Policy Brief July 2021

Debt in Indiana

Debt can be an effective tool for consumers to achieve a financial goal not otherwise possible. Unfortunately, a patchwork of protections, at both the federal and state levels, can lead consumers towards a debt spiral that they cannot climb out of. When combined with the loss of a job, divorce, health problems, or other financial hardship, debt can push consumers deeper into distress as they become delinquent and possibly default on their obligations.[i] It should be expected then that when asked to describe the debt they currently have, clients from Indiana's Community Action Agencies responded with words like "overwhelming," "horrible," and "excessive."

This policy brief (1) summarizes debt characteristics from a large survey conducted by the Indiana Community Action Association (INCAA); (2) provides trends in debt, delinquencies, and debt collections in Indiana; and (3) recommends policy changes that would address issues that exacerbate or create pressures of owning debt.

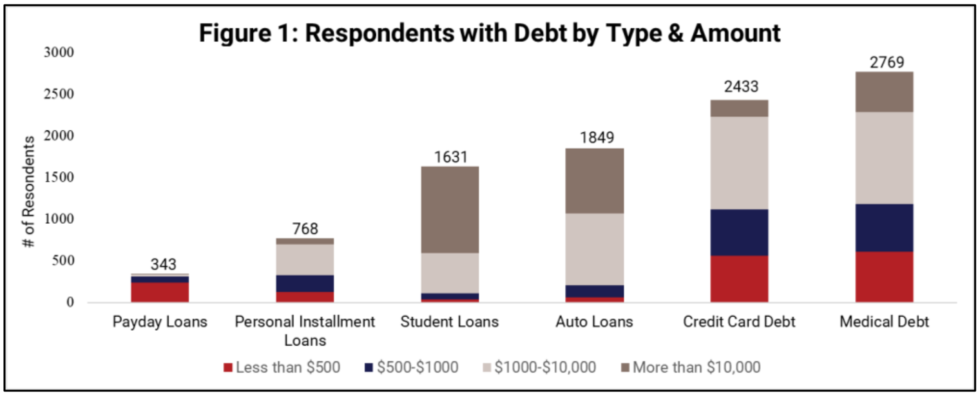
Indiana Community Action Association Survey Results: Debt Characteristics

During the fall of 2020 and the spring of 2021, INCAA, through its 22 local agencies covering all 92 counties, issued a survey to neighbors and clients to collect demographic, general well-being, COVID-19, and data on other key areas of interest. Survey respondents (5,822 total) were asked to identify both the type of debt (among six choices) and amounts (within specific ranges). Those surveyed were also asked if any of the six debt types were in collections. Descriptive statistics for debt-related questions are discussed below.[ii]

Types of Debt & Balances[iii]

As shown in Figure 1, medical debt was the most common type of debt reported, with nearly half (48%) of all respondents indicating they had medical debt outstanding. While student loans were not as prevalent among respondents compared to other types of debt, student loan balances tended to be higher as 64% of respondents had student loan balances more than $10,000. Median gross monthly incomes among respondents with debt varied slightly, ranging from $1,480 for those with medical debt to $1,790 for those with auto loans. However, median monthly incomes of those with debt were above the median across the entire survey ($1,290 per month).

