Southern Bancorp
Community Partners

Deferred Dreams:

How Unmanageable Debt and Abusive Debt Collection Hinder Savings and Economic Security in Mississippi

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About the Author

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Author’s Note

This policy brief was intended to be released in spring 2020 and does not incorporate data or recommendations directly related to the economic impacts of the COVID-19 pandemic. It is our hope that the information in this brief illustrates the significant economic barriers Mississippians faced before the public health crisis and guides policy makers in addressing the underlying inequities that keep households from achieving financial resilience.

Introduction

While discussions about household economic security often focus on income and wealth in the form of appreciable assets and investments, it is important to remember that liquid assets in the form of savings are the cornerstone of financial stability. Adequate savings protect individuals from economic shocks.[1] Savings also allow people to take advantage of opportunities for economic mobility and accumulating wealth, such as paying for higher education, starting a small business or buying a home. Those who moved up the economic ladder had six times higher than median liquid savings, eight times higher median wealth, and 21 times higher home equity than those who did not move up.[2]

Despite the importance of savings and its role as both a financial bulwark and catalyst, there is a savings crisis in the United States. According to recent data from the Federal Reserve, almost 40 percent of Americans do not have enough savings to cover an unexpected $400 expense, with 27 percent indicating they would have to borrow money or sell an item, and 12 percent would not be able to cover the expense at all.[3] In Mississippi, 53 percent of households – 579,841 – did not have emergency savings in 2018.[4]

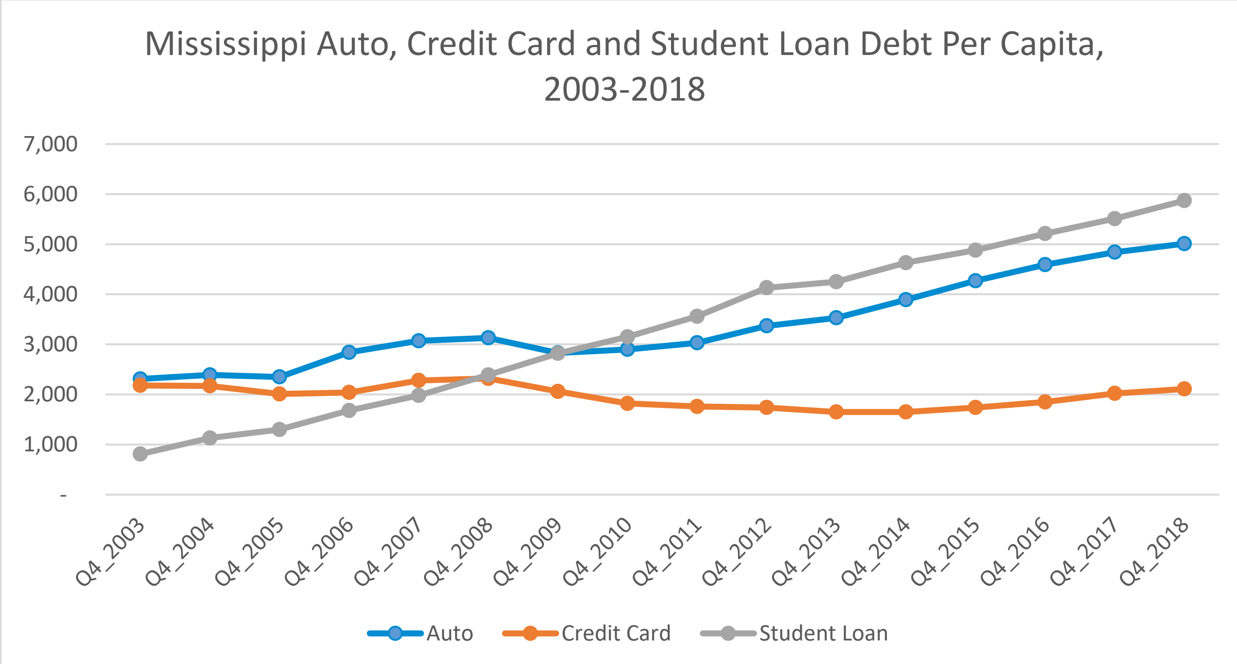
An individual may have a range of experiences that make saving difficult, such as insufficient income or not having a relationship with a mainstream financial institution. However, researchers have found that chronic, unmanageable non-mortgage debt is a substantial roadblock to savings and financial security, and abusive debt collection practices can amplify the problem.[5, 6] This brief will examine how unmanageable debt and abusive debt collection practices undermine Mississippians' ability to save, and will provide policy recommendations to protect consumers.

