DEBT COLLECTION LAB

California Debt Collection Lawsuits, Geography, Credit, and Race/Ethnicity: An Exploration

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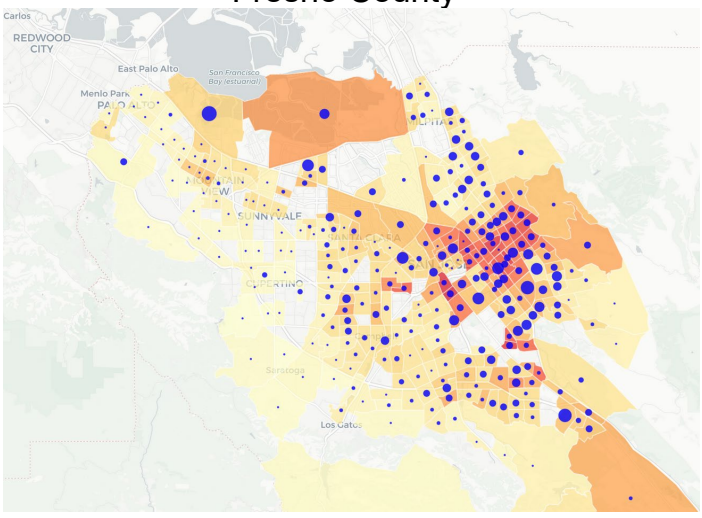
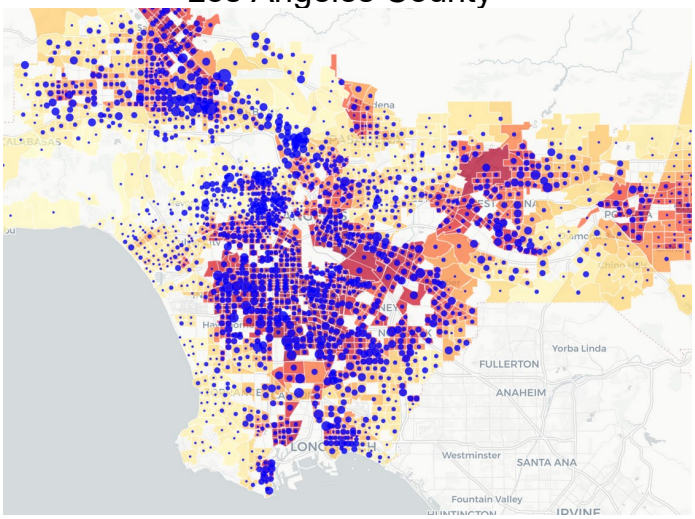
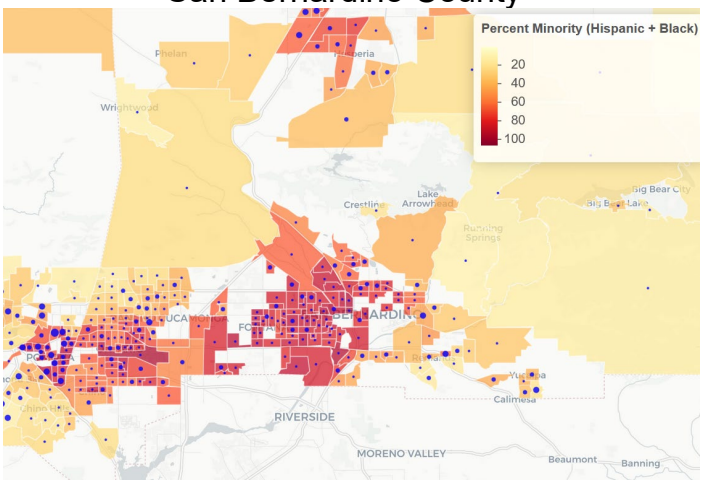
Fresno County