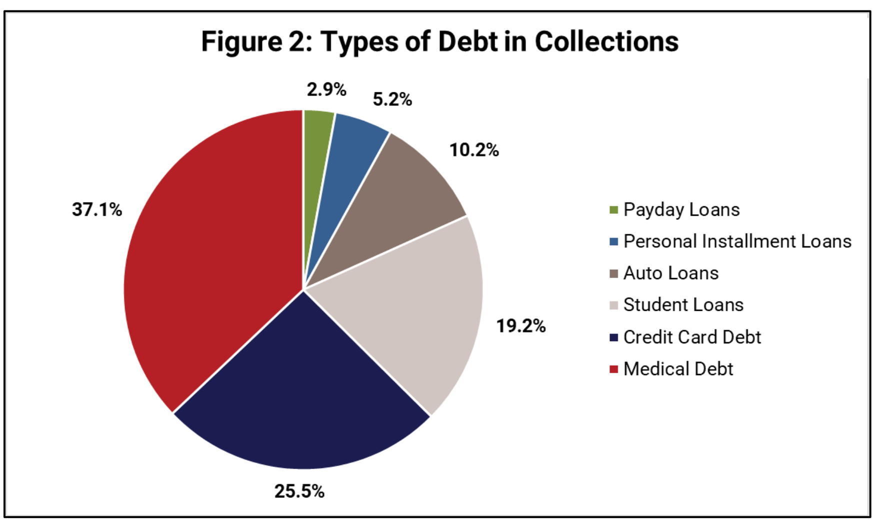
Indiana Institute for Working Families
Research and Public Policy
A Program of INCAA Indiana Community Action Association



Disparities by race and gender were present among survey respondents. In particular, Black respondents were over twice as likely to have a payday loan as their White counterparts. Among those with student loans, Black respondents were 83% more likely to have student loans than White respondents. Black respondents with student loans tended to have higher balances as well with 69% of Black student loan borrowers having balances over $10,000 compared to 62% of White borrowers. By gender, the disparity among student loan borrowers was also present as women were more than twice as likely to have any student loan debt as men. Similar to the disparity between Black and White respondents, the gender disparity was most acute among borrowers with more than $10,000 in student loan debt – 64% of female student loan borrowers compared to 55% of males.

Debt in Collections[iv]

Survey results indicated that half of all respondents had at least one debt in collections and nearly a quarter (23%) had two or more debts in collections. Figure 2 provides the distribution of debts in collections. This data tracks closely with findings provided in Figure 1 – medical and credit card debts were the most common types in collections and the most prevalent among respondents.



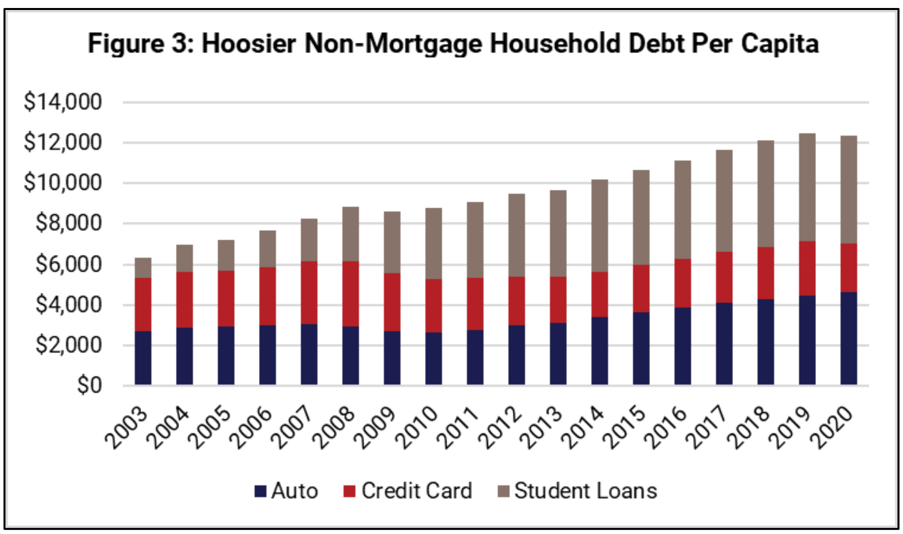
Black respondents were more likely to have each type of debt in collections than White respondents. In fact, Black respondents were nearly three times more likely to have a payday loan in collections than their White counterparts and over twice as likely to have student and car loans in collections, respectively. Similar disparities were observed by gender as women were nearly twice as likely as men to have student loans in collections.

