009).

III. Data Summaries

We summarize the data on the prevalence on high-cost, high-risk consumer credit among Black and Latino households as well as on some of the mechanisms, by which they end up with those debt, the costs associated with them and the impact of these forms of credit.

Incidence of Consumer Debt

Table 1 shows the incidence of different types of household debt by race and ethnicity. Black and Latino households are much more likely to have credit card debt, student loans, medical debt, and predatory financing than Asian or white households (Table 1). For example, 48.8 percent of Black households and 47.8 percent of Latino households carried a balance or paid only the minimum on their credit cards in some months in 2021, while this was true for just 39.1 percent of white households (Table 1). Further, more than half of Black households – 51.0 percent -- have used some form of predatory loan in the past five years (Table 1); 38.9 percent of Latino households have used predatory loans; but only 28.0 percent of white households and 18.6 percent of Asian households have (Table 1).

Table 1: Consumer Debt in 2021 by Race/Ethnicity

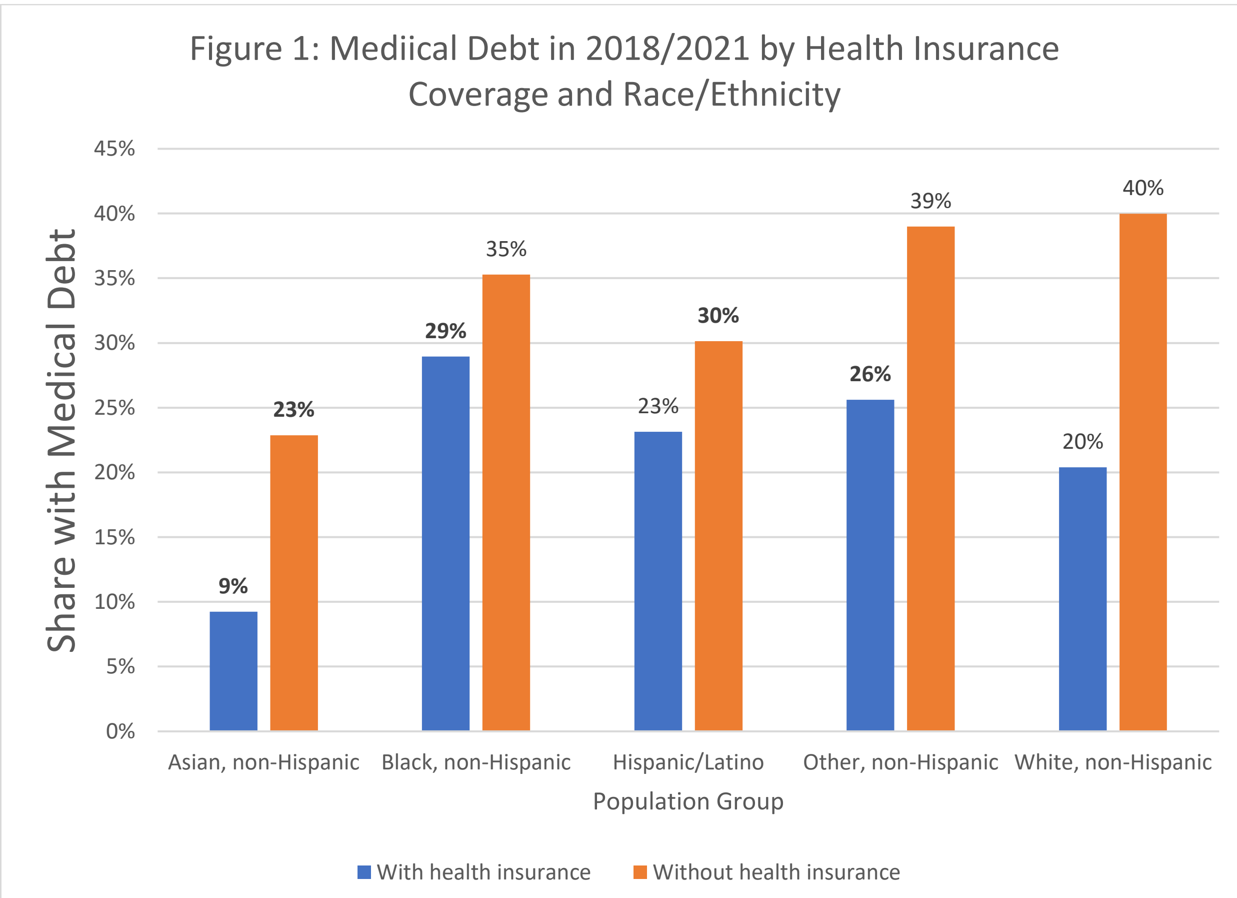
	Mortgages or home equity lines	Credit card balances	Past due medical debt	Car loans	Student loans	Any predatory loans in past 5 years
Asian, non-Hispanic	33.3%	**25.4%**	**10.0%**	**21.9%**	**15.5%**	**18.6%**
	(1168)	(1167)	(1151)	(1163)	(1167)	(1176)
Black, non-Hispanic	**24.5%**	**48.8%**	**29.7%**	**26.4%**	**36.1%**	**51.0%**
	(2607)	(2640)	(2562)	(2599)	(2631)	(2672)
Hispanic/Latino	**29.5%**	**47.8%**	<u>24.2%</u>	31.8%	**29.9%**	**38.9%**
	(2215)	(2229)	(2171)	(2210)	(2226)	(2242)
Other, non-Hispanic	**25.8%**	40.7%	**27.3%**	27.9%	**29.0%**	**38.1%**
	(852)	(845)	(820)	(842)	(853)	(859)
White, non-Hispanic	34.1%	39.1%	22.2%	30.2%	20.1%	28.0%
	(19791)	(19768)	(19537)	(19801)	(19835)	(19950)

Notes: Credit card balances include people carrying a balance or paying only the minimum. Predatory loans include car title loans, payday loans, pawn shops, rent to own and tax refund advances. Sample includes nonretired adults. Numbers in parentheses indicate sample size. Sample sizes vary because of missing responses. Missing responses do not systematically vary by household characteristics. Bolded numbers indicate that average shares for households of color are significantly different from the shares for white households at the one percent level. Numbers in italics indicate significant difference at the five percent level and underlined numbers indicate significance at the 10 percent level. Source is FINRA (2023).

