IN DISTRESS

Low-Income Oregonians Report Heavy Debt Levels with Long-Term Consequences

By the Stop the Debt Trap Alliance of Oregon

In partnership with the Center for Responsible Lending (CRL)

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Executive Summary

In 2006, when Oregonians noticed the devastating impact payday and car-title lending was having on their communities, a coalition pushed for a change in the state laws, bringing new consumer protections to hundreds of thousands of people in the state. This example shows the power of communities to make change on issues affecting the day-to-day lives of people in Oregon. Today, community organizations are once again coming together to continue improving the marketplace and economic security for working families in the state.

Through the newly formed Stop the Debt Trap Alliance of Oregon, and as part of the efforts to dig deeper into the debt burden experiences of low-income Oregonians, a number of nonprofit organizations developed a survey to be used as part of their intake processes. The survey was distributed in the spring and summer of 2018 with the goal of understanding what debts low-income families were facing, what had triggered that debt, and how these families were managing their debt loads.

After reviewing over 400 responses from individuals in over 100 different Oregon zip codes collected by 10 different social services organizations, the results were startling: low-income Oregon families are carrying various debts that have long-lasting implications in many aspects of their lives. From medical and utilities debt, to payday loans and student loans, all of these debts can lead to debt collection and credit reporting and are holding families back from successfully building wealth and achieving a life of financial security.

Key Findings of the Survey Include:

- The surveyed households are very low-income, with a median income of $20,000 to $30,000. A third of them are earning $20,000 or less in a given year. Most of the people surveyed identified as White, female, employed, and in their 30s, but there was also a significant number of people of color, as well as part-time and/or occasional workers.

- More than half of the people reported that they or a family member has outstanding student loans. One-third of the individuals with student loan debt reported that they are behind on their monthly payments, and more than half reported postponing a large purchase, such as a car or house, because of these loans.

- Among the many outstanding debts that people are carrying, one in two carry credit card debt, one in four have car loan debt, and one in 10 have utility debt.

- One out of every three people reported that they have been contacted by a debt collector in the previous year, with a third of them finding mistakes in the debt records received from collectors. More than two-thirds did not receive original documents of the debts, and a third reported being sued for their debts, making these families jump through hoops to fight a debt that may not be theirs or is for the wrong amount.

- One out of every four people surveyed have used a payday or car-title loan in the past year. A full quarter took out more than one payday loan at a time, putting themselves at risk of getting trapped in a cycle of debt and highlighting payday lenders' evasion of a requirement in Oregon law to provide a seven-day cooling-off period between each loan.

The Stop the Debt Trap Alliance

Hacienda CDC, a Latino Community Development Corporation based in Portland, Oregon, noticed that many of the low-income clients coming through the door to receive their services in buying their first home had one thing in common: debt, and a lot of it.

With the help of the Center for Responsible Lending (CRL), Hacienda CDC convened a meeting in late 2017 inviting state and national nonprofits to discuss the issue of debt, how it affects Oregon families, and what the organizations can do to solve the problem if they pool their resources and power together. This meeting led to the formation of the Stop the Debt Trap Alliance (STDT Alliance), a new coalition of community organizations and consumer advocates that have the goal of bringing attention to consumer issues and fighting for consumer protections at the state level.

The Survey

After the first meeting, a clear consensus emerged among the organizations that there was a lack of information about the types of debt Oregon families carry, what triggered it, and how they are dealing with it. The group quickly developed and adopted the idea of surveying their clients regarding their personal finances, and CRL was selected to create the survey, analyze the data, and release the results. The other participating organizations administered the survey during client intake. In hopes of reaching as many Oregonians as possible, they shared the survey with other state and local organizations, ensuring that the survey would be distributed in areas where coalition members are not present.

The Consumer Financial Protection Bureau (CFPB) financial wellness questionnaire was used as a starting point, as these questions had already been developed and tested by the CFPB.[1] Similarly, many of the nonprofits had used the financial wellness questionnaire in the past or incorporated it into their intake process. The final STDT Alliance survey used for the project included questions on basic demographics, household income, and employment. Several other questions exploring the types of debt, past experiences with debt collection attempts, and how respondents managed their student debt were also added. Although in the majority of the questions we tried to gather data regarding the respondent alone, we asked about the entire household's income, employment, and outstanding student loan debt.

In order to reach as many different communities as possible, the survey was translated from English into other languages spoken by the clients of the coalition members, such as Spanish, Russian, and Arabic. Once the survey was developed, the coalition used its networks to release and administer the survey, reaching out to as many consumers as possible throughout the state of Oregon. With an original goal of 300 responses, the STDT Alliance surpassed that number within weeks and received over 400 completed responses in total.

CRL analyzed the data gathered by STDT Alliance. Many questions did not elicit valid responses from all 408 respondents, meaning some respondents did not answer all questions on the survey. Percentages and incidences were calculated based on the set of valid responses to each respective question.

Demographics

The STDT Alliance survey reached people in 101 different zip codes in the state of Oregon, with the zip codes 97218 (Northeast Portland), 97477 (Springfield), 97761 (Warm Springs), and 97203 (North Portland), providing the most responses.

