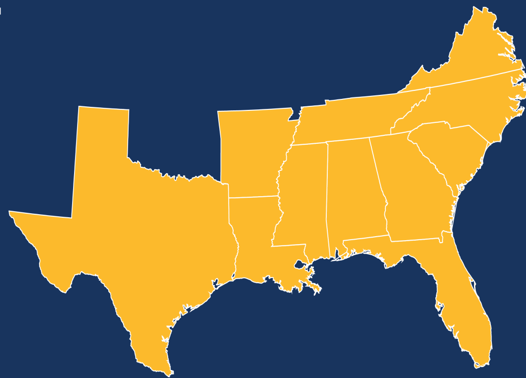
TACKLING DEBT

Addressing the Racial Wealth Gap in the South



Primer Highlights:

Racial Wealth Gap Overview

Impact of Debt

Best Practices in the South

Strategies for Funders

CLOSING THE RACIAL WEALTH GAP IS IMPERATIVE

The racial wealth gap is the difference between the median wealth of White Americans versus the median wealth of Black and Latino Americans. The gap is both significant and disturbing. In 2016, the median wealth of White families was $146,984, compared to $3,557 for Black families and $6,591 for Latino families.[1]

The United States is becoming increasingly diverse. In order to build a strong competitive economy, all communities must have the potential to thrive, and closing the racial wealth gap is imperative for achieving that goal. It's important to note that focusing on increasing income is necessary, but not sufficient to close the gap.

What drives the racial wealth gap? At its core, it's not individual faults or lack of responsible financial decision-making. Rather, studies pinpoint the impact of systemic policies, practices, and institutional factors in creating (and perpetuating) the racial wealth gap.

Although confronting the racial wealth gap will require action across several fronts, there is definitely a role for philanthropy to play. Funders can address discrete issues that contribute to the racial wealth gap. One contributor is debt. Chronic household debt remains a sizable barrier to financial stability and ultimately wealth building. Consequently, reducing debt is a first step to helping families get on a path to financial security. Funders can address the types of debt that trap families and are a pervasive impediment to wealth building.

This primer focuses on four types of debt, organized into two categories (see Appendix for details):

Non-loan debt:

- medical debt
- government fines and fees

Non-mortgage consumer debt driven by loans:

- student loans
- payday loans and auto title loans

Importantly, this scope of consumer debt excludes debt held on credit cards, and largely stems from the nonprofit or public sector systems—education, health, or justice.

The racial wealth gap cannot be closed by changing individual behavior if the structural sources of racial inequality remain unchanged.[2]

For the gap to be closed, a vast social transformation is needed, requiring the adoption of bold national policies that address the long-standing consequences of slavery, the Jim Crow years that followed, and ongoing racism and discrimination that exist in our society today.[3]

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THE UNEQUAL BURDEN OF DEBT

Over the past few decades, household debt has become a part of everyday American life. It is widespread and often burdensome. According to the Federal Reserve Bank of New York, Americans collectively hold $13 trillion in debt, and the median held by individual households is $60,000.[4] The pervasive nature of household debt makes it hard, if not impossible, for families to save for a financially secure present and future.

It's important to note that debt, including its array of consequences, is not spread equally; it differs by race and ethnicity.[5]

According to the Aspen Institute's Expanding Prosperity Impact Collaborative (EPIC) Initiative, "There are stark differences in the amount, characteristics, and composition of debt that lead to or reinforce adverse outcomes for people of color."[6] Debt undermines the same families and communities that grantmakers are trying to help; therefore, debt is an issue that should be of significant importance to funders of all kinds.

HOW DEBT UNDERMINES OTHER PHILANTHROPIC INVESTMENTS

Most funders do not have a specific investment strategy to confront the corrosive effects of debt in their geographic areas of focus. However, the consequences of that omission can be significant.

A strategy to address debt can improve the results of other investments. Failing to address the impact of burdensome debt may undermine existing investments. Focusing on debt is particularly important for strengthening investments in education, workforce development/employment, health, homeownership, and asset building.