Medical debt is a particularly pernicious form of debt. Medical debt systematically correlates with lower credit scores and thus translates into higher borrowing costs. Importantly, the prevalence of medical debt also correlates with households not having health insurance. Health insurance is at least in part a protection against medical debt. Households after all have to pay less out of pocket for medical care if they have insurance coverage. They may still have to pay something in the form of copays or deductibles.

Because many Black and Latino households as well as households of other races have fewer savings than is the case for white or Asian households, they may struggle more to pay those costs (Cole et al.2010). Worth noting, many States that did not expand their Medicaid programs (KFF, 2023) following the passage of the Affordable Care Act (ACA) have both large Black populations (Census, 2023) and the lowest credit scores in the nation (Van Dam, 2023). Furthermore, there is some evidence that the algorithms used by health systems to predict insurer risk improperly equate health spending with health needs (Overmeyer et al., 2019). As a result of unequal access to care, Black households spend less and are, therefore, accounted as healthier by these algorithms. Consequently, when a Black patients may be more likely to face insurance claims denials (Lent et al., 2022) and be forced to take on medical debt.

The gap in owing medical debt between those that have health insurance and those that do not is smallest among Black households (Figure 1).[2] Specifically, 35.0 percent of Black households without health insurance had medical debt, while 29.0 percent of Black households with health insurance did – a gap of six percentage points (Figure 1). In comparison, 20.0 percent of white households and 9.0 percent of Asian households with health insurance had medical debt, while 40.0 percent of white households and 23.0 percent of Asian households without health insurance did – equaling gaps of 20.0 percentage points and 17.0 percentage points, respectively (Figure 1). Black and Latino households in particular have smaller gaps in medical debt by health insurance than is the case for white and Asian households.



[2] Our data source is the same one, albeit for a later year, used by the Consumer Finance Protection Bureau (2021) in its comprehensive discussion of medical debt. It puts the incidence of medical higher than other data sources such as the Survey of Income and Program Participation (SIPP) (Rae et al., 2022). This difference in part stems from varying units of analyses, specifically households in the NFCS and individuals in the SIPP. But, the relative differences in the incidence of medical debt by race and ethnicity are consistent across data sources. Rae et al (2022), for example, find that medical debt was 77.8 percent more likely among Black adults than among white adults in 2020. The NFCS data show that Black households were 70.5 percent more likely than white households to have medical debt.

Notes: The sample without health insurance includes 73 Asian households, 358 Black households, 309 Latino/Hispanic households, 111 households of other or multiple races and 1,746 white households. The sample with health insurance includes 1072 Asian households, 2127 Black households, 1815 Latino/Hispanic households, 689 households of other or multiple races and 17640 white households Bolded numbers indicate that average shares for households of color are significantly different from the shares for white households at the one percent level. Numbers in italics indicate significant difference at the five percent level and underlined numbers indicate significance at the 10 percent level. Source is FINRA (2023).

Table 2 provides additional detail on predatory loans, which overall have some of the largest racial disparities. We want to know whether any specific form of predatory financing disproportionately contributes to this overall racial gap. No single form of predatory financing is dominant, although pawnshops tend to be more commonly used than others (Table 2). Moreover, Black and Latino households need to rely on all forms of predatory financing more than is the case for white households (Table 2). And, Black households have used predatory financing more frequently than white households on average over the past five years: (Table 2), 5.6 times compared to 4.9 times for white households (Table 2).