The majority of the survey respondents, almost 70%, identified as female, and 28% identified as male. Less than 1% identified as other, and 1.5% did not provide this information (Figure 1). Over a third of the respondents, 34.5%, identified as Latino, and 42.6% identified as White Non-Latino. African Americans made up only 5.6% of the respondents, while 12.7% selected "Other." The remaining 4.6% declined to provide this information (Figure 2).

Survey respondents had a median age range of 31 to 40 years of age, which was also the largest category of respondents at 31%. People between the ages of 41 to 50 made up the second biggest group with 22.1%, while people 51 and older made up 18.3% of the surveyed clients. Young adults, those between the ages of 21 to 30, made up 17.1% of the total, while the smallest group was those under the age of 21, with only 11.4% (Figure 3).

Figure 1: Gender

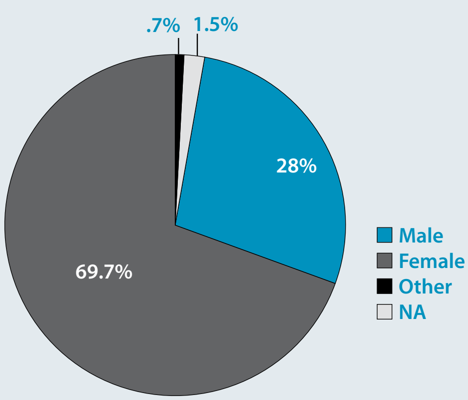


Figure 2: Ethnicity

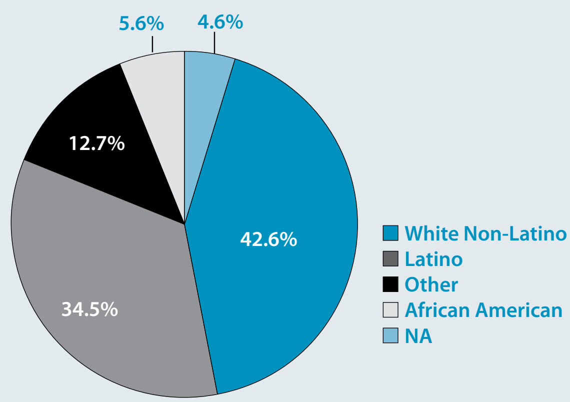
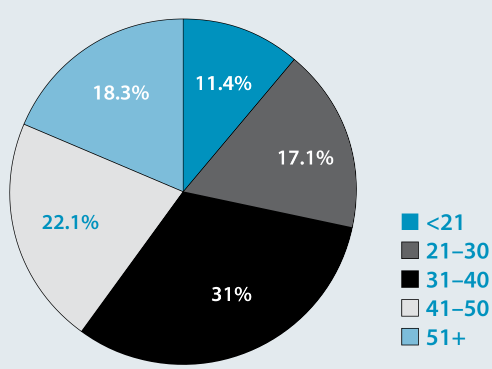


Figure 3: Age

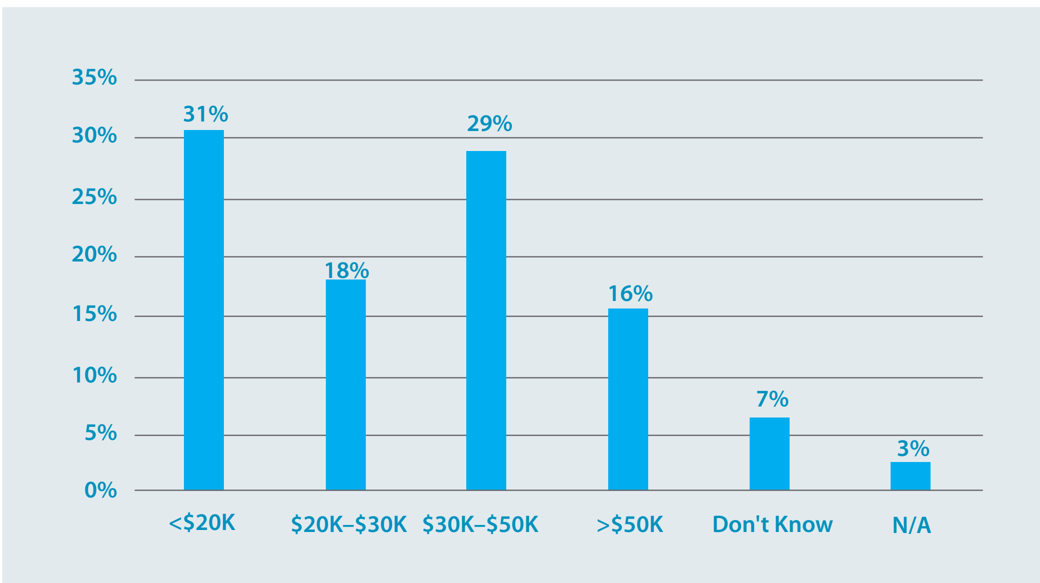


Note: Some percentages do not total 100 due to rounding.