Auto, Student Loan Debt at Their Highest in Mississippi

Americans have the highest debt levels ever, even when adjusted for inflation.[7] Total non-mortgage debt, which is comprised of credit cards, auto and student loans, is now at $4 trillion in the United States, and the average debt per capita is $11,880.[8]

In Mississippi, as illustrated in Figure 1, the per capita debt amounts for 2018 were at the highest levels in 15 years, with auto loan debt increasing 117 percent, from $2,310 in the fourth quarter of 2003 to $5,010 at the end of 2018. Student loans rose 625 percent, from $810 per capita in the fourth quarter of 2003 to $5,870 in the last quarter of 2018. Credit card debt per capita remained relatively flat over the same period.

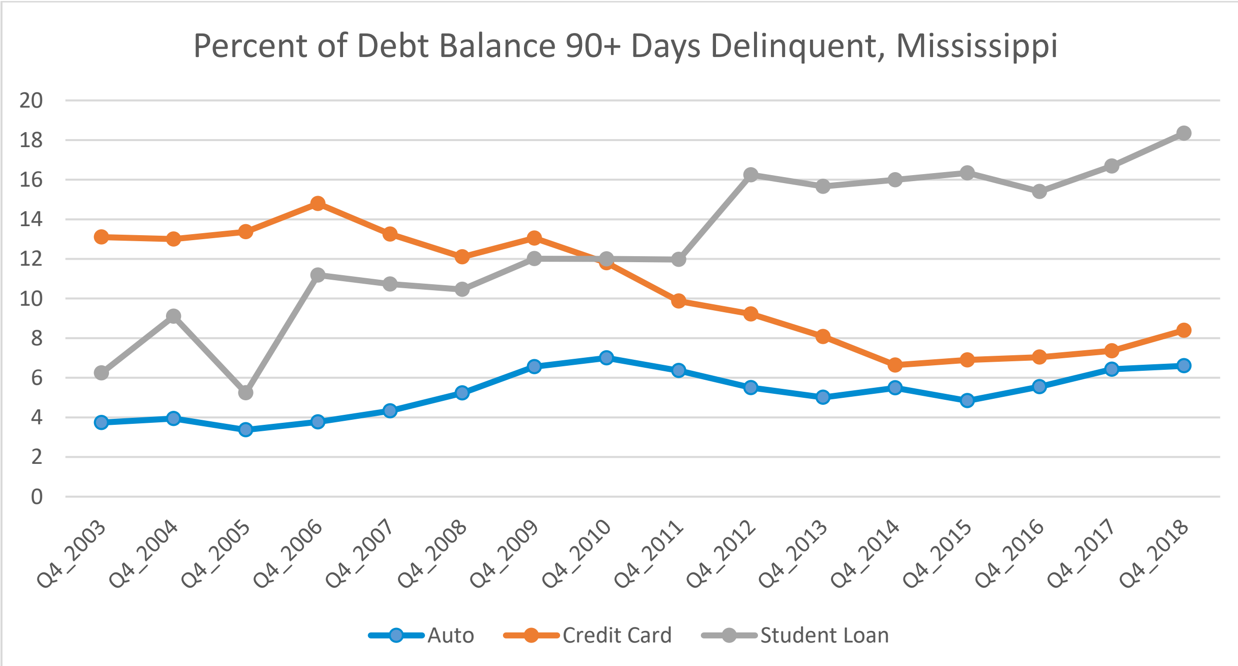
Figure 1. Per Capita Non-Mortgage Debt in Mississippi



Source: State Level Household Debt Statistics 2003-2018, Federal Reserve Bank of New York, March 2019