Table 2: Likelihood of predatory loans by race/ethnicity in 2021

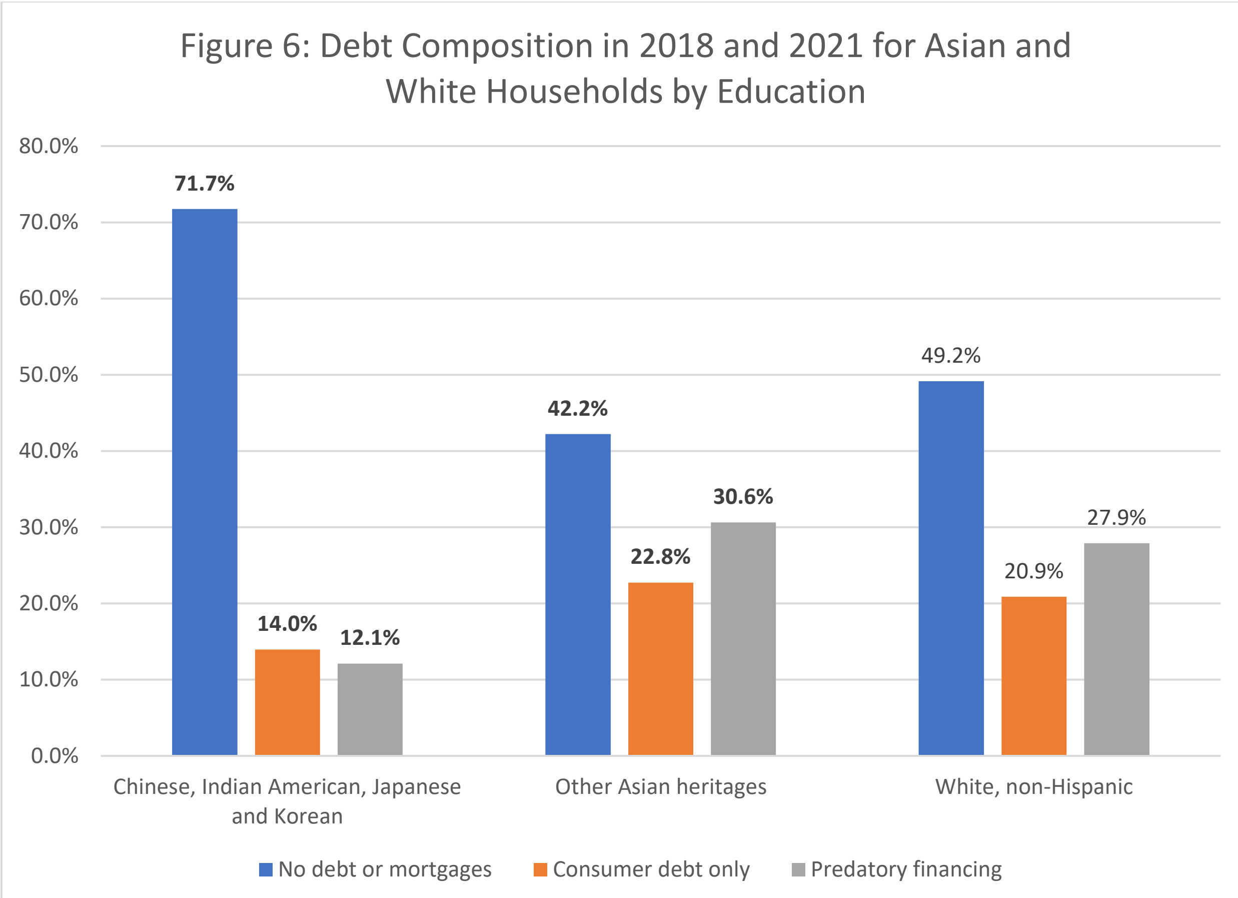
	Predatory loans		Car title loans		Payday loans		Tax refund advance		Pawnshop		Rent to own	
	Likelihood	Number of loans	Likelihood	Number of loans	Likelihood	Number of loans	Likelihood	Number of loans	Likelihood	Number of loans	Likelihood	Number of loans
Asian, non-Hispanic	**18.6%**	5.2	9.2%	1.9	**9.7%**	2.3	9.1%	2.0	**10.4%**	2.3	**7.8%**	2.0
	(1176)	(209)	(1164)	(107)	(1166)	(108)	(1146)	(100)	(1167)	(119)	(1163)	(87)
Black, non-Hispanic	**51.0%**	**5.6**	**21.2%**	**2.1**	**27.2%**	2.2	**22.1%**	*2.3*	**35.5%**	2.3	**24.0%**	**2.1**
	(2672)	(1376)	(2614)	(572)	(2624)	(743)	(2605)	(587)	(2628)	(939)	(2627)	(636)
Hispanic/Latino	**38.9%**	4.9	**15.0%**	1.9	**19.8%**	**2.1**	**14.3%**	2.1	**26.8%**	*2.2*	**17.0%**	*1.9*
	(2242)	(897)	(2211)	(342)	(2202)	(451)	(2186)	(310)	(2221)	(610)	(2211)	(384)
Other, non-Hispanic	**38.1%**	4.4	9.3%	1.9	*16.1%*	2.4	9.4%	2.0	**27.4%**	2.5	14.2%	1.9
	(859)	(331)	(845)	(79)	(849)	(140)	(834)	(73)	(846)	(232)	(852)	(127)
White, non-Hispanic	28.0%	4.8	10.9%	1.8	13.0%	2.3	9.3%	2.2	17.8%	2.4	11.9%	2.0
	(19950)	(5532)	(19817)	(2158)	(19794)	(2523)	(19721)	(1756)	(19817)	(3482)	(19829)	(2289)

Notes: Numbers in parentheses indicate sample size. Overall sample sizes can vary between forms of predatory loans due to non-responses. Non-responses do not vary by household characteristics from overall sample. Bolded numbers indicate that average shares for households of color are significantly different from the shares for white households at the one percent level. Numbers in italics indicate significant difference at the five percent level and underlined numbers indicate significantly different levels at the 10 percent level. Source is FINRA (2023).

Consumer Debt and Costs Among Asian Households

Asian households appear to rely on less risky and costly consumer debt than white households. This obscures, though, the vast inequality within the group racialized as Asian. A breakdown of Asian households by heritage illustrates this point (Figure 2). Households of Chinese, Indian American, Japanese, and Korean heritage typically have the highest incomes among Asians (Budiman & Ruiz, 2021). We consider the debt composition of these Asian subpopulations and compare it to all other Asian households in Figure 2. Those of other heritages, which include about 45 potential groups in 2021, were more likely to have outstanding consumer credit balances and use predatory loans than white households (Figure 2). For example, 30.6 percent of households of other Asian heritages needed to rely on predatory financing in 2021, compared to 27.9 percent of white households. We also broke down the data for 2021 by education, not shown here, and Asian households without a college degree had almost identical debt composition as white households without a college degree.[3] The bottom line is that there is a substantial minority of Asian households that experience high-cost, high-risk debt at a rate higher than is the case for white households.

[3] The sample size for Asian respondents without a college degree was 460 in 2021 and the sample size of Asian respondents with a college degree was 729. For example, the share of Asian households without a college degree who had used predatory loans was 28.9 percent, while the respective share of white households was 31.7 percent. These two shares are not statistically significantly different. Details available from the authors upon request.