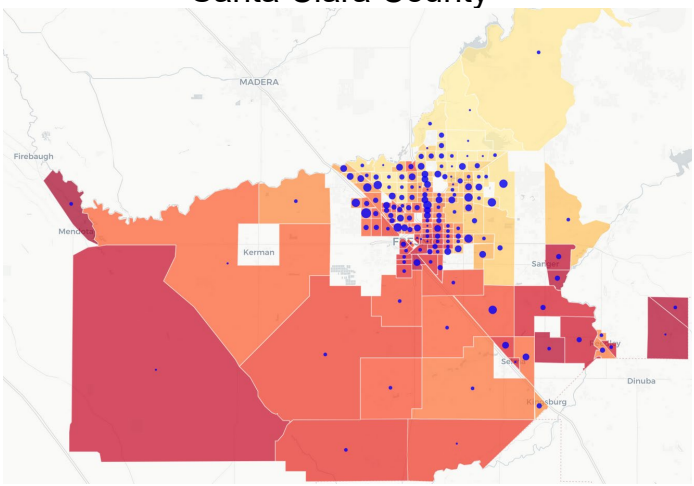
Los Angeles County



San Bernardino County



Santa Clara County



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EXECUTIVE SUMMARY

Approximately 2.75 million debt collection cases were filed in California state courts from 2009-2020.[1] About a quarter of all cases in California state court civil courts are attributable to debt collection cases.[2]

This Report focuses on four counties in California—Fresno, Los Angeles, San Bernardino, and Santa Clara—over the period 2017-2020. It combines data from court records, the United States Census and American Community Survey, and anonymized credit report information from a national credit reporting agency to engage in a by-neighborhood analysis of the effect of race, income, education, and household composition on case outcomes and credit panel variables such as delinquencies and bankruptcies.

Using a random sample of debt collection cases in these four counties, we impute the race/ethnicity of defendants sued using Bayesian Improved Surname Geocoding (BISG). Uncovering some of the unique, state-level challenges with debt collection lawsuits related to geography, credit, race and ethnicity, our findings show that debt cases fall disproportionately on those in marginalized communities.

Findings reveal details about debt litigation in California that show why and how courts and advocates should improve services delivery to unrepresented consumers in debt collection lawsuits. **Income differences account for part of the disparity but do not fully explain the differences along racial/ethnic lines**, suggesting that other factors, such as systemic issues or discrimination, are also at play. The data also show racial disparities in the average credit score of the neighborhoods where individuals are sued for debt, and in case outcomes when controlling for other demographic variables such as income, education, and family composition. **Californians living in zip codes where 67% or more of the population identifies as Hispanic have among the lowest number of collection accounts on their credit reports on average and yet are sued in debt collection cases at rates that are more than twice as high as their White counterparts.**

In the sample studied, **consumers file a response with the court at abysmally low rates (6% overall during the period)**, which is consistent with previous work highlighting the barrier to access that California's $225 answer fee poses for debt collection defendants.[3] Response rates are also starkly different by race and ethnicity. **Individuals identified as Asian respond in 8.3% of cases at the highest whereas Hispanic individuals respond in 4.8% of cases** on the lower end (the average response rate is 5.9%).

Responding to a debt case stops the entry of default judgment and buys the defendant more time to settle the case. Failure to respond often leads to a default judgment. In our sample, **70% of cases where a defendant was served end in default judgment**; however, that rate is only 66% for Asian, 67% for White borrowers, 74% for Black, and 72% for Hispanic defendants. These two metrics go hand in hand, and the data show that courts and advocates would benefit from focusing efforts on closing this engagement gap.

Highlighting the urgency of debt collection reform, our findings identify how communities are harmed by debt cases and create an opportunity for courts to create targeted, intentional, and community-focused changes. Findings support recommendations that courts can and should improve outreach and plain-language communication to defendants in debt collection lawsuits to encourage more consumer participation. The harm that debt claims have impacts those least able to bear the cost of a default judgment. Solutions to these problems lie in targeted and intentional reforms that understand the communities impacted: disproportionately non-White, low-income, people with children in the home, and without a college degree.