As Mississippians take on more debt, they are finding it harder to manage it. According to Prosperity Now's 2019 scorecard for the state, almost 31 percent of Mississippians have debt in collections, 18 percent fell behind on bills, and almost 238 percent have at least one account that is 90 days past due.[9] As shown in Figure 2, while credit card delinquencies have fallen in the last 10 years – from a high of 14.7 percent at the end of 2006 to 8.3 percent at the end of 2018 – the percentage of auto loan balances in delinquency doubled between 2003 and 2018 (3.7% to 6.6%). Increases in auto loan delinquency is troubling because often, vehicles provide access to jobs and are required for income. Since the loan is secured by the vehicle, defaults on vehicle loans can lead to a complete loss of income. The percentage of student loan balances in delinquency nearly tripled (6.2% to 18.3%) during the same period. More student loan delinquencies can be a drain on building long-term wealth because, in contrast to credit card debt, these loans cannot be discharged through bankruptcy.

Figure 2. Mississippi Auto, Credit Card and Student Loan Delinquencies



Source: State Level Household Debt Statistics 2003-2018, Federal Reserve Bank of New York, March 2019

Drivers of Unmanageable Debt

Examinations of chronic debt and its consequences frequently focus on the choices an individual makes regarding their income and spending, but people often make decisions based on the best information they have at the time and within constraints set by the policies and systems in which they live.[10] There are a number of economic factors that contribute to the rise in unmanageable debt, including rising costs of living, stagnating wages, and income volatility.

Nationwide, the cost for education, health care, cars and housing have increased substantially in the past three decades, after accounting for inflation. The average per capita personal cost for health care went up 276 percent between 1990 and 2017, while the average loan amount for a new car is now more than $32,000, an 11 percent increase over the last 10 years.[11] Prices for used cars have also risen: the average price for a 10-year-old vehicle is up 75 percent compared with prices in 2010.[12] In a state where public transit is inadequate in cities and nonexistent in rural areas, owning a reliable vehicle is a necessity.

Average home costs increased 188 percent between 1990 and 2017,[13] which, when coupled with tighter mortgage loan restrictions enacted in the wake of the 2008 housing crisis,[14] created more competition for rental housing, inflating rents at a rate faster than wages.[15] In Mississippi, the home ownership rate dropped more than 3 percent between 2009 and 2016 in metro areas, and 2 percent in rural areas, which mirror the national rate drops.[16] Only 54 percent of Black Mississippians own a home[17], compared with 77 percent of whites.[18] In 2017, more than 35 percent of mortgage loans by Black applicants were denied, the highest loan denial rate for Blacks in the nation.[19]

As a result, median gross rents in non-metro areas went up almost 4 percent between 2009 and 2016, although rent prices decreased by a half-percent in metro areas. In terms of rent burden, meaning more than 30 percent of income went to housing, 41.3 percent of rural Mississippi households were rent burdened in 2016, and in urban areas, 45.9 percent were rent burdened.[20]

Paying such a high proportion of income on housing leaves little left to save. Recent studies show that 64 percent of the rent-burdened had less than $400 cash in the bank, and half of the rent-burdened had less than $10 in liquid savings, compared with about 50 percent of homeowners, who had more than $7,000.[21]

In regard to higher education, tuition costs at US public colleges and universities have risen 549 percent since 1999 (not adjusted for inflation).[22] The average net cost of college in Mississippi -- published tuition and fees, room and board, and books and supplies minus the average aid received for a student – was a 33 percent share of the overall median income in 2017.[23] For Black and Latinx families, the share rises to 49 percent and 34 percent, respectively.[24]

Decreased state support for higher education and reduction of other federal student aid programs has increased college costs, shifting more of the cost burden to the student, who is then forced to borrow more.[25, 26] Per-student state funding for Mississippi's public colleges and universities fell more than 30 percent between 2008 and 2018, after adjusting for inflation.[27]

The cost of repaying student loans can impede young adults' ability to save. Forty-four percent of respondents in a survey by the National Association of Realtors indicated that student loan payments prevented them from saving for a down payment on a home, and more than 60 percent of respondents said they delayed or reduced contributions to retirement savings accounts because of their student loans.[28] This difficulty is even greater for those who did not complete their degree and are unable to realize greater earning potential.