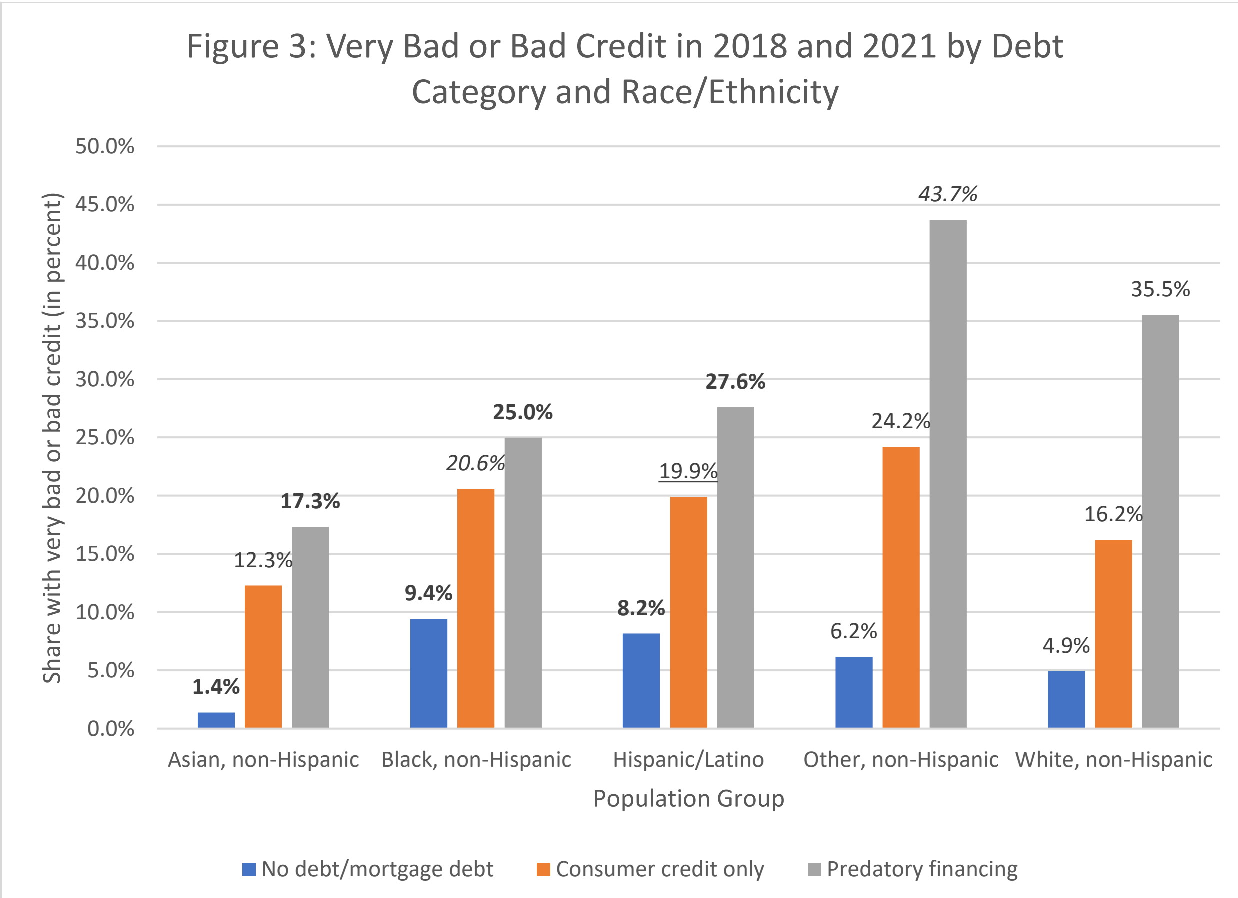


Notes: The sample for people with Chinese, Japanese and Korean heritage includes 775 households, while the sample of people with other Asian heritages includes 402 households. The samples of households with other Asian heritages include 179 households in the first debt category, 95 in the second category and 109 in the third category. The samples of households of Chinese, Japanese, Korean and Indian heritage include 549 households in the first debt category, 111 households in the category and 95 households in the third debt category. Bolded numbers indicate that average shares for households of Chinese, Japanese, Korean and Indian heritage are significantly different from the shares for white households at the one percent level. Numbers in italics indicate significant difference at the five percent level and underlined numbers indicate significance at the 10 percent level. All differences by debt categories within racial groups are statistically significant. Source is FINRA (2023).