INTRODUCTION

Debt collection lawsuits are a significant financial burden across the nation, often exacerbating existing economic hardships. These legal actions can result in detrimental consequences, such as garnished wages, damaged credit scores and continuous financial instability.

Policymakers, courts, and advocates across the nation are increasingly concerned about the consequences of unjust debt collection lawsuits. Such lawsuits can impose high costs relative to the underlying deficiencies that defendants often do not have to money to pay, much less the funds to satisfy a judgment in full, as they are already in poverty.[4]

California offers an interesting state-level laboratory to understand the prevalence of household debt collection and related outcomes geographically across California counties. Understanding the dynamics of these lawsuits and how they intersect with demographic facts and indicators of economic stability is critical for further identifying and addressing systemic inequalities.

This report examines the relationship between debt collection lawsuits and indicia of economic stability. We focus on debt collection actions and demographics in four counties in California: Fresno, Los Angeles, San Bernardino, and Santa Clara. These counties offer a broad spectrum of socio-economic conditions and racial compositions, providing a robust context for further analyzing the disparities in debt collection practices.

We take a detailed look at how debt collection lawsuit rates vary and analyze court outcomes, such as default judgments, defendant responses, and claims of exemption, to understand how these outcomes differ among racial groups. By exploring the link between lawsuits and delinquencies, we aim to highlight the overall financial health of the affected communities.

Additionally, we use regression models to explore how court outcomes relate to various socio-economic factors, such as income level and educational attainment. We conclude by discussing the implications of our findings, noting that the results from this report may not be applicable to other jurisdictions.

BACKGROUND

California is the third largest state in the U.S. by land area, and the most populous state in the U.S.[5] In 2020, 39.5 million people lived in California.[6] California is the second most diverse state in the U.S, after Hawaii.[7] No single race or ethnic group makes up the majority of the population of the state.[8] In 2020, 39.4 % of Californians were Hispanic, 41 % were White, 15.4 % were Asian, 5.7 % were Black, 14.6 % were multiracial, and 21.2 % were other races.[9] From 2010 to 2020, California saw a 6.9 % increase in the Asian population and a 5.6 % decrease in the White population.[10]

California is the second most indebted state, and the debt to salary ratio is 1.16.[11] In California, 21 % of individuals have debt in collections according to credit reporting data.[12] The majority of those with debt in collections live in communities of color.[13]

Consumer Debt and Collection Lawsuits

Consumer debt —which includes medical debt, student loans, credit card debt, mortgages, auto loans, and payday loans—has become increasingly common. In the third quarter of 2023, household debt rose by 1.3%, reaching 17.3 trillion dollars nationally.[14] This debt increase is driven by increasing mortgages, credit card debt, and student loan balances.[15]

State and federal laws can define consumer debts slightly differently, but generally refer to obligations incurred by an individual to pay for a good or service used for “personal, family, or household purposes.”[16] Consumer debts can be secured by collateral (for example, a typical car loan or home mortgage) but most typically are unsecured, meaning they are simply a contractual promise that the individual makes to repay the creditor (most often, someone who lent the consumer money). If the individual does not pay the debt as agreed, it becomes delinquent and eventually goes into default status. When this happens will vary because default is defined by the contract. In the context of a credit card, for example, once there is a default, the consumer will not be able to keep borrowing on the credit card even if they repay what they owe.

Sometime after default, creditors will “charge-off” the debt—an accounting procedure that means the collector does not expect full repayment anytime soon. In the case of credit cards, this typically happens around 180 days of nonpayment.[17] After default, and typically also after charge-off,[18] suit may be brought by the original creditor, a third-party collector assignee (e.g., someone who has permission to collect but does not own the debt), or a third-party debt buyer (e.g., someone who purchased the debt).[19] An original creditor is the originator of the obligation (i.e., the entity who lent the money, sold the goods, or provided the service), while third-party collectors are typically contracted to collect debts on behalf of the original

creditor for a period of time, and third-party debt buyers purchase the obligations at a steep discount, typically after charge-off.[20] Any of these parties may sue a consumer to collect a defaulted debt.