Indiana Trends: Household Debt & Collections

Household Debt

In the year defined by a global pandemic, total household debt in the United States and in Indiana reached new heights. According to the Federal Reserve Bank of New York, nationwide household debt increased by $414 billion (3%) from 2019 to 2020,[v] and initial data for 2021 show this trend may continue through the year.[vi] Statewide debt levels in Indiana increased at a slightly higher rate (3.6%), increasing by roughly $8 billion to $226.5 billion in 2020.[vii] This total level equates to $40,770 in household debt per Hoosier (per capita).[viii]

Non-mortgage household debt per Hoosier, including auto loans, credit cards, and student loans, has been steadily increasing since the earlier 2000s and through the 2008-2009 Great Recession (Figure 3).[ix] Most notably, student loans as a share of all household debt per capita has more than doubled over the past 15 years.[x] This is unsurprising given the increased availability of federal and private student loans combined with the rising costs of higher education.[xi]

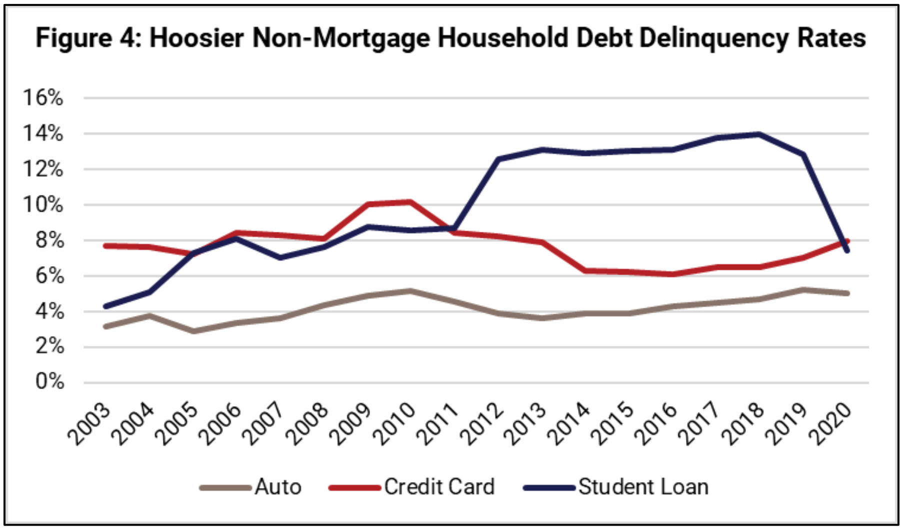


Source: State Level Household Debt Statistics 2003-2020, Federal Reserve Bank of New York, March, 2021

Delinquencies & Collections

Pressures stemming from slow-to-nonexistent wage growth, particularly among low-income, non-White, and female workers, respectively,[xii] leave little surprise that many households struggle to cover a $400 expense[xiii] or to stay current on debt payments. As borrowers fall further behind and delinquent on payments (after 90 days), they face the added risk of the debt being recouped through the collection process.[xiv]

Indiana delinquency rates for household debts have remained relatively stable over the past five years (Figure 4).[xv] Due in part to the federal response to the COVID-19 pandemic, delinquency rates have even fallen – especially student loans in 2020 – as automatic or optional forbearance options, stimulus payments, and enhanced unemployment insurance benefits provided much needed security to the most vulnerable workers and families.[xvi]



Source: State Level Household Debt Statistics 2003-2020, Federal Reserve Bank of New York, March, 2021

Notes: The recent drop in student loan delinquency rates can likely be attributed to the federal response to COVID-19.

