Only 23% of African-Americans and 22% of Hispanics are financially healthy, compared to 50% of white individuals. Many factors contribute to this stark gap, including a long period of discriminatory practices in the U.S. that stripped wealth from communities of color and policies that continue to advantage wealthier Americans, who tend to be white. At their current rates of income growth, it will take the average African-American family 228 years and average Latino family 84 years to attain the level of wealth that their white counterparts currently hold. Credit scores and history play a critical role in an individual’s ability to achieve economic security and build wealth in the U.S, but that opportunity is not easily attainable for communities of color.

Over a quarter of African-Americans (28%) and Hispanics (27%) have insufficient formal credit history. About 15% of African-Americans and Hispanics, compared to 9% of whites, are credit invisible, meaning that they have no reported data at the three national credit bureaus. An additional 13% of African-Americans and 12% of Hispanics have unscorable records, due to old and limited data, compared to only 7% of whites. In both situations, a consumer is unscoreable and not able to be underwritten using traditional processes, making it difficult to obtain high-quality credit.

When they do have credit history, African-Americans and Hispanics report lower credit scores compared to whites: 43% of African-Americans and 47% of Hispanics report having good to excellent credit scores compared to 70% of whites. Similar to lacking a credit score, a lower credit score will also impact the price a consumer pays for credit and access to high-quality credit products. A low credit score can cost thousands of dollars in additional interest. For example, the difference between a prime and subprime five-year auto loan would be $3,000, assuming $16,000 borrowed at 2.5% and 9.7% respectively. With less wealth to pay for this expensive credit, African-Americans and Hispanics fall further behind their counterparts in terms of total wealth and overall financial success.

The Opportunity to Serve People of Color

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The terms used to label race and ethnicity are imperfect and limiting. The authors aim to use inclusive language when possible, while maintaining the integrity and specificity of external research cited.
How Secured Credit Cards Can Help Overcome Liquidity and Trust Challenges

Being prepared for financial emergencies is crucial for maintaining financial health and requires savings and planning, yet many Americans lack the resources and liquidity to weather financial shocks. For those who make less than $40,000, only 20% of African-Americans and 27% of Hispanics would be able to cover an emergency $400 expense. Secured cards can provide both an emergency line of credit and a savings vehicle via the security deposit - thus creating the opportunity for many African-American and Hispanic families to build a safety net for future financial shocks.

People of color may have also received unequal treatment in applying for loans. In one study, African-American applicants were denied for small business loans 62% of the time, Hispanic applicants 50%, Asian applicants 52%, and white applicants only 24%. This is reflected in the expectations of borrowers of color, as 43% of African-Americans, 32% of Hispanics, 49% of other non-whites without credit cards report that they do not have one because they do not believe they could qualify for one. A secured card is a way for those who are otherwise shut out to gain a foothold into the consumer credit mainstream as the underwriting criteria are straightforward to allow issuers to grant access to more individuals.

Secured credit cards can help people of color make incremental advances toward building a savings and credit history. For those with little to no formal credit, adding a secured card can raise credit scores by building a positive credit history and raise their total amount of available credit at lower interest rates.

What Secured Card Issuers Can Do

Given the difficulty that many Americans have in accessing even $400, providing the option for a partial deposit, or payment of the deposit in installments, could help those with limited funds to make the initial security deposit. Our research finds that African-American individuals are more likely than whites to receive financial information from credit unions, faith-based organizations, and financial seminars. Therefore, partnerships with CDFIs, credit unions, nonprofits, and even faith-based organizations, can leverage these groups’ relationships to reach potential secured card customers.

Provider Spotlight

Several mission-based lenders utilize secured credit cards in their credit building programs. For example, The Intersect Fund, a CDFI based in New Brunswick, NJ that serves entrepreneurs of color, recommends secured cards in their credit builder program after four to five months of repayment on a credit builder loan in order to establish multiple lines of credit, accelerating rising credit scores.

“For a minority business entrepreneur, building a personal credit score is the best piece of advice that we can share. A personal credit score will be checked at the beginning or at the end of any major financial transaction.”

— Luis De La Hoz, Vice President at The Intersect Fund
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Sources and Notes
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