HIGH-COST DEBT TRAPS WIDEN RACIAL WEALTH GAP IN MEMPHIS

By: Hope Policy Institute
and Black Clergy Collaborative of Memphis

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OVERVIEW

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. Even though these loans are marketed as a quick financial fix, the reality is that they are a debt trap by design.

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 flows to a small handful of companies. There are 114 high-cost loan storefronts in the city, two or more than twice the number of Starbucks and McDonalds combined. Two out-of-state corporations own nearly half of all of the storefronts.

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. These high-cost loans, through their fee extraction and economic consequences primarily concentrated in Memphis's Black and Latino communities, 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.

DEBT TRAP BY DESIGN

High-cost lenders in Memphis are able to charge triple-digit rates because the Tennessee legislature has enacted laws allowing it. This report focuses on the following types of high-cost lenders licensed under Tennessee state law: payday loans, car title loans, and flex loans. Despite their different names, they share many characteristics, causing harm to borrowers: triple-digit APR, coercive repayment mechanisms such as bank account access, and no assessment of whether the borrower can make the loan payments without re-borrowing or defaulting on other debt. **See Table 1.**

TABLE 1: Characteristics of High-Cost Lenders in Memphis

	Triple-Digit APRs	Coercive Repayment Mechanism	Assessment of Ability to Repay
Payday Loans	✓	✓	✗
Car Title Loans	✓	✓	✗
Flex Loans	✓	✓	✗

Though marketed as a quick financial fix to tide over an occasional emergency, these high-cost loans create a long-term cycle of debt. In the words of one borrower, "…These loans are not meant to be paid off and trap the consumer."[1] And, from another, "…after fees and how they set up your biweekly payments, only a small amount goes toward the principal, which makes it impossible for payoff."[2]

This debt trap is by design. The combination of triple-digit interest rates, coercive repayments, and a disregard for whether the loan is affordable creates a loan product that is nearly impossible to repay without re-borrowing.

High-cost lenders' bottom line is driven by the cycle of re-repeat relending. For example, the typical payday borrower is stuck in 10 payday loans a year, typically back to back.[3] This debt trap drives the business model: over 75% of all payday loan fees are generated by people stuck in more than 10 loans a year.[4] By the time a borrower eventually spins off this debt cycle, they will then be subject to insufficient fund fees, aggressive debt collection, and ultimately bank account closures or bankruptcy. For car title loans, devastating consequences include the seizure of a borrower's car. Between 2014 and 2019, car title lenders seized over 101,000 cars from Tennesseans.[5]

For a detailed analysis of each of the types of high-cost loans (payday loans, car title loans, and flex loans) in Memphis and the resulting harms, see **Appendix A**.

THE CONCENTRATED NATURE OF THE HARM

Where are High-Cost Lenders Located?

In Memphis, there are 114 high-cost lending storefronts, more than twice the number of McDonalds and Starbucks combined.[6] The burdens of these storefronts are not shared equally across the city. Rather, the harm and wealth stripping effects of these high-cost lenders are disproportionately located in Memphis neighborhoods with higher percentages of Black and Latino residents. See **Figures 2** and **3**. 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. A list of storefront counts by zip code is included in **Appendix B**.

SOURCE: Hope Policy Institute analysis of U.S. Census data and list of licensed lenders from the Tennessee Department of Financial Institutions, as of Aug. 6, 2021.