Delinquencies and collections hit low-to-moderate income Hoosiers at disproportionate rates. While low-to-moderate income consumers tend to have less debt or no debt at all, these consumers are over twice as likely as middle-to-high income consumers to have a debt severely delinquent or in collections.[xvii] Similar discrepancies are evident between white communities and communities of color (Table 1), contributing to the persistent and growing racial wealth gap.[xviii]

Table 1: Share of Community with Debt in Collections or Default, Indiana

Community	*Medical Debt in Collections*	*Median Amount in Collections*	*Student Loan in Default*	*Median Amount in Default*
All	19%	$813	12%	$11,426
Communities of color	31%	$713	19%	$12,705
White communities	18%	$838	11%	$11,507

Source: Urban Institute, Debt in America: An Interactive Map, 2021

Policy Recommendations

Establish a maximum, all-in allowable APR at 36% and avoid policies that allow lending products to significantly increase the effective costs to consumers. A maximum rate including all fees and finance charges would be a demonstrable step in limiting and preventing predatory lending practices both in Indiana and nationwide. Currently, Indiana is just one of 25 states without strong rate caps. This lack of protection supports debt traps at APRs as high as 391% on payday loans.[xix, xx] A 36% APR has been long recognized and supported by federal regulators and the Department of Defense as a way to combat predatory lending practices and usury while maintaining profitability for lenders.[xxi] Bipartisan legislation at the federal and state level has been historically introduced to address this issue.[xxii, xxiii]

Enhance financial assistance policies to ensure medical treatment is more affordable for low-income patients. Indiana is one of a handful of states that does not require all hospitals (nonprofit and private) to provide financial assistance policies nor does the state mandate the eligibility standards for patients who need assistance.[xxiv] Generally, very low-income patients (below 75% of the Federal Poverty Level) are eligible for financial assistance for very severe medical conditions at nonprofit Indiana hospitals.[xxv] Policy specifics are adopted at the county or hospital level.

Prevent medical debts from being reported to credit bureaus until billing is finalized. Currently, medical debts in dispute or under review can be placed as delinquent or in collections on a consumer's credit report. Federal legislation to provide a one-year or longer waiting period would provide consumers with the opportunity to resolve any outstanding claims while protecting their credit scores and reports.[xxvi]

Reform process for student loans to be discharged through bankruptcy. Allowing all student loans to be discharged in bankruptcy would provide meaningful relief for borrowers who cannot pay while ensuring parity between student loans and other debts within the bankruptcy process. While it is possible for borrowers to have student loans discharged in bankruptcy, borrowers must prove that repayment would cause an undue hardship, which poses difficulties.[xxvii]

Streamline income-based repayment plans for federal student loans into a single repayment plan. The current patchwork of different income-driven repayments causes unnecessary complexity for federal borrowers and jeopardizes a true ability to repay student loans. A new, streamlined repayment program that caps repayment at a certain percentage of discretionary income would provide a pathway for borrowers to repay their loans while also ensuring borrowers can meet their basic needs.[xxviii]

Reduce harassment in collections and ensure basic needs are preserved when wages are garnished. In 2020, the Consumer Financial Protection Bureau (CFPB) issued a two-part rule aimed at debt collection practices that would affect 68 million Americans. There is small window of time left to strengthen the rule on behalf of consumers before it goes into effect on January 29, 2022 .[xxix] Additionally, current wage garnishment thresholds only protect a small portion of wages ($217.70 per week). [xxx] This threshold should be raised to protect a consumer's ability to meet their basic needs and to prepare for a financial emergency.[xxxi] Protections should be extended that prohibit student loan borrowers from having their tax refunds, social security payments, and other federal payments garnished as permitted by current law.[xxxii]

Promote financial literacy and education. In an economy that maintains strong consumer protections, provides a livable wage, and promotes equity and fairness, financial literacy and education can reach its full potential. Services provided by community-based organizations such as Centers for Working Families and Community Action Agencies can help consumers and families obtain the necessary skills to reach financial stability. Unfortunately, current imbalances and disparities present an uphill battle that financial literacy cannot remedy on its own.

This policy brief was made possible by funding from the Central Indiana Community Foundation and The Joyce Foundation.

[i] National Consumer Law Center, Consumer Debt Collection Facts (February 2018), accessed June 21, 2021 from https://www.nclc.org/issues/consumer-debt-collection-facts.html#one.