In California, original creditors can file a lawsuit in civil court or small claims court, but the bulk of these cases are filed in civil court.[21] This is because California prohibits small claims parties (plaintiffs or defendants) from being represented by an attorney.[22] Additionally, debt collectors and debt buyers cannot sue in small claims at all.[23] Although the limits were increased in 2024, during the study period, companies using small claim were only permitted to sue for up to $5,000.[24] As a result, ito study California debt cases, researchers must study civil lawsuits.

The California court splits civil cases into two categories: (1) unlimited civil and (2) limited civil.[25] During the study period (2017-20), unlimited civil cases included cases valued at $25,000 or more, or for equitable relief, excluding eviction cases.[26] Limited civil cases included cases valued below $25,000 and evictions (called unlawful detainers under California law), although this threshold has recently been raised to $35,000 (effective January 1, 2024).[27] Debt collection cases in limited civil jurisdiction are classified by the plaintiff as “collections cases” at the time of filing when the plaintiff selects a box designating the case in this category on the court-mandated civil case cover sheet.[28] Additionally, in limited civil cases, a litigant may elect to have the case classified as limited civil economic litigation, which allows for streamlined discovery and witnesses to appear at trial by affidavit.[29] It is to the plaintiff’s advantage to designate a case as limited civil economic litigation, because this case type category allows introduction of evidence through an affidavit, permitting entry of judgment on the papers alone. Cases are classified at the time of the first case management conference (status conference) when either party may select a box designating the case as within this category on the court-mandated Case Management Statement.[30]

A defendant in California must be notified of a lawsuit filed against them, and the notice must satisfy the due process requirements of the constitution.[31] Most commonly in California, civil service is completed by personal service.[32] After being served, the defendant has 30 days to reply if personally served, or 40 days to reply if using substitute service.[33] The defendant may respond by either filing an answer a general denial, or another responsive pleading like a motion to quash service or summons or a demurrer (California‘s version of a motion to dismiss for failure to state a claim for which relief can be granted).[34] Our data show that defendants who do respond almost always file an answer or general denial. Depending on the amount of money the plaintiff seeks to recover, the defendant must also include a payment fee of between $225-$435 or submit a fee waiver application.[35]

Most debt collection cases are filed by law firms hired by creditor plaintiffs, or by in-house legal departments within debt collection companies. In contrast, most consumers who are sued for nonpayment of a debt in California are unrepresented. Only 3.3% of defendants in our study sample of four counties over four years had an attorney. Consumers responded to lawsuits at a rate of 5.9%.[36] Defendants without an attorney in the sample used in Raba and Jiménez's article *Pay to Plead* filed a response in only 4.6% of cases. Here, those without an attorney filed a response in 2.9% of cases.[37] The sample used in this Report has a lower rate of attorney representation which is correlated with responding to the lawsuit. Correspondingly, we also have a lower rate of answer or other responsive pleading than in *Pay to Plead* which spans more years and counties.[38]

More than two-thirds of consumer debt lawsuits in California end in a default judgment for the debt collector.[39] After a debt collection suit results in a judgment, creditors seek a writ of execution to collect from defendants about half the time.[40] Many of those writs of execution are never satisfied, demonstrating that consumer defendants are unable to repay their debts.[41]

California has strengthened its fair debt collection state laws in recent years.[42] In particular, the 2013 California Fair Debt Buying Practices Act (CFDBPA) increases the documentation needed for debt buyers to bring suit, but only for debts bought on or after January 1, 2014.[43] Recent findings have indicated that the CFDBPA may have modestly improved the fairness of debt collection suits against defaulting borrowers.[44] Other debt collection legislation include the national Fair Debt Collection Practices Act (FDCPA), and California Rosenthal Fair Debt Collection Practices Act (Rosenthal Act), both of which prohibit deceptive, unfair, and harassing debt collection activity.[45]