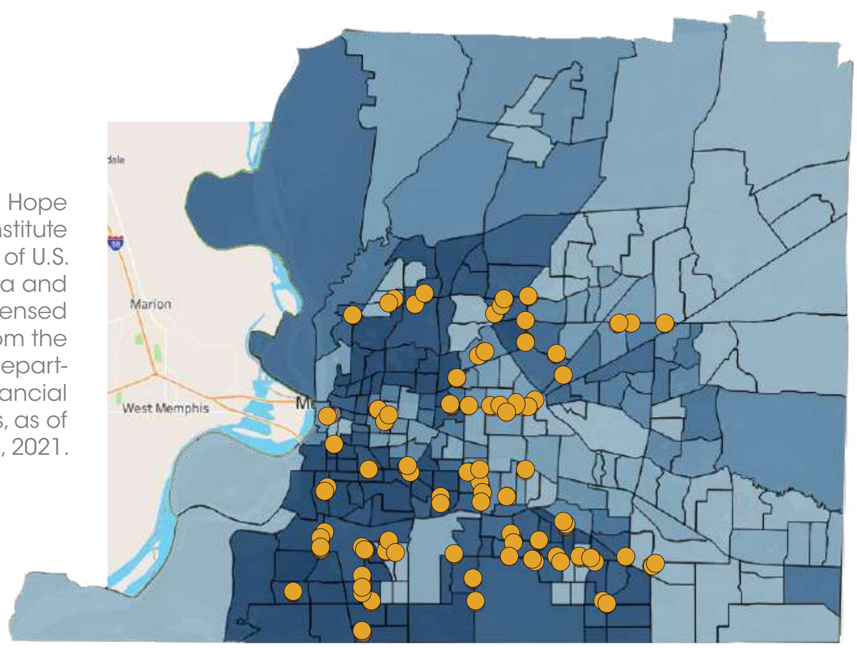


FIGURE 2: Location of High-Cost Lenders in Memphis and Percent Black Population, by Census Tract

Black Percentage
- 0%
- 10%
- 20%
- 30%
- 40%
- 50%
- 60%
- 70%
- 80%
- 90%
- 100%

SOURCE: Hope Policy Institute analysis of U.S. Census data and list of licensed lenders from the Tennessee Department of Financial Institutions, as of Aug. 6, 2021.

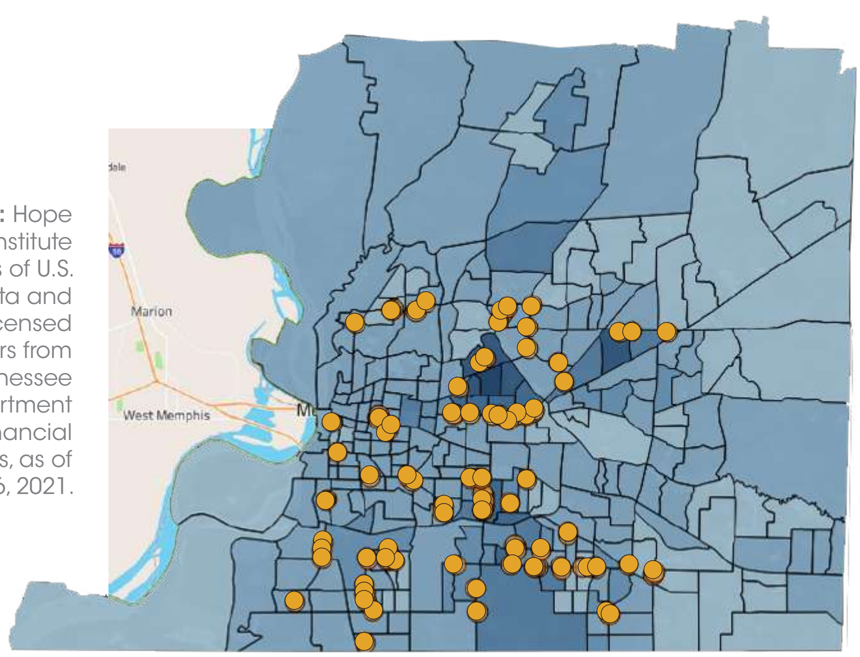


FIGURE 3: Location of High-Cost Lenders in Memphis and Percent Latino Population, by Census Tract

Latino Percentage
- 0%
- 10%
- 20%
- 30%
- 40%
- 60%

Who Owns the High-Cost Lenders in Memphis?

Not only are the storefronts concentrated in certain areas of the city, the stores are highly concentrated in terms of the companies that own them.

The scattering of storefronts may create the perception of companies' response to high demand. The reality is that it is a relatively small number of large corporations with bottom lines driven by people trapped in a long-term cycle of debt, where the budget gap created by one high-cost loan is filled by the next, and so on, and so on.