Education

- **Student loan debt is the second-highest consumer debt category (above credit cards and auto loans) and it disproportionately impacts students of color.** Student debt burdens and loan defaults among Black college students is at crisis levels, and even a bachelor's degree is no guarantee of financial security. Black bachelor of arts graduates default at least five times the rate of White bachelor of arts graduates (21% versus 4%), and are more likely to default than White students who drop out of college. [7]
- **The chance of student loan defaults is higher for certain groups.** The likelihood of student loan default is higher for certain borrowers, particularly Black borrowers, and borrowers who go to for-profit schools, those who leave school without a degree, and those from low-income households.[8]

Workforce Development/ Employment

- **Delinquent debt may screen applicants out of employment.** People are denied jobs because of credit checks. According to the Demos' 2012 National Survey on Credit Card Debt in Low- and Middle- Income Households, an estimated 1 in 4 unemployed Americans are required to go through a credit check when applying for a job, and approximately 1 in 10 survey respondents were informed that they would not be hired because of information on their credit report. Among job applicants with blemished credit histories, 1 in 7 had been advised that they were not being hired because of their credit.[9]
- **Debt inhibits entrepreneurship.** According to data from the U.S. Department of Education's Baccalaureate and Beyond (B&B) 2012 survey analyzed by Young Invincibles, 51% of young adults own or are interested in owning a business. However, in the same survey, 48% of young adults that either already own a business, or have plans to do so, identified student loan debt as one of the main barriers to entrepreneurship.[10]

Health

- **Individuals with medical debt are more likely to be in poor health.** Debt in general is associated with higher blood pressure, worse self-reported health status, poorer mental health, and shorter life expectancy.[11]
- **Individuals with medical debt are less likely to access care.** People with medical debt are less likely to access needed clinical care or prescription medications than those without medical debt.[12]

Homeownership

- **Student loan debt contributes to lower levels of homeownership.** From 2005 to 2014, the percentage of young adults owning homes dropped from 45% to 36%, of which 20% likely came from education debt burden.[13]
- **Young adults report that debt keeps them from homeownership.** According to the Federal Reserve, outstanding student loan balances have more than doubled in real terms (to about $1.5 trillion) in the last decade, with average real student loan debt per capita for individuals ages 24 to 32 rising from about $5,000 in 2005 to $10,000 in 2014. In surveys, young adults commonly report that their student loans are preventing them from buying a home.[14]

Asset Building

- **Understand the role of debt in asset building.** Historically, some types of debt have been viewed as a natural way to build wealth and assets over an extended period of time. However, this primer uses a race equity lens to show how debt is another factor that has a disproportionate impact on people of color and low-income communities. For funders promoting liquid or emergency savings, it is important to understand the role of debt in that effort.
- **Debt impacts credit scores, which reflects stunning racial disparities.** Credit reporting and credit scoring are supposed to be entirely objective, with no room for flawed tools such as human judgment (and the biases built into human minds). Yet for the past two decades, study after study has found that Black and Latino communities have lower credit scores as a group than White communities (and Asian communities, when the data is available).[15]
- **Families fall into debt when they can't make ends meet.** Rising debt can be an indicator of good times, if investments result in improved net worth. But too many people, disproportionately people of color, are borrowing more than they can comfortably afford to repay. They are falling behind on rent and bills—such as medical and utility bills, student loans or local government fees and fines—and have no other way but over-burdensome debt to make ends meet.[16]

These statistics are stark, but grantmakers can make a difference. Below is a description of one philanthropic strategy to address debt for households in the southern U.S.

THE SOUTHERN PARTNERSHIP TO REDUCE DEBT

In 2017, The Annie E. Casey Foundation launched a multiyear, multistate effort called the Southern Partnership to Reduce Debt to close the racial-ethnic wealth gap and bring financial security to households of color. The effort involves several national organizations including the Aspen Institute, National Consumer Law Center, National League of Cities, Prosperity Now, the Urban Institute, and MDC—and more than 20 state and local organizations working in seven southern states. These partners are primarily focusing on four kinds of debt: public sector fines and fees, medical debt, student loan debt, and high-cost loans (e.g. payday loans). The partnership seeks

to support state and local policies to protect families from bad debt, expand access to debt reduction programs and products, and eliminate wealth-stripping practices. The Asset Funders Network is partnering with The Annie E. Casey Foundation to connect funders to this effort through information sharing, networking, and convening.

Below are select examples of state partnerships that address debt through policy and practice.