Costs of Credit by Race or Ethnicity

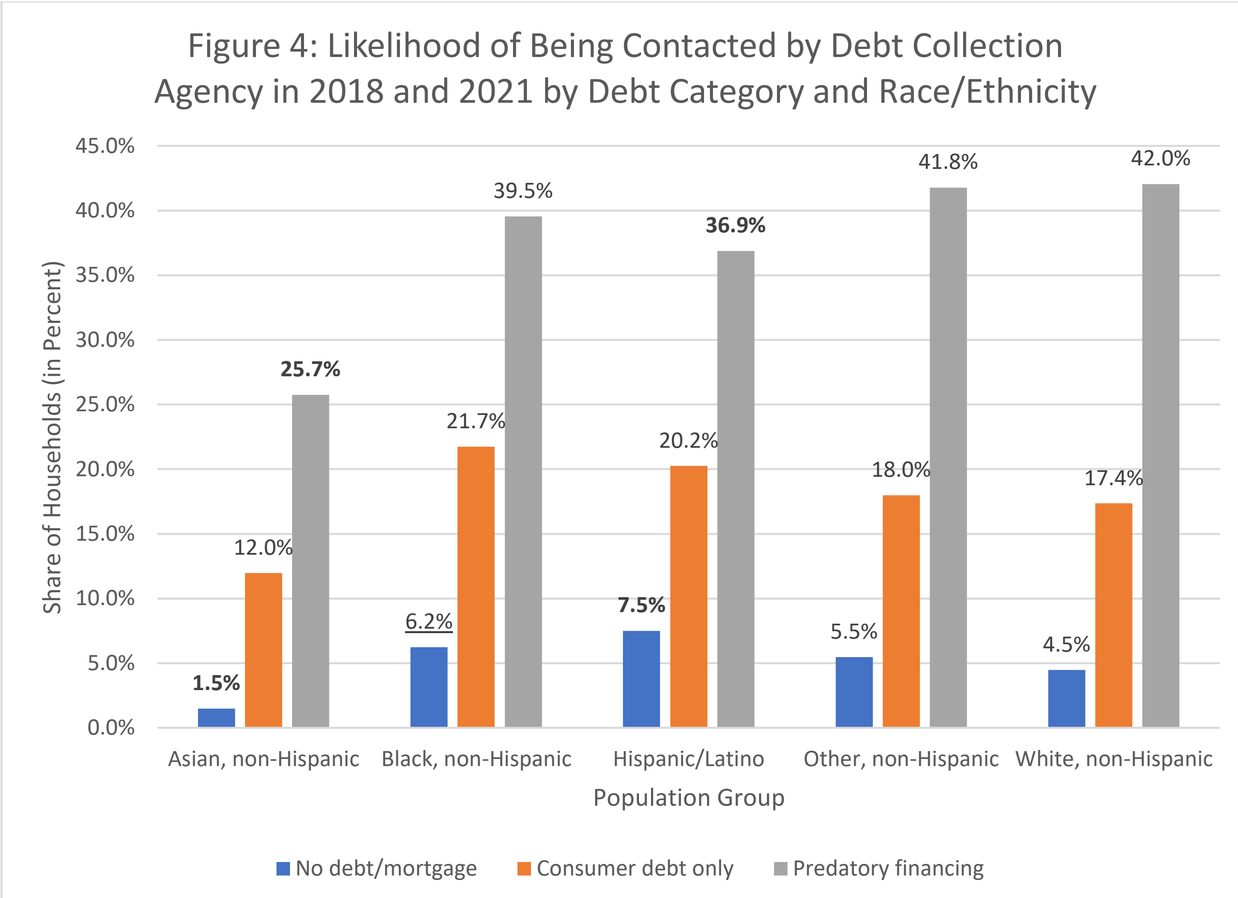
We do not have direct measures of cost differences in consumer debt by race and ethnicity, but there are several indicators that support the argument that Black and Latino households in particular face higher costs. We already discussed more widespread medical debt in communities of color, which often translates into higher costs for consumers than other forms of consumer credit since it is a key determinant of worse credit scores (Van Dam, 2023).

Self-reported credit quality also goes down when people need to use consumer credit and declines even more when they need to rely on predatory financing (Figure 3). This is especially true for Black and Latino households. Their reliance on consumer debt and predatory loans goes along with worse self-reported credit quality as compared to using mortgages or no debt (Figure 3). And, their self-reported credit quality is also worse than it is for white households in each debt category (Figure 3). (Figure 3).



Notes: The three debt categories are mutually exclusive, as described in the appendix. The samples break down in the following ways ((1) no debt or mortgage debt only, (2) consumer credit only and (3) predatory financing alone or in combination): Asian, non-Hispanic, (1) 733, (2) 203, (3) 209); Black, non-Hispanic: (1) 676; (2) 562, (3) 1376; Hispanic/Latino: (1) 786; (2) 522, (3) 897; Other, non-Hispanic: (1) 299, (2) 209, (3) 331; white, non-Hispanic: (1) 9875; (2) 4215; (3) 5532. Bolded numbers indicate that average shares for households of color are significantly different from the shares for white households at the one percent level. Numbers in italics indicate significant difference at the five percent level and underlined numbers indicate significance at the 10 percent level. All differences by debt categories within racial groups are statistically significant. Source is FINRA (2023).

Finally, we use an indicator of whether a household has been contacted by a debt collection agency in the past 12 months as an indicator associated with the costs of debt – both the incidence and amount of debt. This likelihood increases with consumer debt and is even higher when households have to rely on predatory financing (Figure 4). It is also higher for Black and Latino households and households of other races, when they owe only consumer debt than is the case for white households (Figure 4). Black and Latino households as well as households of other races face higher costs – being contacted by a debt collection agency – as they are more likely to owe the costliest debt – predatory financing – and face higher costs associated with consumer credit than is the case for white households.



Notes: The three debt categories are mutually exclusive as described in the appendix. The samples break down in the following ways ((1) no debt or mortgage debt only, (2) consumer credit only and (3) predatory financing alone or in combination): Asian, non-Hispanic, (1) 731, (2) 206, (3) 190; Black, non-Hispanic: (1) 667; (2) 548, (3) 1278; Hispanic/Latino: (1) 779; (2) 548, (3) 852; Other, non-Hispanic: (1) 298, (2) 198, (3) 304; white, non-Hispanic: (1) 9791; (2) 4114; (3) 5319. Bolded numbers indicate that average shares for households of color are significantly different from the shares for white households at the one percent level. Numbers in italics indicate significant difference at the five percent level and underlined numbers indicate significance at the 10 percent level. All differences by debt categories within racial groups are statistically significant. Source is FINRA (2023)

Mechanisms Correlated with Predatory Financing

We consider potential factors that correlated with heavier usage of predatory loans by Black and Hispanic households than white households. These correlations include loan denials for more mainstream financial services such as mortgages and credit cards, self-reported discrimination by banks, and potential steering towards higher cost forms of credit by financial institutions.[4]

Table 3 summarizes the likelihood of people having used predatory financing in the past 12 months by loan denials and having experienced financial discrimination at the same time.[5] The increase in having to rely on predatory financing associated with being denied a loan application is always greater for Black

[4] We can only show correlations with key factors, not causality.

[5] The reported likelihoods of using predatory financing are much lower in the SHED than in the NCFS since the SHED has a 12 month look back period, while the NCFS has a five-year look back period.

and Latino households as well as for households of other or multiple races than for white households. For example, the difference in the incidence of predatory financing is 16.6 percentage points greater for Black applicants, who experienced loan denials, than for Black applicants, who did not experience loan denials – 22.9 percent compared to 6.3 percent (Table 3). The respective difference was 15 percentage points for Hispanic households, 16.8 percentage points for people of other races and 12.6 percentage points for people of multiple races. In comparison, the difference in predatory financing by loan denial was only 11.3 percentage points for white households. Being denied a loan application is associated with greater use of alternative financing sources, but the use of predatory financing increases more for Black and Hispanic households in particular than for white households.