Household Income and Employment

The surveyed individuals reported a median annual household income of $20,000 to $30,000. This income bracket is much lower than the 2018 state household median income of $53,270, making the state median almost twice that of the household income among the survey respondents.[2] Below that median, 30.7% of the respondents (almost one in three) reported annual household incomes that are below $20,000, while 29% have household incomes that range between $30,000 and $50,000. The vast majority (79%) of the surveyed respondents fall below the state's median household income, and almost half of the respondents (48.8%) have household incomes below $30,000. The respondents with household income above $50,000 annually were the smallest group at 15.6%. Understanding the debt burdens of Oregon's low-income families reveal the dual obstacles of not only having fewer dollars available to cover basic living expenses and debt payments, but also the long-term consequences of default that further hinder upward economic mobility (Figure 4).

Figure 4: Income



Despite 79% of survey participants reporting household incomes below the state's median, 92% reported that either they or someone else in their household was employed. On the other hand, about 7% of the respondents do not have a job and do not live with anyone who has a job (Figure 5). This rate is higher than the Oregon unemployment rate, which stands at 4.1% for 2018.[3]

Figure 5: Employment

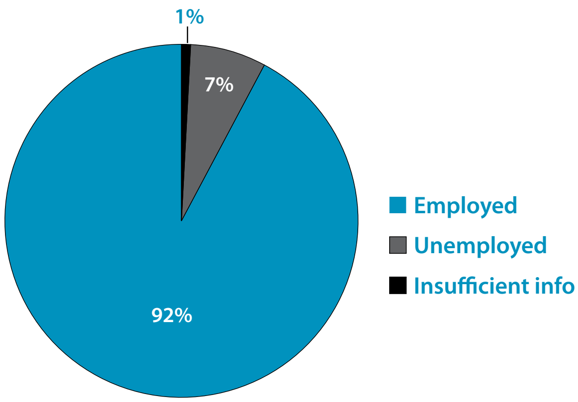
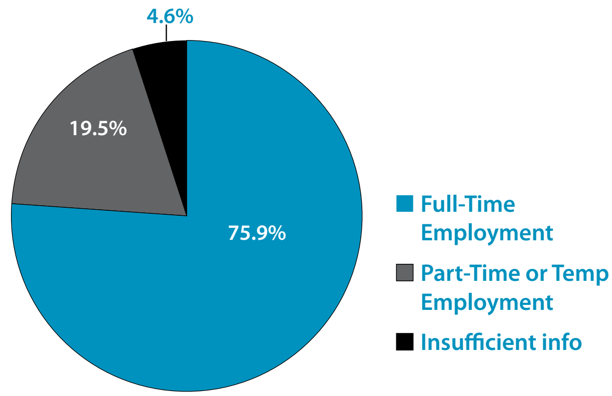


Figure 6: Type of Employment



Of the respondents who report that either they or someone else in their household are employed, three of four report that at least one member of the household has *full-time* employment (75.9%), while 19.5% report that no one in their household has full-time employment. In this survey, not having full-time employment includes respondents that are employed part-time, are employed occasionally, or rely on contract work.

Among survey respondents who included both household employment and known household income data, we see that two-thirds of respondents living in households where people are employed but do not have a full-time job are surviving on incomes of $20,000 or less. Even among the surveyed individuals in households with people employed with a full-time job, a full 22% have incomes in the same range. The data also showed that the median income of households with a member employed in a full-time job is only between $30,000 to $40,000 a year, still below the state's median household income.[4]

In addition to the income from their jobs, some of the survey respondents reported receiving some type of public assistance for themselves, or they reported that another household member receives public benefits. This assistance helps supplement the household income. Most of the individuals receiving public benefits reported a combination of one or more of the available benefits, ranging from Social Security income, either for disability or age, to child support or food stamps. About one out of every four of the surveyed individuals (22.8%) mentioned receiving benefits from the Supplemental Nutrition Assistant Program (SNAP), making it the most used public benefit for this group. The Temporary Assistance to Needy Families (TANF) was the least used program, with only 2.7% of the households reporting its use.

Given these figures, it is not a surprise to see that low-income families struggle with more financial issues and more debt than families with higher incomes, and that any type of debt, however small, can be a big setback to the overall financial health of the family.

Issue Areas

The STDT Alliance survey looked at people's experiences with nine different types of debt issues: student loans, debt collection, payday and car-title loans, mortgage, credit card, utilities, car loans, medical debt, and fines and fees. Together, these issues encompass most debts acquired by individuals throughout their financial life. Some types of debt allow people to build for their future (car loans, mortgage, and student loans); families can often plan for these types of debts. Other types appear without warning (medical debt or fees and fines) and frequently catch families without the appropriate funds to cover the associated costs.

These debts function differently depending on their type. For example, a mortgage is a path to wealth building, and student loans are an investment in one's future. Payday loans are a drag on one's financial well-being. Increasingly, even "good debt," such as student loans, has harmful consequences due to predatory lending and collection practices. Student loan debt often requires a large portion of that family's income to cover principal and interest payments, leaving few funds for all other needs. This prevents families from saving for a house, retirement, or other general expenses.

Equally important, this debt burden further entrenches the racial wealth gap. Disproportionately affected by student loan debt, communities of color are less likely to be able to achieve financial stability. The consequences of defaulting on student loan debt, such as damaged credit scores, greatly affect people's ability to access affordable loans or build wealth for the future.