Despite increased economic activity and record low unemployment rates in the post-recession period, wages have not kept pace with costs: the 2017 US median household income of $61,372 was only slightly higher than wages in 1999, when adjusted for inflation.[29, 30] The gap between income and expenses is such that 17 percent of Americans reported being unable to pay all of their bills in full every month.[31] At the county level in Mississippi, the estimated percentage of households who do not earn enough to meet basic needs ranges between 36 percent (Madison County) to 75 percent (Holmes County).[32]

Additionally, with the rise of the gig economy and fewer full-time, salaried positions overall, more households must cope with income volatility –19 percent of people in Mississippi are currently experiencing income volatility, according to Prosperity Now, although the Federal Reserve's national estimates are higher at 30 percent.[33] Inadequate and unstable incomes make managing monthly cash flows difficult, and common experiences such as waiting for bank deposits to become available can spiral into a financial crisis of returned checks and/or overdraft fees.[34] When incomes are unstable, any savings is often used to offset lower than expected wages, impeding opportunities to create long-term savings and greater economic mobility.[35] When incomes are unstable and savings are unavailable, people often look to increase their cash flow with expensive predatory loan products like payday or car title loans.

Even when debt is manageable, fees can be tantamount to debt. Throughout the nation, payday and car title loans fees routinely cost residents hundreds of millions of dollars each year. In Mississippi, payday loan and car title loan fees alone account for over $526 million in fees each year. Only Texas and California have more money drained from individuals – not adjusted for population.[36] Predatory lending fees often force borrowers to take out other loans to pay for existing loans. A typical payday loan borrower takes out 10 payday loans a year, and car-title borrowers typically refinance the same loan eight times.

Racial Disparities

Debt has a bi-directional relationship with the racial wealth gap. Historically, racist public policies such as segregation, early exclusion from wealth building programs such as the GI Bill and Social Security, job and wage discrimination, and redlining[37] have all served to prevent people of color, especially Blacks, from attaining financial security and accumulating wealth that can be passed on to future generations.[38, 39] Without wealth, Black families have fewer buffers against economic shocks and must borrow more money, often at higher interest rates, in order to purchase a home or send their children to college.[40] Continued discrimination in the job market and lower wages in comparison to their white counterparts, make it harder to stay current on debt payments and to eventually retire the debt.[41]

For example, among all students, the median undergraduate amount of loans for Blacks was 3.5 times greater than whites, and 20 years later, Black students at the median still owed 95 percent of the cumulative loan total, compared with whites, whose debt was reduced by 94 percent.[42] In Mississippi, the disparity for student loans holds: median student loan debt is $17,931 for Black students compared to $16,793 for white students. Further, student loan holders living in communities of color default at almost twice the rate of those living in white communities (26 versus 14 percent). Perhaps most tellingly, the average size of student loans in default is less for those in communities of color than white neighborhoods,[43] bolstering previous research that black graduates with a bachelor's degree are more likely to default than white students that did not finish their degree.[44]

Social Costs of Unmanageable Debt

When large numbers of residents struggle with debt and saving, it presents significant costs to communities in terms of workforce and residential stability.

Workforce

A high prevalence of debt impacts a community's workforce in several ways, including reducing the pool of potential employees and creating costs to employers through lost productivity and health care costs. Many employers use credit scores as part of the applicant screening process, so otherwise qualified applicants may not be hired because of their struggles with managing debt.[45]

Financial problems can have a negative effect on physical,[46] cognitive, emotional and relational well-being,[47] with debt associated with higher levels of psychological distress and depression.[48] Those with the fewest resources are more likely to experience the greatest distress, an effect that is not limited to adults in the household, but children, too.[49] Those who live in lower-income households are more likely to experience mental disorders, including major depressive disorder (MDD).[50] The World Health Organization has recognized MDD as one of the top five leading causes of disability, and is a significant source of lost worker productivity and absenteeism.[51] MDD's cost to employers is estimated to be between $30.1 billion to $51.5 billion annually.[52]