Table 3: Factors Correlated with Racial Differences in Predatory Loans in 2020 and 2021

	No loan denial	Loan denial	Did not experience bank discrimination	Did experience bank discrimination	Good/very good credit	Income $75,000 to $99,999	Income $100,000 to $149,999	Income $150,000 and higher
Black, Non-Hispanic	**6.3%**	**22.9%**	**9.2%**	19.2%	**3.4%**	**3.9%**	2.0%	1.7%
	1,880	465	(2230)	(104)	(675)	(1046)	(418)	(347)
Hispanic	**4.8%**	**19.8%**	**6.9%**	36.3%	**2.9%**	**3.5%**	2.3%	1.9%
	2,365	462	(2776)	(47)	(546)	(1373)	(597)	(488)
Other, Non-Hispanic	**3.1%**	19.9%	*3.8%*	n.a.	2.0%	*2.3%*	1.7%	1.5%
	1,020	93	(1097)		(116)	(727)	(300)	(458)
2+ Races, Non-Hispanic	2.7%	15.3%	*4.8%*	n.a.	2.9%	5.8%	2.6%	0.7%
	594	126	(700)		(137)	(414)	(146)	(146)
White, Non-Hispanic	1.5%	12.8%	2.5%	21.4%	0.9%	1.0%	0.6%	0.4%
	15,076	1,441	(16411)	(73)	(1909)	(11098)	(3977)	(4559)

*Notes: Loan denial calculated only for people who applied for a loan or thought about a loan application but did not submit one. Loan denial is then defined as either being denied a loan application or not having submitted a loan application because people thought that they would be denied. Disrcimination refers to having experienced discrimination or unfair treatment while banking or applying for a loan in the past 12 months. "n.a." indicates not applicable because of sample sizes that are too small to be reliable. Numbers in parentheses indicate sample size. Overall sample sizes can vary between forms of predatory loans due to non-responses. Non-responses do not vary by household characteristics from overall sample. Bolded numbers indicate that average shares for households of color are significantly different from the shares for white households at the one percent level. Numbers in italics indicate significant difference at the five percent level and underlined numbers indicate significantly different levels at the 10 percent level.

Source: Board of Governors of the Federal Reserve System. Survey of Household Economics and Decisionmaking 2021 and 2022. Washington, DC: Fed

The pattern in predatory loan usage for households that report financial discrimination looks somewhat different. The use of predatory loans jumps more for Hispanic households – from 6.9 percent to 36.3 percent or 29.4 percentage points – than for white households who saw an increase of 18.9 percentage points – from 2.5 percent to 21.4 percent -- while reporting discrimination or unfair treatment in banking

(Table 3). But, the increase associated with reported discrimination was much smaller for Black households – 10.0 percentage points (Table 3). For Hispanic households self-reported discrimination in banking appears to be a key factor associated with more predatory financing than is the case for white households, but that is not the case for Black households.

More subtle forms of credit steering then may be a more relevant factor associated with a higher usage of predatory loans. Do Black and Latino households with good or very good credit or with higher incomes need to rely on predatory financing to the same degree as white households with fair or good credit or similar incomes? If the answer is yes, it would suggest that African-Americans and Latinos may be steered towards higher cost forms of credit.[6] Indeed, Black and Latino households in particular, but also people of other or multiple races with good or very good credit are two to three times as likely as white people to rely on predatory loans (Table 3). Good credit records thus seem to provide less protection from having to rely on predatory loans than is the case for white households.[7] These racial gaps in predatory loan usage among Black and Latino households as well as households of other or multiple races with good or very good credit may reflect people being steered towards predatory loans, for instance, through aggressive marketing.

Along a similar logic, Black and Latino households with higher incomes should rely on consumer credit and predatory financing to a similar degree as white households. Yet, among income groups with incomes $75,000 and above, the chance of having to rely on predatory financing is always much higher among household of color than among white households (Table 3). In fact, the prevalence of predatory financing is larger among Black and Hispanic households and households of other races with incomes above $150,000 than it is for white households with incomes between $75,000 and $99,999 (Table 3).[8] The differences in the correlation between income and consumer credit and predatory loans, on the one hand, and race and ethnicity, on the other hand, is consistent with potential credit steering by financial institutions towards higher-cost and higher-risk loan products.

One Impact of Consumer Debt: Financial Insecurity

Given that Black and Latino households as well as households of other and multiple races are more likely to have consumer debt than white households, often alongside lowers savings, as we discuss below, consumer debt is also more likely to correlate with financial insecurity. We capture financial insecurity as the chance of people finding it somewhat or very difficult to cover their expenses and also as households being late on mortgage, student loan or credit card payments. In general, financial insecurity is higher for households that used predatory financing than for those who used only consumer credit (Table 4). Additionally, financial insecurity is often greater among those with only consumer credit than among those households that had either had no debt or owed only a mortgage (Table 4). For example, more than two-thirds of Black households – 66.5 percent – who only used predatory financing said that

[6] This is the same overall approach employed by Faber (2020) for subprime mortgages.
[7] Credit record is self-reported. Summary statistics based on the NFCS also show much higher likelihoods of predatory financing among Black and Latino households as well as households of other or multiple races with good or very good credit than is the case for white households. Biased responses by race or ethnicity would have to persist across survey years and across surveys to influence our conclusions.
[8] Summary statistics based on the NCFS also show that Black and Latino households had higher incidences of predatory financing than white households even at higher incomes. Among households with incomes $150,000 or higher, 37.84 percent of Black households and 23.0 percent of Latino households needed to rely on predatory loans, while this was true for 21.5 percent of white households in 2021.