North Carolina Justice Center (NC)

The NC Justice Center, Community Success Initiative, and Leading Into New Communities (LINC, Inc.) are partnering with prosecutors, impacted communities, and other stakeholders in North Carolina to deliver innovative legal services that reduce traffic court debts for people with long-term driver's license suspensions.

A prime example of this work is the Durham Expungement and Restoration program (DEAR), a collaboration between Southern Partnership to Reduce Debt partners, the City of Durham, Legal Aid of North Carolina, and the Durham County District Attorney's Office.

Since its launch in October 2018, the program has eliminated $651,842.50 in court costs and fines for 3,471 traffic cases that were 16 years old on average. The program has also facilitated the dismissal of 51,116 traffic tickets that were pending for at least two years because the defendant failed to appear in court. Each traffic case that is resolved through debt relief or dismissal eliminates an indefinite suspension of the person's driver's license.

As of July 2019, the Durham Expungement and Restoration program's debt remittance and dismissal efforts have served 36,855 people; 78% of individuals who have received relief are people of color.

These mass debt relief and driver's license restoration efforts are currently being replicated through partnerships with district attorneys offices in Charlotte, Wilmington, and Robeson County, N.C., while more targeted debt relief is being achieved in Raleigh, Chapel Hill, and Guilford County, N.C.

The delivery of legal services anchors an engagement and policy reform campaign focused on maximizing access to debt relief already available under state law, while trying to expand eligibility for debt relief and eliminate unfair debt collection mechanisms like driver's license suspensions.

Center for Public Policy Priorities (TX)

Center for Public Policy Priorities' (CPPP) work on debt focuses primarily on two sources of debt, medical and student. Its work on student debt has included a three-part data series, Degrees of Debt, which highlights systemic trends contributing to the student debt crisis in Texas.

Southern Partnership to Reduce Debt FOCUS AREAS

	FINES AND FEES	MEDICAL DEBT	STUDENT LOAN DEBT	HIGH COST LOANS
AL	✓			✓
AR	✓	✓		
GA			✓	
NC	✓		✓	
SC				✓
TN		✓		
TX	✓	✓	✓	✓

The series includes: 1) how the state is investing less while expecting more from students, 2) financial aid for nontraditional students, and 3) covering unmet need to pay for college. CPPP, in partnership with Young Invincibles and other stakeholders, coordinated advocacy efforts, which culminated in the passage of SB 37, ending the practice of Texans losing professional licenses due to default on student debt, which affected about 4,000 Texans per year.

CPPP work on medical debt includes a forthcoming report on drivers of medical debt and policy recommendations to address them. This report will highlight statistics around medical debt among low-income people living in the Dallas, Texas, area and the negative impacts it can have on a family's economic security. The report will also examine the financial assistance policies of Dallas' public hospital to highlight the positive policies that hospitals across the state should adopt, how public hospital systems can better serve low-income residents, and explain why these are important protections for low-income patients.

The center also addresses medical debt through policy work. After nine years of research and advocacy by the CPPP, in May 2019, the Texas Legislature passed a bill to drastically limit surprise medical billing in Texas.

STRATEGIES FOR FUNDERS

Grantmakers interested in exploring ways to support their investments in education, workforce development, asset development and health can add a debt reduction strategy to their programmatic grantmaking investment portfolio. Some approaches to consider:

Fund Comprehensive Approaches: Debt Alleviation, Prevention, and Credit Building

A philanthropic strategy to reduce debt requires a multifaceted approach. Investments to address the existing debt burdens of low-income families AND investments that prevent others from falling into a debt spiral are equally important. Since debt can have a long-lasting negative impact on an individual's credit history, grantmakers should also consider investing in organizations that provide credit repair and credit building services as part of their investment strategy.

Coordinate Across Investment Portfolios and with Other Funders

As previously indicated, debt has far-reaching impacts. It affects a family's ability to build assets and purchase a home, their health and well-being, and employment and business ownership opportunities. Since debt threatens several aspects of a person's life, there are compelling reasons for funders to engage in collaborations across portfolios, both within their own organization and with grantmakers in other organizations. For example, education, health, and workforce program officers within a foundation can come together and pool resources to jointly fund efforts to address debt.