Background

Because the current job market requires a more skilled and educated workforce, even for entry-level positions, people are increasingly pursuing college and professional degrees. While some people are attending college for the first time, others are looking to advance or change their careers and may need a new degree or certification. At the same time that more people are trying to obtain an education, federal and state governments are divesting from higher education. Schools are scrambling to find a way to make up for these cuts, often resulting in increased tuition and fees for students.

Students who cannot afford to pay for their education by themselves or with the help of family can access financial aid packages in the form of scholarships, grants, and loans. Scholarships and grants, which do not need to be repaid, come from the government, the college, or a private or nonprofit organization.[5] Loans, which can come from the government or private financial institutions, do have to be repaid—and with interest.[6] In Oregon, 56% of people graduating in 2017 had outstanding student loan debt, with an average debt load of $27,885.[7] According to the Urban Institute, 17% of people in Oregon with credit bureau records have outstanding student loan debt.[8]

Student loan debt by itself is not the main culprit. Although student loan debt continues to increase, there is plenty of evidence that college graduates earn more than their peers without a degree.[9] There is, however, also significant evidence indicating how students attending for-profit institutions are being left out of this potential benefit. A CRL report looking at for-profit colleges found that when you compare students attending a for-profit institution with those attending a public or private university, the former are: more likely to be low-income, less likely to graduate, more likely to borrow (and at larger amounts), and eventually more likely to default on their student loans.[10] The end result of predatory for-profit colleges is far from a path toward prosperity, but more often a path of persistent economic instability for the students.[11]

If a borrower is unable to make a payment on a student loan, the loan will be sent to a debt collector. Debt collectors continue making calls to borrowers (even to their families or at their workplace) to ensure payment on a loan and will report the student loan debt as "in collections" to credit bureaus. Collection agencies are authorized to charge borrowers fees in addition to the interest charged on the loan. Additionally, for federal student loans, debt collectors can seek wage garnishment outside of the court process, making it much easier for them to garnish a borrower's wages. Further, the federal government may also seize tax refunds and Social Security benefits for payment of defaulted federal student loans. Defaulted borrowers of both federal and private student loans may also be subject to debt collection lawsuits. The financial consequences of defaulting on student loans, particularly federal student loans, can be devastating.

Survey Findings

Over half of the surveyed individuals (56.6%) reported that either they or someone in their household or immediate family has student loan debt. Out of those people that reported having student loan debts, nearly one in three (29.2%) said they are not current on their student loan payments.

A breakdown of income data and reported student loan debt showed that almost half (46.8%) of those surveyed with household incomes of $30,000 or less were behind on their student loan payments (Figure 7). On the other hand, only 15.7% of those surveyed with household incomes of $30,000 to $50,000 reported being behind on their student loan payments. Those surveyed with household incomes greater than $50,000 had the smallest group that reported not being current on their loan payments at 14.6%. Unfortunately these numbers show the struggles low-income households face when trying to keep up with their student loan debt. A default can put them on the road to deeper financial hardships that can impact their lives for years to come.

Figure 7. Percentage of respondents behind on student loans by household income

Household Income	Percentage of respondents behind on student loans
<$30,000	46.8%
$30,000 to $50,000	15.7%
>$50,000	14.6%

Borrowers who financed their education with federal student loans have the benefit of accessing an array of repayment plans. These plans, created to ease the burden of high monthly payments, can base payments on the discretionary or annual income of the borrower; these are called Income-Based Repayment Plans, Income-Contingent Repayment Plans, and Income-Sensitive Repayment Plans. Additional options for repayment plans take these two forms: doubling the repayment period (Extended Repayment Plan) or starting the borrower with low payments and slowly increasing the payment amount every couple of years (Graduated Repayment Plan).[12]

Student loan borrowers must work with their servicer to take advantage of any of these plans. However, 39% of the individuals surveyed with student loan debt reported *not* having worked with a servicer to enter a payment plan, and 28% did not know if they qualified for a payment plan. Since the survey did not ask respondents whether they had private or federal student loans, it is possible that some of the respondents who have not worked with a servicer to enter a payment plan (or do not know whether they qualify for a payment plan) may have private loans. Private loans do not have the same payment plan options available as federal student loans.

On the other hand, it is important to note there are many issues arising from the way student loan servicers handle student loan borrowers struggling to stay current with their payments. Some of the issues borrowers experience with their servicers include inconsistent and inaccurate information when trying to enroll in income-driven repayment plans. It is therefore possible that respondents who have not worked with their servicer to enter a payment plan have not because their servicer is not providing them with that information. Other issues borrowers experience are: the misallocation of payments and delays in payment processing resulting in additional accrued interest or fees, being placed in deferment instead of forbearance (also resulting in additional accrued interest), and the servicer's failure to provide assistance to resolve errors.[13] These issues demonstrate there is no guarantee that borrowers who have tried to work with their servicers are actually in a payment plan that best suits their financial needs. As a result, many borrowers are paying extra interest on their student loans or are saddled with unaffordable payments that could be significantly less.

