1.3.1.4 Lower-Income Consumers and Debt Collection

Low- and moderate-income consumers are disproportionately impacted by debt collection activity. Faced with juggling pressing financial needs for immediate expenses, low-income consumers may engage in a variety of debt coping strategies for bills that they cannot pay in full such as: borrowing from others, using nonprofit assistance, paying with an earned income tax credit (EITC) refund, skipping or rotating payments, paying less than the minimum, paying off a bill with a credit card or loan, ignoring or rejecting certain debts, taking on extra work, or going without.90

Lower-income consumers are more likely to have one or more debts in collection.91 The CFPB’s 2017 survey of consumer experiences with debt collection found that the consumers in the lowest income group were three times more likely to have been contacted about a debt in collection than consumers in the highest income group.92 Of all consumers who had been contacted about a debt, those with lower household incomes were also more likely to have been sued.93

In addition to being more likely to be sued on a debt, low-income consumers may be less likely to have a collection lawsuit decided in their favor. For example, one study concluded that higher median income was positively correlated with the rate of case dismissals.94

An analysis of national payroll data found that “[t]he average number of garnishments and garnishment rate for all types of garnishment is highest for those earning between $20K and $60K with more than sixty percent of employees with a garnishment in this income range.”95 Prior analysis of national payroll data broke this salary range down even more, concluding that individuals earning between $25,000 and $40,000 had the highest rates of garnishment.96

Low-income consumers may also be less likely to file for bankruptcy or to obtain bankruptcy’s promise of a fresh start than middle-class consumers.97

Footnotes


91 See Breno Braga et al., Local Conditions and Debt in Collection, 14, 23 (Urban Institute, June 2016) (reporting that median household income for consumers without debt in collection was $63,938, compared to median household income of $51,438 for someone with debt in collection; noting that “[p]eople living in more economically disadvantaged census tracts—defined by higher unemployment rate and lower per capita income—have more debt in collections”).

92 Consumer Fin. Protection Bur., Consumer Experiences with Debt Collection: Findings from the CFPB’s Survey of Consumer Views on Debt 15 (Jan. 2017) (52% of consumers with annual household incomes of less than $20,000, compared to 16% of respondents with household incomes over $70,000). See also FINRA Investor Education Foundation, Financial Capability in the United States 2016, p. 27 (July 2016) (25% of respondents to the 2015 National Financial Capability Study with incomes of less than $25,000 reported being contacted by a debt collection agency in the past year, compared to 18% of all survey respondents).

93 Id. at 28 (20% of consumers with annual household incomes of less than $20,000 and 16% of consumers with household incomes between $20,000 to $39,999 that had been contacted about a debt in collection were sued, compared to 12% of respondents with household incomes over $70,000). See also Kate Owen, Presentation at the University of Nebraska at Omaha on “The High Cost of Being Poor” (Legal Aid of Nebraska, Oct. 21, 2016) (reporting that 56.3% of all judgments in Douglas County, Nebraska were against individuals residing in high poverty zip codes); Peter A. Holland, Junk Justice: A Statistical Analysis of 4,400 Lawsuits Filed by Debt Buyers (Mar. 2014) (“In Maryland, debt buyers disproportionately sued in jurisdictions with larger concentrations of poor people and racial minorities. For example, Prince George’s County has only 15% of the [sic] Maryland’s population, yet 23% of all debt buyer complaints were filed against Prince George’s County residents.”); Claudia Wilner & Nasono Sheftel-Gomes, Neighborhood Economic Development Advocacy Project, Debt Deception: How Debt Buyers Abuse the Legal System to Prey on Low Income New Yorkers 10 (2010) (“91% of people sued by debt buyers and 95% of people with default judgments entered
1.3.1.4 Lower-Income Consumers and Debt Collection

against them live in low- or moderate-income communities.”); Richard M. Hynes, Broke but Not Bankrupt: Consumer Debt Collection in State Courts, 60 Fla. L. Rev. 1, 42 (2008) (civil filings in Virginia were positively correlated with poverty).

94 Mary Spector and Ann Baddour, Collection Texas-Style: An Analysis of Consumer Collection Practices in and out of the Courts, 67 Hastings Law Journal 1427, 1458 (June 2016) (“Median income appears to have the strongest correlation with the court outcome category of nonsued or dismissed by plaintiff. From 2014 to 2015, the correlation increased from .30 to .40. The trend in correlation points to a pattern: the rate of nonsuits or dismissals increases as precinct median income increases.”).


ADP Research Institute, Garnishment The Untold Story (2014) (study of payroll data found the highest rates of garnishment (10%) among those earning between $25,000 and $40,000 with an 8.4% garnishment rate for those earning $15,000 to $24,999).

96 See, e.g., Paul Kiel and Hannah Fresques, Data Analysis: Bankruptcy and Race in America, ProPublica, Sept. 27, 2017, at 11 (reporting that the discharge rate in Chapter 13 bankruptcies clearly rises with debtors’ income for both black and white zip codes); Richard M. Hynes, Broke but Not Bankrupt: Consumer Debt Collection in State Courts, 60 Fla. L. Rev. 1 (2008) (“This Article finds that few civil defendants file for bankruptcy, that civil litigation is concentrated in cities and counties with lower socio-economic characteristics, and that civil defendants in Virginia have a significantly lower rate of homeownership than the general population. In other words, the bankruptcy statistics exclude many defaulting and insolvent consumers, and these consumers may be disproportionately drawn from the more disadvantaged segments of society.”).

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