[ii] While the sample being analyzed is large (n = 5,822) and likely very representative of all Community Action Agency clients throughout the state, the data is interpreted with limitations. First, not all respondents answered every question, and some respondents chose to leave the answer blank (item nonresponse). As such, the frequency and prevalence of a particular debt or debt in collections may be underestimated. Conversely, the magnitude of any disparity between race and gender may vary slightly. However, disparities are statistically significant (p value < .001).

[iii] Values in this subsection are author's calculations using survey data.

[iv] Values in this subsection are author's calculations using survey data.

[v] Author's calculations using data from Federal Reserve Bank of New York, Quarterly Report on Household Debt (by State) accessed June 17, 2021 from https://www.newyorkfed.org/microeconomics/databank.html.

[vi] Federal Reserve Bank of New York, Quarterly Report on Household Debt and Credit (May 2021), accessed June 15, 2021 from https://www.newyorkfed.org/medialibrary/interactives/householdcredit/data/pdf/hhdc_2021q1.pdf.

[vii] Author's calculations using data from Federal Reserve Bank of New York, Quarterly Report on Household Debt (by State) accessed June 17, 2021 from https://www.newyorkfed.org/microeconomics/databank.html.

[viii] Federal Reserve Bank of New York, Quarterly Report on Household Debt (by State) accessed June 17, 2021 from https://www.newyorkfed.org/microeconomics/databank.html.

[ix] Federal Reserve Bank of New York, Quarterly Report on Household Debt (by State) accessed June 17, 2021 from https://www.newyorkfed.org/microeconomics/databank.html. Note: Data reported in fourth quarter of respective year.

[x] Author's calculations using data from Federal Reserve Bank of New York, Quarterly Report on Household Debt (by State) accessed June 17, 2021 from https://www.newyorkfed.org/microeconomics/databank.html.

[xi] Federal Reserve Bank of New York, Credit Supply and the Rise in College Tuition: Evidence from the Expansion in Federal Student Aid Programs (revised February 2017), accessed June 15, 2021 from https://www.newyorkfed.org/medialibrary/media/research/staff_reports/sr733.pdf?la=en.

[xii] Congressional Research Service, Real Wage Trends, 1979to 2019 (December 2020), accessed on June 15, 2021 from https://fas.org/sgp/crs/misc/R45090.pdf; Economic Policy Institute, State of Working America Wages 2019 (February 2020), accessed June 15, 2021 from https://www.epi.org/publication/swa-wages-2019/.

[xiii] Board of Governors of the Federal Reserve System, Report on the Economic Well-Being of U.S. Households in 2020 (May 2021), accessed June 15, 2021 from https://www.federalreserve.gov/publications/2021-economic-well-being-of-us-households-in-2020-dealing-with-unexpected-expenses.htm.

[xiv] Experian, When Do Late Payments Become Delinquent? (June 2020), accessed June 15, 2021 from https://www.experian.com/blogs/ask-experian/when-does-debt-become-delinquent/.

[xv] Federal Reserve Bank of New York, Quarterly Report on Household Debt (by State) accessed June 17, 2021 from https://www.newyorkfed.org/microeconomics/databank.html.

[xvi] Board of Governors of the Federal Reserve System, Why is the Default Rate So Low? How Economic Conditions and Public Policies Have Shaped Mortgage and Auto Delinquencies During the COVID-19 Pandemic (March 2021), accessed June 15, 2021 from https://www.federalreserve.gov/econres/notes/feds-notes/why-is-the-default-rate-so-low-20210304.htm. Note: Data reported in fourth quarter of respective year.

[xvii] Federal Reserve Bank of New York/Equifax Consumer Credit Panel, tabulated by the Federal Reserve Banks of Philadelphia and Minneapolis and accessed via the Consumer Credit Explorer accessed June 17, 2021 from https://www.philadelphiafed.org/surveys-and-data/community-development-data/consumer-credit-explorer.