Finally, of those individuals who reported having student loans, 58.9% have delayed making large purchases such as a car or house because of their student loans. In a recent study, the National Association of Realtors examined the issue of delaying big purchases and found that student loans delay homeownership by an average of seven years.[14] It is not just homeownership, however, that is negatively impacted by student loans; other studies demonstrate student loan debt is causing people to delay other major milestones, such as purchasing a car, starting a business, or saving for retirement.[15]

CONSUMER STORY FROM CFPB COMPLAINT DATABASE:

"The [new] holder of the loans claims they have no record of the terms and conditions agreed upon between Great Lakes and myself."

These are student loans I have been repaying since 2000. In the past six months, my income-based repayment plan was rejected (even though I made the exact same amount as the previous year). We finally agreed over the phone to a graduated repayment plan over 12 years that would begin around $150.00 per month, with incremental increases each year. The last thing the customer service representative stated after agreeing to terms and conditions is Great Lakes does not service these types of repayments so my student loans would be sold. XXXX is the holder of the loans and claims they have no record of the terms and conditions agreed upon between Great Lakes and myself. I have contacted Great Lakes requesting my customer service history and they stated they will only release those records through legal channels.

Complaint filed against Great Lakes Higher Education Corporation on September 25, 2018 by an Oregon consumer.

(Complaint number 3029013). "XXXX" represents complaint text redacted by CFPB to protect consumer privacy.

Debt Collection

Background

For many low-income families, not being able to pay their monthly bills or stay current on loan payments is a constant struggle. Once a consumer cannot keep up with the monthly payments and the amount becomes past due, the lender can try to collect the amount owed either internally (through their own collections department), or they can hire a third party to handle the collections process for them. The actions of these third-party collectors are governed by the federal Fair Debt Collection Practices Act (FDCPA),[16] as well as by the Oregon Fair Debt Collection Law.[17] Both the act and the law were created to provide a set of rules for collectors and protect consumers from unfair, deceptive, and abusive debt-collection practices, such as making harassing phone calls or threatening consumers.

Being pursued for delinquent or defaulted loans can be very stressful for the consumer and expose them to abuses from the industry. Not surprisingly, *Undue Burden,* a recent report on debt collection practices in Oregon by CRL found that Oregon consumers filed more complaints about debt collection to the CFPB than any other financial product besides mortgages.[18] The most cited reason for debt collection complaints was that the debt was not theirs.[19]

Findings

The CFPB, through their Survey of Consumer Views on Debt, found that one in three consumers have been contacted by a debt collector in the past year. The same report found that medical bills, student loans, and credit cards debts were among the most cited debts by consumers when contacted by a debt collector.[20] The STDT Alliance survey found a similar pattern to those of the CFPB and the CRL reports, with nearly one in three of the respondents reporting having been contacted by a debt collector in the previous year. Significantly, 17.5% of those who had been contacted by debt collectors claimed that the debt was not theirs.

What was surprising is that of those who were contacted by collectors, almost 30% found mistakes in the debt records. In addition, the CRL report *Undue Burden* also found that debt collectors are clogging the Oregon court system by filing thousands of lawsuits in civil courts, with six debt buyers alone filing over 75,000 lawsuits over about five years.[21] The STDT Alliance survey found that nearly a third of those who have been contacted by a debt collector had their debt collection case go to court. More than 60% of these individuals did not appear in court to defend themselves from the debt collectors' suit for many different reasons, including not being able to afford representation.

When consumers do not appear in court regarding a debt collection case, a default judgement is typically entered against them. Any time a creditor or debt collector wins a judgment against a consumer, including a default judgment, one consequence is often the garnishment of the consumer's wages. This issue also showed up in the survey results, as more than one in five of the surveyed individuals that were contacted by a debt collector in the last year reported having their wages garnished or receiving the threat of garnishment of future wages due to having debt in collections.

CONSUMER STORY FROM CFPB COMPLAINT DATABASE:

"I paid the credit card company in 2017. I have the receipt to prove it."

On Friday, XX/XX/XXXX, a process server knocked on my door. She served me with papers saying that I was being sued. The papers said that Midland had purchased my debt from a credit card, and that I owed them $1000. I paid the credit card company in 2017. I have the receipt to prove it. The papers said that I needed to file a motion with the court in the next 30 days or I would automatically lose the judgement, and that my wages could be garnished. Is it legal for Midland to draw up court papers over a debt that has been paid?

Complaint filed against Midland Funding LLC. on May 15, 2018 by an Oregon consumer.

(Complaint number 2906381). "XXXX" represents complaint text redacted by CFPB to protect consumer privacy.

Payday and Car-Title Loan Debt

Payday and car-title loans are marketed as a quick solution to a financial emergency. They are, however, a debt trap by design, due to their high fees, payments tied to payday, and lack of meaningful underwriting. In its 2014 report *CFPB data point: Payday lending*, the CFPB estimated that over 80% of payday loans are taken out within 14 days of the previous loan.[22] The CFPB also found that over 75% of all payday loan fees are attributed to borrowers stuck in more than 10 loans a year.[23]

Previous research reports by CRL on payday lending in Michigan,[24] California,[25] Colorado,[26] and North Carolina[27] found that payday lenders concentrate in rural and low-income communities and target communities of color. In 2017, it was estimated that because of their high fees, payday loans drain over $4 billion every year from consumers in the states where these triple-digit interest rate loans are allowed, with about $12.5 million coming from Oregon alone.[28]

The Oregon fee drain is not as high as in other states, because Oregon took some initial steps in 2007 to rein in the harms of payday and car-title loans. With these law changes, Oregon reduced the cost of payday loans—though they still carry 154% APR—and put in some protections against repeat reborrowing, including a seven-day cooling-off period and reducing the amount of fees that can be charged on repeat renewals.[29]

Recent data by the Oregon Department of Consumer and Business Services (DCBS) show that although payday loans are being used at a much lower rate than they were before the 2008 law change, they have still extracted between $9 to $13 million dollars from Oregonians every year since 2012.