The 114 storefronts in Memphis are owned by just 21 lending companies, and 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. See **Table 2**. Of the 43 licensed flex-loan lenders in the city, nearly half are owned by a single out-of-state car title lender.

TABLE 2: Out-of-State Lenders in the Memphis Market

Populus Financial Group, Inc./Ace Cash Express	29	Texas
TitleMax/TMX Financing	23	Georgia
Buckeye Check Cashing of Tennessee, LLC	5	Ohio
Nice Loans Advance LLC	5	Illinois
Tennessee Title Loans, Inc	4	Georgia
Advance America, Cash Advance Centers of Tennessee, Inc.	3	South Carolina
Southern Specialty Finance, Inc.	3	Ohio
Cash Quick V, LP	1	Texas
Title Cash of Tennessee, Inc.	1	Alabama
Total Storefronts Owned by Out-of-State Lenders	**74**	
Total Storefronts in Memphis	**114**	

SOURCE: Hope Policy Institute analysis of list of licensed lenders from the Tennessee Department of Financial Institutions, as of Aug. 6, 2021

While this analysis examines only the concentration of storefronts in the city of Memphis, additional licensed high-cost lenders extract fees from residents through their online lending presence. For example, the state's largest high-cost lender, measured in storefronts, does not have any stores in Memphis but does offer loans online. Complaints from the Consumer Financial Protection Bureau's database reveals stories of harm from Memphis residents stuck in online loans from the state's licensed lenders as well.

DEBT TRAPS WIDEN THE RACIAL WEALTH GAP

The combination of the extractive fees, economic consequences of high-cost loan products, and location of these storefronts in communities of color exploit and repeat vast economic disparities in Memphis, particularly along racial lines. Though these high-cost loans are touted as a safe, affordable option to ease financial stress, the reality is that they deepen it. Beyond the extraction of fees on their triple-digit interest loans, these loans create a cascade of consequences, such as increased likelihood of overdraft fees, defaulting on other bills, involuntary bank account closures, and even bankruptcy. These harms are neither exclusive nor exhaustive and extend to psychological stress caused by unaffordable debt, strain on other community and family members, and the subsequent inability to build wealth in the future.

These consequences are harmful and particularly pronounced in Memphis, a city with deeply entrenched economic and racial inequality. For example, in terms of access to financial services, 45% of Black Memphis households are unbanked or underbanked, as are over 50% of Latino households, in contrast to only 15% of white households.[7] Given that high-cost loans, such as payday loans, which are made to people with an existing bank account, are disproportionately located in communities of color and increase the likelihood of involuntary loss of a bank account, these high-cost loans push people out of the mainstream financial system. For car title loans, people have a car at loan origination, typically owned free and clear, but frequently, these lenders seize the car after the borrower has exhausted the debt cycle.

Having a bank account is a critical gateway to economic opportunity, as research shows that bank account access increases one's likelihood of homeownership and other wealth building opportunities. The absence of a bank account increases the expenses that people will incur in day-to-day transactions. This is yet another way in which these high-cost loans widen the already vast racial wealth gap in Memphis. One way of measuring wealth is liquid asset poverty, which measures whether someone has a financial cushion sufficient to subsist at poverty levels for 90 days after an unexpected loss of income. 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. These high-cost loans, through their fee extraction and economic consequences primarily concentrated in Memphis's Black and Latino communities, perpetuate this gap.

SOLUTIONS

Given the damage of these high-cost loans to their neighbors and communities, leaders in Memphis have sought to mitigate these harms using the tools available to them. In 2009, the city of Memphis and Shelby County enacted a joint ordinance prohibiting new storefronts to be built within 1000 feet of people's homes. A decade later, in September of 2020, still confronted with the consequences of these lenders, the City Council passed a resolution calling for the state legislature to revoke and ban business licenses for all payday lenders, a policy change for which the city does not have the authority to enact.[8] The resolution acknowledges the concern that these loans "cost most borrowers triple-digit interest rates, trap borrows in repeat loans, foster coercive debt collection practices, and endanger bank account ownership for families that live on the financial edge." It also recognizes the higher concentration of storefronts in Black neighborhoods than in white neighborhoods. As such, the resolution concludes in support of state legislation that will "cease predatory lending," to "improve the financial lives of families within the City of Memphis and throughout the entire state of Tennessee."

