THINK TENNESSEE

POLICY BRIEF

Tennesseans hold too much distressed debt.

The state's residents now hold over $51,000 in debt per capita; increasing debt levels are harming families.

Almost all Americans take on debt during their lifetime, but not all forms of debt are harmful to their financial health. Debt can help people to become homeowners, attend college, purchase vehicles, and start new businesses. When debt payments are high compared to one's earnings, however, it can lead to delinquencies, collections, and bankruptcy. This can damage a person's credit score, push them towards predatory loans, and lead them to put off life milestones like buying homes and having children; all of these outcomes can harm both people's lives and the economy's long-term health.[1]

The state government of Tennessee has very little debt—only $893 per person, the lowest state debt per capita in the nation.[2] However, per capita household debt* in Tennessee is $51,160, ranking 20th nationally.[3] Furthermore, Tennessee ranks amongst the worst in the nation in several measures of distressed household debt.

MEDICAL DEBT IN COLLECTIONS
44th
TN RANKING

STUDENT LOAN DEBT IN COLLECTIONS
42nd
TN RANKING

AUTO LOANS 60+ DAYS DELINQUENT
42nd
TN RANKING

OTHER DEBT 60+ DAYS DELINQUENT
31st
TN RANKING

This policy brief includes four parts:

PART 1 | Debt in Tennessee Understanding how much debt Tennesseans have and how that differs by demographics and geography.

PART 2 | Distressed Debt Providing information on debt that is delinquent, in default, and in collections as well as causes of distressed debt.

PART 3 | Impacts of Debt and Delinquency Showing how delinquent debt impacts the financial, economic, and physical health of Tennesseans.

PART 4 | Policy Recommendations Presenting ways Tennessee can improve the economic health of families by helping prevent distressed debt.

KEY FINDINGS

1. Per capita debt in Tennessee has **increased 44% since 2010**—on average, **Tennesseans are over $50,000 in debt.**
2. **Tennessee's average household debt ($51,160) is lower than the national average ($59,580),** however **Tennessee has more debt that is in collections** (32%) than the nation as a whole (26%), and debt in collections is even higher for Tennessee communities of color (47%).
3. **Debt in Tennessee is not distributed equally**—the average debt-to-income ratio of Tennessee metro counties is 1.8, lower than rural counties at 2.0.
4. **Tennessee has many characteristics that increase the likelihood of high levels of debt and delinquencies,** including low incomes, high rates of unbanked households, high rates of cost-burdened households, and high rates of uninsured people.
5. High rates of debt and delinquencies are harming Tennessee families **through long-term detrimental financial consequences, negative health impacts, and may result in reduced economic growth. Tennessee ranks 49th in non-business bankruptcies.**

*Per capita debt is total statewide household debt, i.e. student loan, mortgage, credit card, and auto debt, per debt holder.

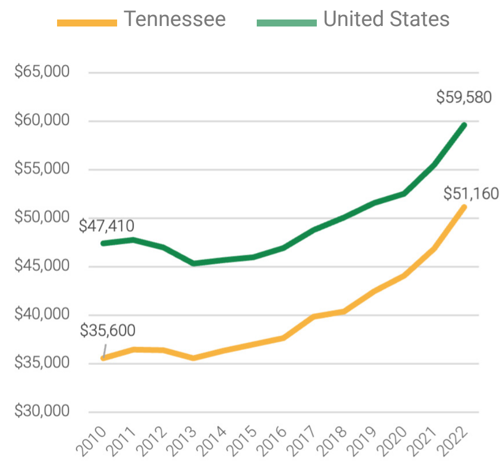
Household debt in Tennessee is rising rapidly. Per capita debt in Tennessee increased 44% from $35,600 in 2010 to $51,160 in 2022, a growth rate significantly higher than the 26% growth in the United States.[4] Some of this increase can be attributed to an increase in incomes—over the same time period, the median household income in Tennessee increased 57% compared to 49% in the United States as a whole.[5] People with higher incomes have more debt—they buy more expensive homes, cars, and goods—however they are less likely to go into default.[6]

Debt is not distributed equally for Tennessee residents. Debt-to-income ratios demonstrate who may be at risk for not being able to pay off their debt—a ratio below 1.35 is considered healthy. Overall, Tennessee residents have a debt-to-income ratio of 1.5, ranking 24th nationally, however debt-to-income varies significantly.[7]

- **Non-White families have higher debt-to-income ratios.** Nationally, debt-to-income ratios are higher for Hispanic, Black, and Asian households.[8] Households of color tend to have more consumer debt, particularly high-interest loans like payday loans, credit card debt, and installment credit. Nationally, only 2% of White households have payday loans, compared to 6% of Black households and 3% of Hispanic households.[9]

- **Rural Tennesseans are more likely to have high debt-to-income ratios.** Rural Tennesseans have less access to credit and banking than the general population; therefore, they are more likely to use non-depository lenders that provide loans at less favorable terms or higher costs than banks.[10,11] Debt-to-income ratios range widely from a low of 0.76 in Lewis County to a high of 7.20 in Van Buren County.[12]

From 2010 to 2022, per capita debt in Tennessee increased 44%.