In the survey, 23.8% of our respondents said they have obtained a payday loan in the past year, and 30.8% of the surveyed individuals that took out a payday loan said they were unable to repay the loan without having to reborrow. Equally worrisome is the fact that 24.4% of those who took out payday loans said they had more than one payday loan at a time, even though this is not permitted under Oregon law.

Consumers who default on payday loans also have to worry about additional financial stress, as the non-sufficient funds (NSF) fees and overdraft fees on their checking accounts can add up quickly. Many consumers try to avoid defaulting on the loan by taking a second loan to cover the first. Nonpayment of loans may also include nonlegal and legal ramifications, as lenders can pursue borrowers with harassing phone calls to collect the debt, as well as filing a lawsuit to collect the debt and then seek to garnish the borrower's wages. Finally, lenders can also sell the defaulted payday loan to a debt buyer, leading to continuous solicitation of payment by a different company that can also negatively impact the borrower's credit score and may even lead to bankruptcy.

Car-title loans are like payday loans but are secured by the title of the borrower's car. These loans, which drain $3.8 billion dollars annually,[30] are based on the value of the car rather than on the customer's ability to repay the loan, as lenders do not often ask for the borrower's income and expenses. Instead, lenders only lend a small percentage of the resale value of the car, knowing that if the borrower defaults on the loan, they can repossess the car, protecting themselves from any loss.

Like payday loans, car-title loans in Oregon can carry charges of 36% annual interest, plus a one-time origination fee that still results in a 154% APR. These loans also cannot be renewed more than two times, and there is a seven-day cooling-off period in between a new loan and the expiration of a prior loan.

Data show that most car-title loan users are low-income consumers,[31] and they are more likely to rely on their vehicle for work. The threat of repossession puts a lot of pressure on their finances, making paying the loan a top priority for these individuals. It is perhaps because of this threat of repossession that DCBS data show consumers use car-title loans at a much lower rate than payday loans. The surveyed individuals reflect a similar attitude, as only 3.5% of them had a car-title loan. These loans still come at a big cost, as car-title lenders drained $800,000 in fees in 2017.

CONSUMER STORY FROM CFPB COMPLAINT DATABASE:

"When I asked why the title had not been released nearly 6 months after payoff I was told that it could have been any number of errors and they didn't know the exact reason."

I had a car title Loan with Wilshire Consumer Credit which was paid in XX/XX/XXXX. I still had not received my vehicle title by XX/XX/XXXX. Contacted the company and they originally claimed that the title was released on XX/XX/XXXX and tried to refer me to a third party vendor (XXXX) that wanted to charge me to get information about my title. After refusing and calling back Wilshire Consumer they admitted that the title had still not been released but would get it processed now. When I asked why the title had not been released nearly 6 months after payoff I was told that it could have been any number of errors and they didn't know the exact reason it was never released. I find the whole process very disturbing and suspicious. Originally lying to me and saying it had been released and referring my to a third party that wanted additional money and then after I refuse to pay they admit that the title hasn't been released and simply say "sorry, there was an error somewhere, but it wasn't our fault."

Complaint filed against Wilshire Consumer Credit on June 30, 2018 by an Oregon consumer.

(Complaint number 2562903). "XXXX" represents complaint text redacted by CFPB to protect consumer privacy.

Mortgage Debt

Purchasing a home is one of the biggest financial decisions most people make in their lifetime, and it is considered a critical part of the American Dream. Not only is homeownership an investment enabling families to build wealth, but homeowners also can take advantage of some tax benefits available only to homeowners. Purchasing a home, however, often requires years of planning and saving to cover the big down payment plus the closing costs, which many low-income families are unable to afford.

According to the Federal Reserve, as of June 2018, the total outstanding mortgage debt in the United States was over $15 trillion,[32] an amount that is slightly higher than it was 10 years ago. Before the foreclosure crisis and consequent Great Recession, outstanding mortgage debt stood at $14,782,480 trillion.[33] These numbers are touted as showing the recovery of the mortgage market and the economy overall, but they do not show that low-income households and families of color are being left behind. Nationally, the white homeownership rate is 68%; the rate is 46% for Latino households, and 42% for Black households.[34]

Only 14% of the surveyed respondents reported having a mortgage, a feat on its own when you consider that Oregon's average mortgage is $218,208[35] and the median household income of the surveyed individuals was $20,000 to $30,000.