they had difficulty paying their expenses, compared to 51.3 percent of Black households that only used consumer credit and 30.3 percent of Black households with no debt or mortgages (Table 4). Similar differences by debt type exist for all racial and ethnic groups for both financial insecurity measures.[9]

Table 4: Financial Security in 2021 by Type of Debt and Race/Ethnicity

	No debt or mortgage debt, no predatory credit	Consumer credit only	Predatory debt alone or in combination
Difficulty paying expenses			
Asian, non-Hispanic	**19.3%**	47.1%	63.1%
	(718)	(202)	(201)
Black, non-Hispanic	**30.3%**	51.3%	*66.5%*
	(660)	(549)	(1331)
Hispanic/Latino	**34.7%**	*53.1%*	67.2%
	(773)	(514)	(880)
Other, non-Hispanic	32.1%	**60.3%**	70.3%
	(296)	(206)	(320)
White, non-Hispanic	24.1%	47.7%	69.7%
	(9721)	(4154)	(5437)
Was late on mortgage or credit card in past 12 months			
Asian, non-Hispanic	5.2%	19.7%	42.8%
	(728)	(203)	(203)
Black, non-Hispanic	**9.8%**	21.6%	**46.9%**
	(665)	(534)	(1318)
Hispanic/Latino	**10.7%**	20.1%	42.9%
	(772)	(503)	(864)
Other, non-Hispanic	9.9%	*24.8%*	32.7%
	(295)	(200)	(312)
White, non-Hispanic	6.1%	**16.4%**	39.6%
	(9770)	(4090)	(5353)

Notes: The three debt categories are mutually exclusive as discussed in the appendix. Financially not very satisfied are people who chose a number from 1 to 4 on a scale from 1 to 10. Numbers in parentheses indicate sample size. Overall sample sizes can vary between forms of predatory loans due to non-responses. Non-responses do not vary by household characteristics from overall sample. Bolded numbers indicate that average shares for households of color are significantly different from the shares for white households at the one percent level. Numbers in italics indicate significant difference at the five percent level and underlined numbers indicate significantly different levels at the 10 percent level. All differences by debt categories within racial groups are statistically significant. Source is FINRA (2023).

[9] Households can have late payments if they are categorized as only relying on predatory financing since they can be late with credit card payments, but not carry a credit card balance.

The Correlation Between High-Cost, High Risk Credit with Lower Savings

High-cost, high-risk credit imposes a higher cost on Black and Latino households, in particular, than on white households. This in turn could go along with lower savings. More costly forms of credit – consumer credit and predatory financing – go along with lower likelihoods of households being savers (Table 5). For example, 52.3 percent of Latino households with no debt or with mortgage debt said that they were savers, while 39.8 percent of Latino households with consumer credit and 33.2 percent of Latino households who used predatory loans (Table 5).

Table 5: Savings Measures in 2021 by Type of Debt and Race/Ethnicity			
	No debt or mortgage debt, no predatory credit	Consumer credit only	Predatory debt alone or in combination
Saves money			
Asian, non-Hispanic	**66.7%**	44.1%	34.1%
	(715)	(198)	(202)
Black, non-Hispanic	**47.6%**	45.2%	*31.6%*
	(651)	(534)	(1319)
Hispanic/Latino	*52.3%*	39.8%	*33.2%*
	(769)	(506)	(871)
Other, non-Hispanic	54.5%	39.7%	32.9%
	(289)	(202)	(310)
White, non-Hispanic	57.3%	43.0%	28.3%
	(9608)	(4092)	(5268)
Has emergency savings/rainy day fund			
Asian, non-Hispanic	**83.9%**	54.6%	**55.1%**
	(716)	(198)	(195)
Black, non-Hispanic	**59.0%**	<u>43.8%</u>	**41.5%**
	(643)	(568)	(1299)
Hispanic/Latino	**65.4%**	46.0%	**42.6%**
	(753)	(501)	(855)
Other, non-Hispanic	69.9%	*40.5%*	*28.2%*
	(284)	(195)	309)
White, non-Hispanic	71.9%	48.3%	36.6%
	(957)	(4059)	(5334)
Has retirement wealth			
Asian, non-Hispanic	**73.4%**	49.4%	**57.2%**
	(709)	(193)	(185)
Black, non-Hispanic	**52.2%**	*43.3%*	42.9%
	(640)	(527)	(1189)
Hispanic/Latino	**57.1%**	*41.8%*	43.7%
	(752)	(481)	(78)8
Other, non-Hispanic	67.7%	51.0%	**34.9%**
	(280)	(191)	(279)
White, non-Hispanic	66.8%	49.5%	43.5%
	(9576)	(4007)	(5091)

Notes: The three debt categories are mutually exclusive as described in the appendix. Numbers in parentheses indicate sample size. Overall sample sizes can vary between forms of predatory loans due to non-responses. Non-responses do not vary by household characteristics from overall sample. Bolded numbers indicate that average shares for households of color are significantly different from the shares for white households at the one percent level. Numbers in italics indicate significant difference at the five percent level and underlined numbers indicate significantly different levels at the 10 percent level. All differences by debt categories within racial groups are statistically significant. Source is FINRA (2023).

The data also show noteworthy differences by race. First, Black and Latino households are more likely to be savers – they spend less than their income – than is the case for white households, when they also relied on predatory loans (Table 5). For example, 33.2 percent of Latino households that needed to use predatory loans were savers and 31.6 percent of Black households, 32.9 percent of households of other races, and 34.1 percent of Asian households were. In comparison, 28.3 percent of white households with predatory loans were savers (Table 5). Second, savings behavior decreases more with more costly debt for white households than is the case for either Black or Latino households. Specifically, the likelihood of Black households being savers is 2.4 percentage points lower among households with only consumer credit than among Black households with no debt or mortgage debt (Table 5). The respective difference in savings behavior for white households is 14.3 percentage points (Table 5). That is, consumer debt goes along with a smaller reduction in savings behavior for Black and Latino households than is the case for white households.