Fresno, Los Angeles, San Bernardino, and Santa Clara

In total, California is made up of 58 counties.[46] This Report focuses on four of the most populous counties in California – Los Angeles, San Bernardino, Santa Clara, and Fresno – comprising 38.3% of the 2020 Californian population.[47] This cross section of counties provides a mix of rural and urban areas, different races and ethnicities, income brackets, family households, and education levels. Below we provide context on these counties based on the US Census.[48] The U.S. Census collects information about whether respondents are of Hispanic or Latino origin, using ethnicity as a category for Hispanic instead of race because Hispanic individuals may be of any race.[49] We follow the categories used by the U.S. Census in using ethnicity for people of Hispanic or Latino origin in our sample.

The population size of the four counties ranges from 1.0 million in Fresno to 10.0 million in Los Angeles. All four counties saw an increase in their population from 2010 to 2020, with Santa Clara seeing the largest percent increase of 8.4%.

Hispanics represent 48% of individuals in Los Angeles, San Bernardino, and Fresno counties. In Santa Clara, 39% of individuals are Asian. From 2010 to 2020, all four counties saw a decrease in the white population and an increase in the Asian population. Additionally, Los Angeles, San Bernardino, and Fresno saw an increase in the Hispanic population, while Santa Clara saw a 1.7% decrease. The Black population dropped less than one percent in all four counties from 2010 to 2020.

In 2020, the median annual household income in the four counties ranged from $61,401 in Fresno to $139,462 in Santa Clara. Santa Clara saw the largest increase in median household income from 2010 to 2020, with a 65 % increase.

Similarly, Santa Clara had the lowest percentage of individuals living below the federal poverty level in 2020 (6.6 %), while Fresno had the largest (17.1 %). However, Fresno saw the most dramatic reduction in those living below the federal poverty level from 2010 to 2020, with a 9.7 percentage point drop over that period.[50]

The percentage of households with children decreased across all four counties from 2010 to 2020. Of the four counties, Los Angeles has the least number of households with children (32.4%) and San Bernardino has the most (41.5%).

Of the four counties, Santa Clara consists of the largest percentage of individuals with a bachelor's degree or higher (53.5%), while San Bernardino has the lowest (21.4%).

THE DATA

To examine the relationship between credit, debt collection lawsuits, and race/ethnicity, we draw from three sources of data: credit reporting information from the University of California Consumer Credit Panel ("UC-CCP"), a sample of debt collection lawsuits from 2017-2020 in four of California's counties, and the American Community Survey ("ACS").

University of California Consumer Credit Panel (UC-CCP)

We obtained anonymized credit reporting information on Californians from the University of California Consumer Credit Panel (UC-CCP), a dataset that contains information for consumers obtained from one of the three nationwide credit bureaus. Created by a

collaboration between the UC Student Loan Law Initiative, the Student Borrower Protection Center, and the California Policy Lab, the UC-CCP "is a longitudinal panel of approximately 40 million consumers starting in 2004 and continuing quarterly through the present."[51] The data contain both a "nationally representative 2% sample … along with a full sample of 100% of Californians with credit histories."[52] A credit panel is a set of data that compiles information from millions of consumer credit reports. This anonymized information is reported on a quarterly basis for each individual in the data set.

Credit reports are organized by tradelines, each of which reports information about a consumer account (e.g., a credit card or a car loan). Tradelines may reflect open accounts in good standing, in which they report on-time or late payments. Tradelines also reflect debts that are delinquent or that have been sold or otherwise referred for collection. Credit reports also contain information about public records, which include bankruptcies and foreclosures. In this Report, we use average credit score, average number of delinquencies per person, total numbers of severe delinquencies per person (measured as tradelines that are 90 or more days delinquent), the average number of tradelines per person with a debt in collections, among others.