Credit Card Debt

Using a credit card has become one of the most common ways consumers cover their expenses. From buying groceries to paying the monthly bills, credit card use has increased to the point that the national outstanding credit card debt has reached $911 billion dollars. According to the CFPB, this amount has now surpassed the pre-recession figure.[36] Not surprisingly, the same CFPB report found that with increased use of credit cards, delinquencies and defaults were also on the rise.[37]

Half of the respondents to the STDT Alliance survey reported they carry credit card debt. Although the survey did not ask individuals to report their credit card balance, a 2017 Experian study reported an average credit card balance of $6,012 for individuals in the state of Oregon.[38] Another study looking at household debt in America found that indebted households are carrying about $15,432 in debt among all their credit cards.[39] Survey respondents of all incomes reported credit card debt, including those at the lowest range. These findings underscore that credit cards are an available source of small dollar credit for low-income households. At the same time, because credit card debt is the most frequent type of debt purchased by debt buyers, it does mean some borrowers are exposed to debt buyers' unfair collection practices, such as in the story below.

CONSUMER STORY FROM CFPB COMPLAINT DATABASE:

"I was served a summons to appear in court with a court date that was more than 2 months prior to being served....."

On XX/XX/XXXX, I was served a summons to appear in court on XX/XX/XXXX a court date that was more than 2 months prior to being served, as I was being sued by XXXX. Not knowing my rights as a consumer and not wanting my pay checks to get garnished, I made payment arrangements on their website to begin paying off the debt. After realized that this debt was originally from Citibank & I had already paid them for it I tried to dispute this debt & when they came back with the full copy of the judgement, I sent a check along with a letter agreeing to delete the derogatory amount from my credit report with the 3 credit bureaus. I made the check payable for the FULL amount allegedly owed. Per their account statement to me, I allegedly owe $2500. They have yet to cash it or contact me, all the while continuing to report over $3200.00 on my credit report, with the amount rising each month. I am not sure what the hold up is, but I believe they are just holding on to it to keep reporting the derogatory amount. Just as they failed to give me notice to be in court, this company has shown complete lack of integrity.

Complaint filed against Citibank on October 3, 2018 by an Oregon consumer.

(Complaint number 3036836). "XXXX" represents complaint text redacted by CFPB to protect consumer privacy.

Utilities Debt

Utility bills like water, electricity, or phone can be a big strain on the budgets of many individuals, particularly the elderly, the disabled, or families with low and fixed incomes. Utilities are also different than other debts in that people rarely get a choice of utility company and cannot shop around for a better price that fits their income.

Different utilities treat unpaid bills differently. Some of these utilities, like water and sewer, are public entities that (depending on their jurisdiction) may place liens on properties for unpaid bills. Private companies, like gas, electricity, or telecom, can send the unpaid bill to collections. *Color of Debt,* a report by ProPublica, found that one of the common creditors suing for debts in the city of St. Louis, Missouri was the sewer authority. In 2012 alone, this entity filed about 11,000 debt collection lawsuits.[40] A recent report by the CFPB found that more than one in five credit reports show a telecom related debt, and 37% of consumers who reported having been contacted about a debt in collection in the prior year were contacted about a telecommunications debt.[41]

According to the U.S. Energy Information Administration, the average monthly electricity bill in Oregon is $103.26.[42] This is a large amount for families with fixed incomes, particularly when America's poorest families end up spending more than one-fifth of their after-tax income on energy costs.[43]

Over one in 10 (11.1%) of the surveyed individuals reported having outstanding utilities debt. Unlike some other forms of debt, even when a consumer is current on utility payments, the history of monthly payments is usually not reported to credit reporting agencies—unless the consumer falls behind in payments. In this situation, the utility company can send the bill to a collection agency, and that debt could end up showing up on the consumer's credit report.[44]

From the group who reported having utilities debt and provided household income, just over two-thirds (67.5%) have household incomes of less than $30,000, while the respondents in households with incomes of more than $30,000 hold very little of this type of debt. An electricity bill should not lock families into a lifetime of poverty, but once again, households least able to afford rising utility costs are the ones most likely to be burdened with the consequences of this debt. These consequences include seizure of property or damaged credit scores, which only increase the barriers to jobs, housing, and affordable credit opportunities.

Car Loan Debt

Besides a home, one of the biggest purchases an individual makes is a car. Buying a car can involve extensive decision making, such as deciding whether to finance with a lender or the dealership and what types of products to add, e.g., extended warranties or vehicle service contracts. And this does not even include reviewing the loan terms and pricing of the car, which are often based on individual risk level. Navigating this information can overwhelm consumers, who therefore avoid comparing offers. This confusing situation affects low-income consumers and those with low credit scores who tend to finance with the dealer or online, and thus face a higher cost of credit and end up with subprime, unsustainable loans.

Auto loans currently make up $1.24 trillion of the more than $13 trillion of outstanding household debt,[45] a higher figure than before the 2008 crisis, when more than a third of the auto loans were considered subprime loans.[46] Because auto lending continues to be an under-regulated practice and subprime auto lending ballooned after the crisis, these same predatory lending practices continue to trap consumers in intensive debt.[47]

A quarter (25.7%) of the surveyed individuals in Oregon currently carry car loan debt. From the individuals that reported both car loan debt and income information, a third of them (32.6%) have household incomes of $30,000 or less. The next group, those making $30,000 to $40,000, made up a quarter of the individuals with car loan debt. The last two groups, those with household incomes of $40,000 to $50,000 and those making more than $50,000, made up 16% and 25% of the individuals respectively.