Per capita debt in Tennessee and United States, 2010-2022 (Source)

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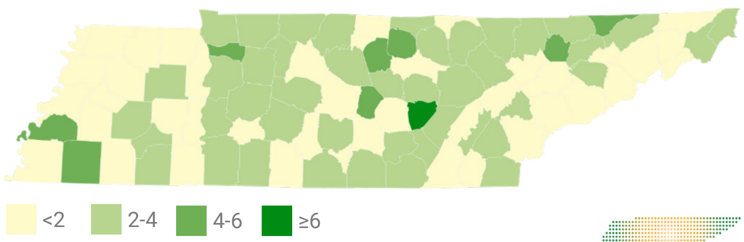
Some rural counties in Tennessee have a higher average debt-to-income ratio.



Debt-to-Income Ratio by County in Tennessee, 2022

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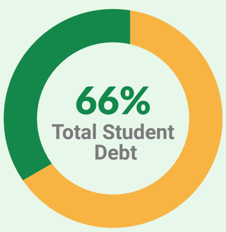


Women Hold Two-Thirds of Student Debt

Nationally, men have more debt than women, including 16% more auto loan debt, 10% more mortgage debt and 2% more credit card debt.[13] However, women have significantly more student loan debt than men, holding 66% of all student debt.[14]

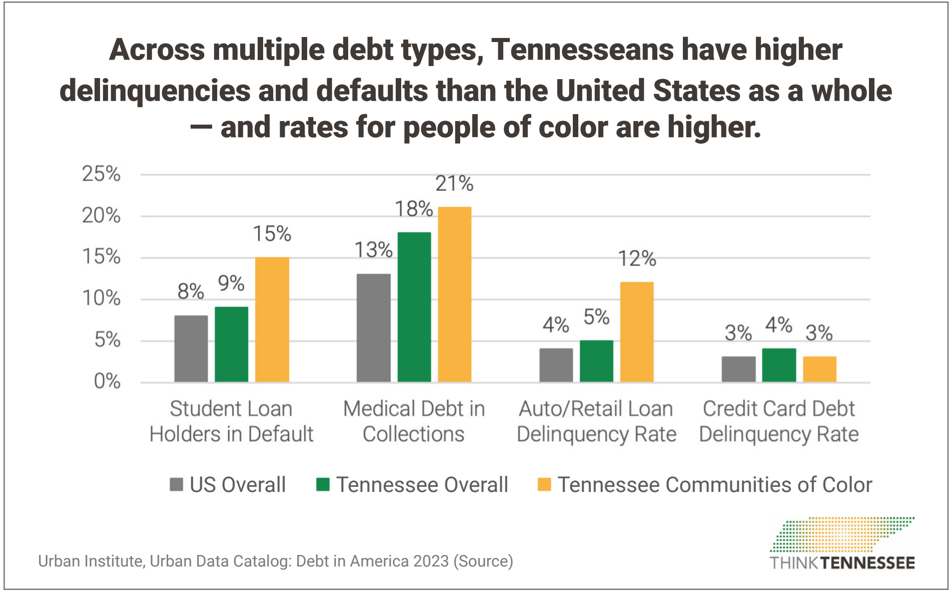
- **Women receive less family support for school.** Women take out more student loans, in part, because they receive less tuition support from their families than men—10% of men's parents paid for the majority of college compared to only 6% of women.[15]

- **Women earn less, making it harder to pay off student loans.** On average, women leave school with over $31,276 in debt, compared to men at $29,270, and take an additional two years to pay back their student loans, in part because women are paid less than men—82 cents to every dollar their male peers earn—and are more likely to be single parents than men.[16,17,18,19]

- **Student debt is impeding women's financial health.** Women are more likely to report that their student loan debt has impeded their ability to keep up with daily expenses and save for retirement.[20]

- **Black women experience these impacts more severely than White women**—they are more likely to be responsible for a larger portion of their tuition expenses, take on more debt, and have an even larger wage gap when leaving school, making it more difficult to manage student loan debt.[21]

Tennessee has very high rates of delinquent debt, despite overall debt levels in Tennessee being lower than national averages. Tennessee ranks 38th nationally in debt in collections; 32% of Tennesseans who have a credit report have debt in collections, higher than the United States at 26%.[22] The median amount in collections is $1,892, higher than the national median of $1,739. Across most types of debt, Tennessee has higher rates of delinquent debt, debt in default, or in collections.[23]



Debt Definitions

Secured Debt – Debt that is backed by collateral, such as a car or house. When in default of secured debt, the collateral can be repossessed by the lender.

Unsecured Debt – Debt that is not secured by collateral.

Delinquent – When someone is late to make a payment on a loan, they are considered delinquent.

Default – When someone has failed to make loan payments over an extended period, they will enter default, and the entire balance of their loan is due.