Residential Instability

Households facing difficulty managing debt and saving are less likely to buy homes or more likely to delay making a purchase. For every $1,000 in student loan debt in an area, homeownership is reduced by one to two percentage points among young adults with student loans[53], and the median delay for buying a home is seven years, which increases the number of households that rent.[54] Renters are more mobile and less likely to stay in a home for long periods of time, making them less likely to participate in the local community and less likely to vote in local elections.[55]

In rural areas, there is an out-migration of prime age workers – an 11 percent reduction since 2000 – especially among the college educated, which is attributed to high student loan balances.[56] A recent analysis of Equifax/Federal Reserve Bank of New York Consumer Credit Panel data revealed that borrowers with the highest student loan balances were 41 percent less likely to stay in rural areas, and those who moved to urban areas were less likely to default on their loans, more likely to repay their loans faster, and more likely to own a home.[57]

Abusive Debt Collection Practices

When borrowers fall behind on their payments and move into delinquency, creditors have an escalating series of actions they can take to secure payment, and policymakers are tasked with balancing the interests of both the debtor and creditor in the debt collection process. The federal Fair Debt Collection Practices Act regulates third-party debt collectors and debt buyers, and sets the following parameters:

- Limits the number of times and places a debtor can be contacted regarding a debt
- Preserves the right of the debtor to request the collector stop contacting them or to have the collector contact their attorney
- Protects against harassment of debtors
- Gives individuals the right to dispute the validity of debts and request documentation
- Prohibits collectors from making false or misleading representations

Mississippi does not have its own Fair Debt Collections Practices Act, although neighboring Arkansas and several other states do.

Despite these legal protections, individuals can find themselves on the receiving end of abusive debt collection practices. In 2017, Mississippians made 4,138 debt collection complaints to the Federal Trade Commission, with the largest percentage of complaints made in regard to collectors continuing to call after getting a stop calling notice (30%), making false representations about debt (21%) and calling repeatedly (25%).[58] Abusive debt collection practices are more likely to be used against marginalized populations, such as people of color, who are less likely to know and exercise their rights.[59]

Such abusive debt collection tactics, such as calling repeatedly, can be ineffective at best and counterproductive at worst, especially when they result in increased emotional or psychological distress for the debtor. Decisions on how and when individuals make debt payments are influenced by psychological factors beyond an ability to pay or rational calculations about reduction strategies,[60] including the need for agency, control, and a sense of fairness.[61] If an individual feels disrespected or pressured after communicating with a debt collector, they may stop engaging in the debt collection process or refuse to pay. In one survey about debt collection practices, 20 percent of respondents said they withheld a planned payment at least once after receiving an upsetting call from a collector.[62]

Pilot studies on the use of nudging, a technique developed from behavioral economics research, show promising results. Nudging is "influencing decision-making by leveraging self-interest without constraining the number of choices available or making certain options more expensive."[63] In these studies, user-friendly and even kind debt collection notices were more effective than punitive messaging. One pilot demonstrated improvements of 20 to 30 percent in amounts collected and the number of loans written off.[64]

State Debt Collection Exemptions

Other state laws related to debt collection are exemption laws, whose intent is to protect part of an individual's wages and essential property from seizure after a judgment is entered against them in court. However, many states, including Mississippi, have outdated and ineffective exemption laws that leave families vulnerable to losing their homes and jobs, worsening their already precarious financial stability.[65]

Exemption laws traditionally protect the family home, vehicle and bank account up to a certain value and limit how much can be garnished from a person's wages. Many people depend on state protections because they do not file for bankruptcy, which is the trigger for federal protections. In Mississippi, the family home is protected if its worth is between 50 percent and 74 percent of the state median value, but there are minimal protections for wages. The state follows the federal protection for wages, which currently exempts $217.50 per week (regardless of family size), which places a single person below the Federal Poverty Line (FPL) amount and puts a family of four at half of FPL.[66] Mississippi is one of 25 states that provides protection for a family car worth between $5,000 and $9,999.