Not surprisingly, the group with the lowest income has the most debt. Although the survey did not ask specific information regarding how much car loan debt they carry, it is likely that at least the group making $30,000 a year or less is facing hard financial decisions every month. For low-income communities in cities with unreliable or limited public transportation, having a car is essential to getting and keeping a job. This requires them to prioritize car payments, even if they present an obstacle or preclude the household from obtaining another essential item.

Medical Debt

Medical debt is a rising issue among American households. A report by *The Atlantic* found that even those with health insurance have a difficult time paying their health care bills, and that over half of Americans have received a medical bill they cannot afford.[48] It is no wonder then that the CFPB found medical debt to be one of the most common types of debt to be in collections.[49,50]

Of the individuals surveyed by the STDT Alliance, 14% reported that they carry medical debt. Although this may not seem like a large percentage, it is important to note that low-income families get hit twice by the simple fact of getting sick. First, the suffer a loss of income from having to take time off from work to see the doctor, rest, and recover; second, they incur the additional expenses brought on by the illness, such as doctor visits, co-pays, and medicine. The "double hit" effect of medical debt on low-income families makes them especially vulnerable to greater and longer-lasting negative financial effects in their lives.

Like utilities debt, a good payment history on medical debt is not reported to the credit bureaus, whereas falling behind on medical debt payments can have grave financial consequences. Most unpaid medical debt gets collected by the medical provider (or third-party debt collectors) or sold to debt buying companies, which then try to collect the debt. Debt collectors often report the debt to credit reporting agencies, thereby reducing a person's credit score and raising the overall cost of credit for this individual. The CFPB also found that credit reporting agencies overpenalize consumers with medical collections and calculate a credit score that may not truly reflect their creditworthiness.[51] This puts individuals with medical debt at higher risk of paying more for future credit. Since the CFPB report was published, however, credit reporting agencies have modified their procedures on how medical debts are reported. They will now remove or suppress the record of unpaid debt if it is later paid by insurance.[52]

Fines and Fees

Increasingly, cities have relied on fines and fees such as traffic, parking, or court fines to plug budget holes. Recent reports, however, have shown this tactic to be flawed, as the burden of these fines and fees falls on low-income communities and communities of color.[53] These communities are least able to pay and most likely to be targeted by practices that lead to the occurrence of fines or fees in the first place, such as parking infractions or traffic tickets.[54] The STDT Alliance survey asked respondents to provide information on debt related to parking or traffic tickets or other fees, and 7.2% said they currently have this particular type of debt.

Although this percentage may be small, the financial impact the fines and fees can have on individuals' lives can be great. A report by a multi-state collaborative of state policy organizations found that some jurisdictions rely on private debt collection agencies to handle the collection of overdue fines and fees.[55] The same report found that although these fines and fees may start small in amount they can quickly grow out of proportion to hundreds or thousands of dollars, once late payment fees, payment plan fees, and interest is added to the original debt.

Similarly, some jurisdictions now rely on suspending driving licenses or even incarcerating people due to lack of payment of fines and fees, making matters worse for these communities. While the survey only asked about one type of fine (traffic and parking tickets), similar concern extend to other types of debt associated with interactions with the criminal justice system more broadly.[56] Not only are these fines and fees creating a cycle of debt, they cause cities and counties to spend more money trying to get paid than the revenue they receive. Contract costs of debt collection agencies and staff time for incarceration such as courts, sheriff's office, and local jail staff are more costly than the money cities receive from the fines and fees.[57]

Conclusion

The STDT Alliance survey has shown low-income Oregonians are struggling with many different types of debt which carry harsh consequences that may follow them in the long-term. These debts range from fees that continuously make the debt bigger, longer-term, more expensive, and almost impossible to pay, to debts that may put these consumers behind bars or make the cost of future credit more expensive. At the same time, the student loan debt carried by these households—often obtained with the belief that an education can lead to financial stability—is not having the promised outcome. Instead, student loan debt is holding families and individuals back from achieving what have, up until now, been considered basic components of the American Dream: owning a home, buying a car, or starting a business.

It is not surprising then to see these households, given their income levels and their debt loads, struggle more when making decisions regarding what bills to pay, when to pay, or how to finance a particular aspect of their needs. Current protections on payday, car-title, and debt collections filter out some of the most egregious harms these industries can cause, but as the job market and the economy change, other harms continue.

As the federal landscape currently moves towards deregulation, leaving more consumers at risk, the State of Oregon can step up and create specific policy fixes that strengthen protections against predatory lending and abusive collection practices. Specifically, these protections would include:

- Capping the cost of payday and car-title loans at 36% APR, inclusive of all fees and charges, and ensuring loans are affordable in light of a borrower's income and expenses, to help families from falling into a costly debt trap;
- Strengthening protections concerning debt collection practices, particularly ensuring that debt collectors prove they are pursuing the right person for the right debt; and
- Requiring student loan servicers to abide by a set of common sense standards that will protect students from student loan abuses and help thousands of families struggling to keep up with their monthly payments, by ensuring they are guided towards a payment plan that fits their income.

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