In Collections – When a loan is in default, a lender may send a lawyer or a third-party company to collect the loan.

There are several factors that could be contributing to Tennessee's high rates of debt delinquency and default. Many factors influence debt, particularly rates of delinquency and default, including:

- **Low Incomes –** For all types of debt, low- and moderate-income people have the highest delinquency rates.[24] Tennessee has lower incomes than in many parts of the country—the median income in Tennessee is $65,254, about 81% of the national average, and 13.3% of Tennesseans live below the poverty line.[25,26]

- **Unbanked Households –** Without access to mainstream banking, households are more likely to rely on more expensive and riskier financial products including payday lending, rent-to-own services, and auto title loans.[27] Tennessee ranks 35th for unbanked households—statewide, 5% of households are unbanked, and rural households are more likely to be unbanked (7%).[28,29]

- **Housing and Transportation Costs –** A household is cost-burdened if these costs exceed 50% of household income, and in Tennessee, moderate-income families spend an average of 64% of their income on housing and transportation expenses.[30] This leaves less income to spend on other expenses and can create a reliance on debt to meet the remaining household needs, like childcare, education, healthcare, and food.

- **Lack of Medicaid Expansion and Low Rates of Health Insurance Coverage –** Medical debt is highest in states that have not expanded Medicaid.[31] In these states, fewer people have Medicaid coverage and are responsible for medical care that they may not be able to afford. Tennessee is one of only 10 states that have not adopted Affordable Care Act Medicaid Expansion.[32] In addition, low rates of health insurance coverage are highly correlated with medical debt.[33] In Tennessee, almost one in 10 residents do not have health insurance, making them more susceptible to unexpected medical expenses.[34] Tennessee ranks 12th nationally, with an average medical debt of $2,663.[35]

- **Auto Dependency –** Due to a lack of transportation options, many people in Tennessee are dependent on driving to get to work, school, or other necessary trips—many Tennessean's jobs are not accessible via transit.[36] This auto-dependency requires that people take on significant debt to ensure that they can get to and from work and other of life's necessities.[37] In 2022, the average auto loan balance in Tennessee was $23,878, 7% higher than in 2021.[38]

PART 3 Impacts of Debt and Delinquency

High rates of debt delinquency and default could have severe negative impacts for Tennesseans.

Financial Impacts – Excessive debt and debt in default lowers credit scores. Low credit scores can have far-reaching impacts, including denial of traditional banking services, higher financing costs on loans, higher deposits for utilities, and higher insurance premiums.[39] The average credit score in Tennessee is 702, lower than the national average of 714, and ranking 39th nationally. Unpaid debt can eventually lead to court judgments, garnishments of wages, and liens.

Bankruptcy – When facing significant debt, many people turn to bankruptcy for relief. In Tennessee, the consumer (non-business) bankruptcy rate is 2.44 per 100,000 people, ranking 49th nationally.[40]

Housing and Employment Impacts – Mounting debts can lead to missed rent and mortgage payments and may ultimately result in eviction and foreclosure. A low credit score can result in denial of a rental housing or mortgage application. Many jobs perform a credit check prior to making hiring decisions—people with low credit scores or outstanding debt may be disqualified from employment, exacerbating the challenge of getting out of debt.

Health Impacts – Debt, particularly unsecured debt, can have significant health impacts, including depression and anxiety, high blood pressure, obesity, inflammation, and lower life expectancies.[41] High amounts of unsecured debt have been shown to correlate to increased heart attack risk for Black adults.[42] People with medical debt are likely to forgo needed medical care, and are sometimes barred from receiving medical care at institutions where they have accrued debt.[43,44]

Court Fines and Fees

Court fines and fees are a source of debt for many Tennesseans. There is an estimated $27.6 billion in court debt nationally, however due to a lack of data tracking, it is impossible to know how much court debt Tennesseans have and how that debt is impacting the economic stability of Tennessee families.

- In Tennessee, this type of debt disproportionately impacts rural residents, low-income people, and communities of color.[45]
- Court fines and fees create barriers to re-entry after imprisonment—making it more difficult to find a job, housing, and transportation.[46] Removing or reducing fines and fees can reduce recidivism.[47]
- While Tennessee allows for waiving fees, payment plans, and other mitigation, these measures are insufficient and inconsistently used.[48]

PART 4 Policy Recommendations

Enhance Consumer Protections

Strengthen consumer protections for unbanked and underbanked families, such as lowering maximum interest rates for loans.

Prioritize Financial Education

Expand and scale more local financial literacy and empowerment programs that provide financial counseling for those that need it.

Reduce Auto-Dependency

Improve non-auto transportation options to relieve people of auto debt and expenses.

Expand Medicaid

As authorized under the Affordable Care Act, increase the number of Tennesseans with access to health insurance.

Increase Affordable Housing

Expand the supply of affordable housing, both renter- and owner-occupied, for low-income families.

Improve Data Tracking

Establish better data collection and transparent distribution of court fines and fees to support fines and fees reform.

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