[xviii] Urban Institute, Nine Charts about Wealth Inequality in America (Updated) (October 2017), accessed June 15, 2021 from https://apps.urban.org/features/wealth-inequality-charts/.

[xix] Center for Responsible Lending, Map of U.S. Payday Interest Rates (March 2021), accessed June 1, 2021 from https://www.responsiblelending.org/research-publication/map-us-payday-interest-rates.

[xx] Indiana Institute for Working Families and Indiana Assets & Opportunity Network, Financial Drain: Payday Lenders Extract Millions From Hoosier Communities (September 2019), accessed on June 1, 2021 from https://iiwf.incap.org/assets/docs/Public-Policy/Payday-Lending/2019-FinancialDrain-Report.pdf.

[xxi] National Consumer Law Center, Why 36%? The History, Use, and Purpose of the 36% Interest Rate Cap (April 2013), accessed June 1, 2021 from https://www.nclc.org/images/pdf/pr-reports/why36pct.pdf.

[xxii] At the federal level: The Veterans & Consumers Credit Reform Act, H.R.5050 / S.2833 (116th Congress), accessed June 1, 2021 from https://www.congress.gov/.

[xxiii] At the state level: Senate Bill 184, Indiana General Assembly (2021 Session), accessed June 1, 2021 from http://iga.in.gov/.

[xxiv] National Consumer Law Center, An Ounce of Prevention: A Review of Hospital Financial Assistance Policies in the States (January 2020), accessed June 15, 2021 from https://www.nclc.org/images/pdf/medical-debt/report-ounce-of-prevention-jan2020.pdf.

[xxv] Sec. 470 IAC 11.1-1-1 through Sec. IAC 11.1-5-1, accessed June 21, 2021 from http://iac.iga.in.gov/iac/.

[xxvi] Medical Debt Relief Act, H.R. 773 / S.214 (117th Congress), accessed June 15, 2021 from https://www.congress.gov/.

[xxvii] U.S. Department of Education Office of Federal Student Aid, accessed June 15, 2021 from https://studentaid.gov/manage-loans/forgiveness-cancellation/bankruptcy.

[xxviii] Center for Responsible Lending and National Consumer Law Center's Student Loan Borrower Assistance Project, Road to Relief (November 2020), accessed June 1, 2021 from https://www.responsiblelending.org/sites/default/files/nodes/files/research-publication/nclc-crl-road-to-relief-23nov2020.pdf.

[xxix] National Consumer Law Center et al., Debt Collection Practices (Regulation F) Delay of Effective Date, 86 Fed. Reg. 20334, CFPB Docket CFPB-2021-0007, RIN 3170-AA41 (May 2021), accessed June 21, 2021 from https://www.nclc.org/images/pdf/debt_collection/Comments_Debt_Collection_Regs_60_Day_Delay.pdf.

[xxx] U.S. Department of Labor Wage and Hour Division, Fact Sheet #30: The Federal Wage Garnishment Law, Consumer Credit Protections Act's Title III (CCPA) (Revised October 2020), accessed June 21, 2021 from https://www.dol.gov/sites/dolgov/files/WHD/legacy/files/whdfs30.pdf.

[xxxi] Center for Responsible Lending, Protect Against Abusive Debt Collection: Working Families Need Wage Protection and a Chance to Save (February 2021), accessed June 1, 2021 from https://www.responsiblelending.org/sites/default/files/nodes/files/research-publication/crl-garnishment-memo-feb2021.pdf.

[xxxii] U.S. Department of Education Office of Federal Student Aid, accessed June 15, 2021 from https://studentaid.gov/manage-loans/default/collections.

FOR MORE INFORMATION & QUESTIONS, PLEASE CONTACT:

Andy Nielsen, Senior Policy Analyst, Indiana Institute for Working Families
Phone: 317-638-4232
Email: anielsen@incap.org
Web Site: https://iiwf.incap.org/