Beyond local elected officials, the faith community is also working to lend a hand to people struggling in the debt trap. This has long been true as churches, food banks, and charities have borne the cost of these high-cost loans in their communities, straining already scarce resources. For example, a study in Texas showed that Texas Catholic Charities spent over $1 million in resources to help people who could not make ends meet because of payments extracted by high-cost lenders.

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. In announcing the partnership, Rev. J. Lawrence Turner, President of the Black Clergy Collaborative, stated plainly how high-cost payday, car title, and installment loans were, "charging up to 450% interest on loans that effectively ensnare the working poor into webs of long-term debt."[9]

Ultimately, to stop the debt trap, the debt trap must be directly addressed. While the city and county are limited in their authority at the local level, policymakers at the state and federal level have the ability to roll back the dangerous elements of these high-cost loans. The most effective way to stop the debt trap is 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, and including Arkansas (which caps rates at 17%). Both the state legislature and Congress have the ability to enact such a cap to stop the debt trap in Tennessee.

Finally, the Consumer Financial Protection Bureau (CFPB), a federal watchdog agency to prevent unfair, abusive, and deception financial practices, also has the authority to rein in harmful high-cost lending practices. Borrowers can file complaints directly with the agency, and more importantly, the CFPB has the ability to issue new rules that ensure high-cost lenders, such as those in Memphis, do not endlessly trap people in unaffordable cycles of debt as they do now.

APPENDIX A:
HIGH-COST LOANS IN MEMPHIS

Payday Loans:

What are they: As permitted by state law, payday loans can result in 460% annual percentage rate (APR) on a loan due in full in 14 days. In fact, many payday lenders charge the highest rate allowed under state law. See **Table 2**.

TABLE 2: Advertised APRs for a $300, 14-Day Payday Loan

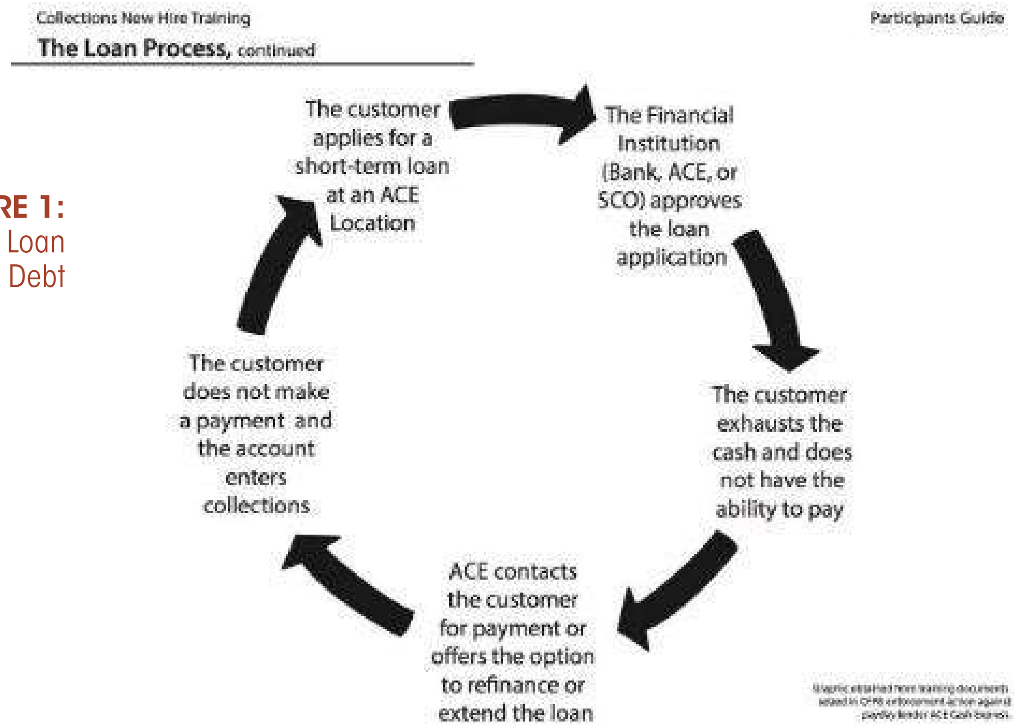
Lender	APR
Advance America	460.07%
Check Into Cash	460.07%
Ace Cash Express	458%
Check N Go	460.07%
Buckeye Check Cashing, dba Community Choice Financial*	459.90%