Invest in Building Data Capacity at the State and Local Level

Developing a strategy to address debt at the state and local level requires an understanding of the scope and severity of the issue as well as potential structural or policy drivers, which involves accessing state and local data on debt levels and defaults. Although this data is critically important, many nonprofits do not always have access to timely, reliable data. Additionally, they may need to build capacity to analyze the data to determine policy or program solutions that emerge from the data. Grantmakers can make investments to strengthen the data capacity of organizations and to support opportunities to include data on debt in existing data collection platforms. For example, if a grantmaker is funding a social determinants of health website, they should ensure that data on medical debt is included.

STRATEGIES FOR FUNDERS

1. Fund Comprehensive Approaches: Debt Alleviation, Prevention, and Credit Building
2. Coordinate Across Investment Portfolios and with Other Funders
3. Invest in Building Data Capacity at the State and Local Level
4. Use Convening Power to Influence State and Local Institutions

Use Convening Power to Influence State and Local Institutions

Many strategies to address debt require local solutions and collaboration with a variety of state and local stakeholders. Since negative debt is concentrated among key systems, including higher education, hospital, and criminal justice, grantmakers can leverage their relationships across the nonprofit sector and public jurisdictions.

Grantmakers can help facilitate unlikely connections and foster partnerships that offer fresh ideas and perspectives. Grantmakers have the ability to bring diverse new voices to the discussion and help stakeholders understand the significant impact that debt has on families and communities.

This convening power should not be underestimated and can be used to influence policies and practices to reduce debt burdens for families. Funders can build awareness and understanding of the impact of debt on other issues. Debt is not an obvious issue for philanthropy; therefore, using convening power to promote an understanding of drivers of debt and its impact on individuals and families is critical.

FOR MORE INFORMATION

Curious to learn more about the Southern Partnership to Reduce Debt and the lessons learned? Want to attend a future partnership convening? Interested in opportunities to align funding or to co-invest?

For more information, contact:

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The Southern Partnership to Reduce Debt focuses on four types of debt, organized into two categories:

NON-LOAN DEBT

Medical Debt

- Medical debt harms tens of millions of consumers, with nearly 1 in 6 Americans contacted by a debt collector over a health care bill, and 21% of residents in mainly nonWhite zip codes with at least one medical debt in collection on their credit reports.[17] (Source: National Consumer Law Center, based on data collected by The Commonwealth Fund and Urban Institute)
- Fifty-nine percent of bankruptcy filers believe that medical debt was a contributor to their bankruptcy; 52% of collection items on credit reports are for medical debts.[18] (Source: National Consumer Law Center, based on data collected by The Commonwealth Fund and Urban Institute)

Fines and Fees

- A 2017 U.S. Commission on Civil Rights report reviewed census data from 20,000 cities and found a positive correlation between cities' Black and Latino populations and their reliance on fines and fees.[19] (Source: National League of Cities)
- A 2015 report by the White House Council of Economic Advisors found that relying on criminal justice fines and fees to fund government services is ineffective because of the inability of many offenders to pay. In New Orleans, the Vera Institute found that the cost of jailing offenders who could not pay fines and fees far outweighed the revenue generated.[20] (Source: National League of Cities)

NON-MORTGAGE DEBT DRIVEN BY LOANS

Student Loan Debt

- Federal student loan debt has reached record levels: 44 million borrowers owe $1.5 trillion, with a median balance of $19,000.[21] (Source: Aspen EPIC)
- Between 2000 and 2016, aggregate student debt more than tripled, while the number of borrowers has only risen by about 28%.[22] (Source: Aspen EPIC)
- While borrowing to attend college does pay off for many in terms of increased lifetime income, the loans come with heavy costs: Even among those who are current on their payments, student loan debt contributes to higher stress, poorer health, lower savings, higher likelihood of carrying other forms of debt, and reduced ability to become homeowners or start businesses.[23] (Source: Aspen EPIC)

High-Cost Loans

- More than 75% of payday loan fees come from people stuck in more than 10 loans a year.[24] (Source: National Consumer Law Center, based on data from the Consumer Financial Protection Bureau)
- Payday and car title loans drain nearly $8 billion in fees from Americans each year.[25] (Source: National Consumer Law Center based on data from the Center for Responsible Lending)
- Payday and car title lenders are now increasingly moving into high-cost longer-term installment loans and lines of credit that can be a deeper and longer debt trap.[26] (Source: National Consumer Law Center)

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