But the fact that consumer debt is associated with less widespread disruptions to savings among Black and Latino households does not mean that many forms of high-cost, high-risk debt do not impose a higher cost on them, as we discussed earlier. Black households are more likely to be savers than white households when they owe consumer credit – such as credit cards, student loans, car loans, or medical debt (Table 5). Latino households are about as likely to be savers as white households (Table 5). Yet, Black and Latino households are less likely to have emergency savings and to have retirement savings, than is the case for white households (Table 5). Since a higher or similar likelihood of being a saver does not go along with more savings for Black and Latino households, they likely face higher costs and risks, including those associated with consumer credit and predatory financing.

IV. Conclusion

We present comprehensive data on consumer debt, potential factors associated with Black and Latino households' greater likelihood to take on consumer credit, some of the costs of consumer debt, its correlation with financial insecurity as well as with savings. Black and Latino households in particular are much more likely to rely on high-cost, high-risk credit such as medical debt, credit cards, and predatory financing— including payday loans, auto title loans, tax return advances, rent-to-own and pawnshops – than is the case for white households.

The evidence indicates multiple factors among Black and Latino households that are associated with high-cost, high-risk debt, such as mainstream loan denials, outright discrimination and potentially more subtle steering. More widespread and costlier consumer debt and predatory financing could impede the ability of Black and Latino households to build up wealth, even though they are as likely or likelier than white households to save money. Without serious policy attention to the deleterious effect of high-risk, high-cost consumer debt on the wealth of Black and Latino households, many still face another crucial and systematic obstacle to building wealth at the same rate as white households do.

Appendix

A1. Data

Few data sources include detailed information on a wide range of consumer debt with sufficient racial and ethnic detail. The triennial National Financial Capability Study (NFCS) from the FINRA Foundation is an exception since it covers a wide range of consumer debt products. It specifically asks whether people owe a mortgage and/or home equity line on their house. It also asks respondents whether they carry a balance or paid only the minimum (and thus presumably carried a balance) on their credit cards.[10] It also asks whether households used an auto loan to buy their car, whether they have a student loan balance outstanding, whether they have past due medical debt to round out the potential ranges of consumer credit. The survey also asks a series of questions related to predatory financing options, specifically it asks whether a household has used payday loans, pawnshops,[11] rent to own, tax refund advances, and car title loans in the past five years and how often the household has used each of these forms of financing.

We group the information on household debt into three mutually exclusive categories: 1) households that have either no debt or who only owe mortgages or home equity lines of credit ; 2) households that have used or use consumer credit – credit cards, auto loans, student loans and medical debt – but who have not used predatory forms of financing in the past; and 3) those, who have used predatory financing with or without borrowing money elsewhere. These three debt categories capture households that are building assets, owe formal consumer credit and have used predatory financing.[12] Black and Latino households as well as households of other races are much more likely to be in the second or third category – consumer credit and predatory credit – than either Asian or white households (Table 1).

[10] In some instances, the minimum required payment is entire balance. Our results do not materially change if we only consider households that say that they carry a balance rather than defining those that paid only the minimum also as carrying a balance on their credit cards.
[11] The question only asks whether people used a pawn shop, not whether they used it to pawn something or take out a loan. The NCFS contains this particular information only for 2015. Almost 80 percent of people who used a pawn shop did so to pawn something or to get a loan. Moreover, most people who used a pawn shop for other purposes used other forms of predatory financing. That is, our measure of predatory financing likely only overstates the use of predatory financing to a very small degree.
[12] The survey questions on consumer credit use varying time frames – from money currently owed to money used in the past. Most importantly, though, this may understate the adverse financial impact of predatory financing since we include households that have used those forms of financing but no longer use them in our third category. They may no longer fully feel the impact of predatory financing.

Table A_1: Debt Categorization in 2021 by Race/Ethnicity

	No debt or mortgage debt, no predatory credit	Consumer credit only	Predatory debt alone or in combination
Asian, non-Hispanic	63.6%	17.4%	19.0%
	(733)	(209)	(209)
Black, non-Hispanic	26.2%	21.7%	52.1%
	(676)	(562)	(1376)
Hispanic/Latino	36.1%	24.5%	39.5%
	(788)	(522)	(897)
Other, non-Hispanic	36.5%	24.5%	39.0%
	(299)	(209)	(331)
White, non-Hispanic	50.2%	21.3%	28.5%
	(9875)	(4215)	(5532)

Notes: The three debt categories are mutually exclusive as described in the appendix. Numbers in parentheses are sample sizes.

The NCFS groups households into five mutually exclusive racial or ethnic groups – Asian, Black, Hispanic/Latino, Other and white households.

The FINRA Foundation conducts the survey every three years. The most recent survey year is 2021. The state-by-state data include at least 500 observations for each state and the District of Columbia in any given survey year, resulting in about 27,000 observations for 2021. Weights are designed, so that the data are nationally representative. The survey is large enough to allow for reasonable sample sizes greater than 100 in all of our summaries. Our conclusions do not materially change if we pool data for 2021 and 2018, although the economic circumstances were quite different for those years. We thus present only summaries based on 2021 data.

We supplement our analysis with data from the Federal Reserve's annual Survey of Household Economics and Decision-making (SHED). The SHED includes similar information to the NFCS, but it has substantially fewer – roughly 11,000 in 2021 -- , less detail on race and ethnicity – no background on people's self-identified heritage – and fewer details on consumer debt, especially on the specific types of predatory financing. In contrast, though, the SHED includes information whether a recent loan application has been denied or whether people decided not to apply for a loan out of fear of being denied. The SHED also includes information on whether people report when dealing with banks.

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