*available online only. In store, only title loans and flex loans are offered

Payday lenders take access to a borrower's bank account either through requiring a post-dated paper check or electronic bank authorization (ACH) as part of the loan transaction. This means that on the day a borrower receives their income – whether it be their paycheck, stimulus check, or Social Security check – the payday lender stands first in line for repayment, before a borrower has the chance to make choices about rent, grocery, child care, or other things.

The harm: The repayment of the payday loan in full, plus the fees, puts the borrower in a deeper hole than when they started, with the payday lender making a new loan to fill the hole caused by the previous one. The largest payday lender in Memphis, in terms of storefronts, put this cycle of debt directly into its employee handbook. See **Figure 1**. The typical payday borrower is stuck in 10 payday loans a year, typically back to back.[10] This debt trap drives the business model: over 75% of all payday loan fees are generated by people stuck in more than 10 loans a year. [11] By the time a borrower eventually spins off this debt cycle, they will then be subject to insufficient fund payments, aggressive debt collection, and ultimately bank account closures or bankruptcy.

FIGURE 1:
The Payday Loan Cycle of Debt



Car Title Loans:

What are they: Like payday loans, car title lenders charge triple-digit interest rates. For example, a $300 loan at one Memphis lender, carries $66 in charges, resulting in a 267% APR when the full $366 is due in full in 30 days.[12] Like payday lenders, car title lenders take extreme repayment leverage over the borrower. Rather than gaining access to a bank account, car title lenders take access to a borrower's car title in exchange for providing the loan. If a borrower is unable to repay the loan in full, the car title lender can seize the car and sell it, or the borrower can pay the fees again to renew the loan for another 30 days in order to avoid repossession.

The harm: Data show that, nationally, car title borrowers refinance a car title loan 8 times on average, re-paying the fees each time. Despite advertised promises that a borrower is able to keep their car, thousands of borrowers end up with their car seized by the lender. In Tennessee, in 2019, the most recent year available, nearly half (45%) of car title loans made that year defaulted, and over 11,000 cars were repossessed.[13] Between 2014 and 2019, car title lenders seized over 101,000 cars from Tennesseans.[14]

Flex Loans:

What are they: Created by the state legislature in 2014, flex loans are an open ended line of credit. However, flex loans can be like payday loans and take direct access to a borrower's bank account or like a car title loan where the lender takes access to a borrower's car title. Like the other high-cost lenders in the market, the charges on flex loans equate to triple-digit APRs, upwards of 279%.[15] In the words of one Memphis borrower, "due to the insanely high predatory interest rate of 279 %, I was unable to keep up with the payments."[16]

The harm: Like the other high-cost loans in the market, these flex loans are debt traps by design. Given the loans' repayment structure, for a $500 loan where a borrower makes the minimum required payments, after three years she will have paid over $2,600 in fees and interest, yet still owe $167 in principal.[17] As one borrower described it, "after fees and how they set up your biweekly payments, only a small amount goes toward the principal, which makes it impossible for payoff."[18] Tennessee data reveal that a high number of these loans ultimately fail but are still highly lucrative for the lenders who make them due to their ability to generate excessive fees.[19] The consequences of default on a flex loan for borrowers, however, can be extremely devastating, including the seizure of a borrower's car.

