



High-Cost Debt Traps Widen Racial Wealth Gap in Memphis

By: Hope Policy Institute and Black Clergy Collaborative of Memphis
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High-cost loans in Memphis carry different names: payday loans, car title loans, or flex loans, for example. They also have many shared characteristics which have devastating consequences for people: triple-digit rates, unaffordable terms, and coercive repayment mechanisms, like the ability to seize money from a borrower's bank account or their car. Even though these loans are marketed as a quick financial fix, the reality is that they are a debt trap by design. These loans create a cascade of consequences such as the increased likelihood of overdraft fees, loss of their cars, defaulting on other bills, involuntary bank account closures, and even bankruptcy, as well as psychological stress caused by unaffordable debt and the inability to build wealth in the future.

The burdens of these devastating loans are concentrated primarily in Memphis's communities of color, and the financial benefit of the fees drained by these triple-digit debt traps flow to a small handful of companies.

- In Memphis, there are 114 high-cost lending storefronts, more than twice the number of McDonalds and Starbucks combined, that are owned by just 21 lending companies.
- To date, 65% (74) of these stores are owned by nine out-of-state corporations.
- In fact, just two out-of-state corporations own nearly half (45%) of all the high-cost lending stores in Memphis.
- Of the 43 licensed flex-loan lenders in the city, nearly half are owned by a single out-of-state car title lender.

High-cost lenders are disproportionately located in Memphis neighborhoods with higher percentages of Black and Latino residents. These patterns are enabled by and reinforce long-standing residential racial segregation and exclusionary lending practices, such as redlining, predatory mortgage lending, and restrictive covenants. The wealth-stripping effects of high-cost loans limit economic mobility for individuals and perpetuate long-standing racial and economic inequalities. In Memphis, 20% of white households are liquid asset poor, compared to more than 50% of Black households and more than 60% of Latino households in the city. High-cost loans, through their fee extraction and economic consequences, perpetuate this gap.

State and federal policymakers have the authority to rein in the harms of these high-cost loans and should do so by lowering the costs of these loans and ensuring lenders cannot trap people in endless cycles of unaffordable debt. The most effective way to stop the debt trap is for policymakers at the state and federal level to cap the rates at 36% or less. This protection is already in place at the federal

level for active duty members of the military, and in 18 states plus the District of Columbia. Both the state legislature and Congress have the ability to enact a cap to stop the debt traps in Tennessee. Finally, the Consumer Financial Protection Bureau (CFPB), a federal watchdog agency to prevent unfair, abusive, and deceptive financial practices, has the authority to rein in harmful high-cost lending practices and, more importantly, the ability to issue new rules that stop the debt trap.

The community is coming together to build solutions too. In the fall of 2021, the Black Clergy Collaborative of Memphis launched an initiative with Hope Credit Union to connect people to financial products that help borrowers save and succeed, rather than sink people into an inescapable cycle of debt. If you know of someone struggling with the debt trap, they can contact the Black Clergy Collaborative of Memphis at blackclergycollaborative@gmail.com or file a complaint with the Consumer Financial Protection Bureau at <https://www.consumerfinance.gov/complaint/>.

High-Cost Lenders by Zip Code

Zip Code	High-Cost Loan Stores	Neighborhood
38139	0	Germantown
38138	0	Germantown
38135	0	Bartlett
38117	2	East Memphis
38125	3	Windyke / Southwind
38133	3	Bartlett
38103	1	Downtown / South Main Arts District / South Bluffs
38134	6	Bartlett
38141	3	South Riverdale
38104	6	East Midtown / Central Gardens / Cooper Young
38116	15	Whitehaven
38109	6	Coro Lake / Whitehaven
38115	12	Hickory Ridge
38112	2	Midtown / Evergreen / Overton Square
38111	11	Orange Mound
38122	11	Jackson / Berclair
38128	11	Egypt / Raleigh
38107	0	Collierville / Piperton
38118	11	Oakhaven
38114	4	Orange Mound
38105	0	Uptown / Pinch District
38106	1	South Memphis
38018	0	Cordova
38127	5	Frayser
38126	1	South Forum / Washington Heights
Total	114	