Other states in the South have more robust protections, such as banning wage garnishment altogether and automatic inflation adjustments for wage protections. Table 1 compares Arkansas, Texas, Mississippi, Texas, Oklahoma, Tennessee, Alabama, Georgia, Louisiana, Florida, North Carolina and South Carolina on these protections.

Table 1. A State Comparison of Select Debt Exemption Protections[67]

	Arkansas	Mississippi	Texas	Oklahoma	Tennessee	Alabama	Georgia	Louisiana	Florida	North Carolina	South Carolina
Ban wage garnishment			X							X	X
Automatic inflation adjustments						X					X
Separate car exemptions ($5,000-$9,999)		X		X	X	X		X	X		
Family home protection regardless of value	X*		X	X					X		

**Only when debtor is head of household.*

Policy Recommendations

Reduce the burden of student loan debt by reinvesting in higher education. On the state level, Mississippi should work to increase funding to at least pre-2008 levels, after adjusting to inflation. Federally, funding levels should be improved to increase the availability of non-loan financial aid options, such as Pell grants.[68]

Increase federal protections for student borrowers. The US House Financial Services Committee passed three bills aimed at aiding student borrowers, who currently have the fewest consumer protections.[69] The Student Borrower Protections Act (HR 5294), a bill by Rep. Alma Adams (D-NC), would enhance student loan servicing oversight and provide borrower protections with respect to credit reporting.[70] The Fair Student Loan Debt Collection Practices Act (HR 5827), sponsored by Rep. Al Lawson (D-FL), would amend the Fair Debt Collection Practices Act to protect borrowers from collection attempts on federal student loan debt when payments are not required under an income-driven repayment plan, and the Private Loan Disability Discharge Act of 2019 (HR 4545) by Rep. Madeleine Dean (D-PA) would amend the Truth In Lending Act to require private loan servicers to discharge student loans in the case of a borrower's permanent disability.[71]

Support more students in navigating repayment option enrollment. One successful model that could be adopted is the Arkansas Student Loan Authority's (ASLA) Default Management Program. ASLA currently contracts with 17 colleges and universities to help those in danger of default in the first three years of repayment stay out of default by contacting them and counseling them on their options, such as income based repayment and forbearance. Since the program was introduced in 2013, the state's default rate dropped from 19 percent to 10 percent in 2019, moving Arkansas' ranking from 49th to 27th.[72] Mississippi's current default rate is almost 15 percent and it is ranked 49th.

Create a state Fair Debt Collection Practices Act (FDCPA). A state FDCPA can provide an additional layer of protection for consumers and fill in gaps in the federal FDCPA regarding student loans and medical debt, as well as create stiffer penalties for violations.[73]

Modernize debt collection exemptions.[74] Wage garnishments should be banned altogether, or the exemption should be increased above the federal minimum with a periodic auto-increase with inflation. All exemptions should be self-executing where possible, which reduces the burden on the debtor to ensure all available protections are used. Updating exemption laws will benefit not only the individual and their family, but also society by helping people stay in their homes and jobs – keeping families together and reducing the need for public assistance.

Enact provisions to stop the debt trap of predatory lending. A strong statewide limit on interest rates for these predatory loan products could limit the potential for a "debt trap" where Mississippians pay over 300 percent APR on a $500 loan[75] and have to get another payday loan to pay off their previous loan. Organizations such as the Center for Responsible Lending recommend enacting a 36 percent rate cap; currently 16 states and Washington, DC, have capped rates at 36 percent or less.[76] According to a recent survey of registered voters by Morning Consult and the Center for Responsible Lending, 71 percent of Mississippi respondents supported a 36 percent rate cap.[77] Strong protections also include anti-evasion provisions to remove potential loopholes that predatory lenders could exploit.

By working together to create a public policy environment that protects consumers from overly burdensome debt and abusive debt collection practices, we can strengthen the financial security for thousands of Mississippians. This in turn will expand their capacity to pursue higher education and purchase homes without fear of failure, allowing them to plant deep roots in their communities and the state, which is a benefit for all.

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