APPENDIX B:
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
38108	0	Cordova
38127	5	Frayser
38126	1	South Forum / Washington Heights
Total	**114**	

[1] Consumer Financial Protection Bureau, Complaint Database, Consumer Complaint No. 3566806., Mar. 14, 2020
[2] Consumer Financial Protection Bureau, Complaint Database, Consumer Compliant No. 3345280, Aug. 17, 2019.
[3] Consumer Financial Protection Bureau, Payday loans and deposit advance products: A white paper of initial data findings (2013), https://files.consumerfinance.gov/f/201304_cfpb_payday-dap-whitepaper.pdf
4 CFPB White Paper, Payday Loans and Deposit Advance Products at 22, 2013, https://files.consumerfinance.gov/f/201304_cfpb_payday-dap-whitepaper.pdf#page=22
[5] Tennessee Department of Financial Institutions, Annual Reports 2015, 2016, 2017, 2018, 2019, and 2020, available at https://www.tn.gov/tdfi/tdfi-info/tdfi-annual-report.html
[6] Hope Policy Institute analysis of licensee data for deferred presentment providers, title pledge lenders and flexible credit lenders from the Tennessee Department of Financial Institutions as of August 6, 2021, and McDonalds and Starbucks Store locators, showing 8 McDonald's and 24 Starbucks.
[7] Prosperity Now Scorecard, https://scorecard.prosperitynow.org/data-by-location#city/4748000
[8] City of Memphis, "A Resolution urging State Legislators to revoke and ban business licenses for payday lenders," Sept. 15, 2020
[9] Rev. J. Lawrence Turner, "Memphis must work towards ending predatory payday lending in our community," Sept. 2, 2021, https://www.commercialappeal.com/story/opinion/2021/09/02/predatory-loans-have-grip-memphis-lets-work-undo-damage/5686746001/
[10] Consumer Financial Protection Bureau, Payday loans and deposit advance products: A white paper of initial data findings (2013), https://files.consumerfinance.gov/f/201304_cfpb_payday-dap-whitepaper.pdf
[11] CFPB White Paper, Payday Loans and Deposit Advance Products at 22, 2013, https://files.consumerfinance.gov/f/201304_cfpb_payday-dap-whitepaper.pdf#page=22
[12] APR as advertised on Golden Title Loans, https://745cash.com/rates (visited on Nov. 21, 2021).
[13] Tennessee Department of Financial Institutions, 2020 Annual Report, page 55, https://www.tn.gov/content/dam/tn/financialinstitutions/new-docs/2021-department-documents/2020%20Tennessee%20Department%20of%20Financial%20Institutions%20Annual%20Report.pdf
[14] Tennessee Department of Financial Institutions, Annual Reports 2015, 2016, 2017, 2018, 2019, and 2020, available at https://www.tn.gov/tdfi/tdfi-info/tdfi-annual-report.html
[15] APR as advertised on the website of Advance Financial, https://www.af247.com/tennessee-flex-loans/ (visited on Nov. 21, 2021). See also, website for Advance America, https://www.advanceamerica.net/store-locations/tennessee (last visited on Nov. 21, 2021). Under the Flexible Credit Act statute, the high-cost lender can charge 24% interest plus an additional fee of .7% daily.
[16] Consumer Financial Protection Bureau, Complaint Database, Consumer Complaint Narrative, Feb. 3, 2021. Consumer Complaint No. 4112455
[17] NewsChannel5, "Critics Call 279% Loan A `Debt Trap'," Feb. 16, 2016, https://www.newschannel5.com/news/newschannel-5-investigates/consumer-alert/critics-call-279-loan-a-debt-trap-for-poor
[18] Consumer Financial Protection Bureau, Complaint Database, Consumer Complaint Narrative, Feb. 3, 2021. Consumer Complaint No. 4112455
[19] Tennessee Department of Financial Institutions, 2020 Annual Report, (finding that in 2019, "Bad debt expense represented approximately 38% of total operating income," while simultaneously flex loan lenders reported over $116 million in net income that same year). https://www.tn.gov/content/dam/tn/financialinstitutions/new-docs/2021-department-documents/2020%20Tennessee%20Department%20of%20Financial%20Institutions%20Annual%20Report.pdf

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