For this Report, we observed every anonymized credit record for the fourth quarter of every year between 2017-2020 in the California counties of Los Angeles, Fresno, San Bernardino, and Santa Clara counties for every person who had a credit report with the large nationwide credit reporting company that provided the data. The consumer information and the names of the creditors are anonymized, but each consumer is identifiable over time by a unique identifier. In this study, we observed credit panel data at the zip code level by year. To do this, we created variables for the total number and percent of consumer credit report events in each zip code and each year and we exported this data from the California Policy Lab so that we could join it to our American Community Survey census variables and our debt collection data set.

Debt Collection Lawsuit Court Records

We obtained data on debt collection lawsuits through a third-party vendor that scraped the full docket and all court case management fields from 16 counties in California.[53] California debt collection data is disaggregated, as each county has its own case management system and set of variables that are populated by court clerks. Because no California county maintains address information on the filing docket, for this study merging geography with other data sets we limit our sample to counties and cases where we could obtain proof of service documents from which the address information could reliably be extracted for the study years. That meant we use data from samples drawn from four diverse counties (Fresno, Los Angeles, San Bernardino, and Santa Clara) and years (2017-2020).

Attorneys for plaintiffs initiate a lawsuit through electronic filing, in a process that many counties make mandatory for represented parties. Attorneys for debt collectors input the information about the case into the electronic filing system and submit documents to the court through an e-filing portal. These documents are then served on a defendant by a process server, and proof of service is filed with the court, containing the address of service. Under California law, a person may be personally served, or substitute served by handing a copy of the lawsuit documents to another person at the home or place of business of the defendant.[54]This means that the initial data collected by the court about a defendant's address is submitted by the plaintiff's attorney and the process server. To avoid entry of default judgment in favor of the creditor, the defendant must then file an answer, general denial, or other responsive pleading with the court and pay a filing fee (or apply for a waiver of fees). The court clerk or the judge may also record information about events that happen in the case. All events that occur in a lawsuit are stored in the case docket.

Court record data is organized into three levels of information: caption-level data that describes the case name and type, the parties, and the attorneys; docket-level information that reflects events that occur in a lawsuit, such as party appearances, hearings, and documents filed with the court; and document-level information that is not recorded in the case management system, but must be gleaned by processing documents for optical character recognition and extracting text from the documents filed in a case.

Our variables were created from these three types of data. Values in caption-level data were normalized to correct misspellings and alternate spellings of plaintiff creditor party names, attorney, and law firm names. Once plaintiff names were normalized, we classified creditors as third-party debt collectors and original creditors by joining party names to plaintiffs registered as debt collectors with the California regulatory agency the Department of Financial Protection and Innovation, and by manual lookups of all creditors that filed more than 20 cases per year. To track events in cases, we created docket-level variables and populated these for events in a lawsuit based on information in the text of the case docket.

California does not record addresses for defendants in the publicly available, scrapable docket and caption-level data. To obtain addresses for consumer defendants, we obtained proofs of service from debt cases, which are returned to the court once a person is served in a debt case. These documents contain the address where a person is served. The counties we selected to study have the proof of service available for download at no cost. We obtained docket-level data for 11 years, 2009-2020, and for 16 counties. Of these counties and years, we identified the counties in which documents were available for free. We randomized the list of observations in our sample of cases, selected a random 5% overall sample, and downloaded the proofs of service. Documents were not available online for the earlier years, so upon review of the documents obtained, we limited our analysis to the years 2017-2020,

and selected the four counties studied here (N=409,449). We selected these counties both because they represent a cross section of California, and because the data are consistently available in these counties sufficient for a 95% or greater confidence level from our sample size for all years and counties. The sample percentages vary by year and population, as shown in Table 1.

Table 1 – Filing Rates per Jurisdiction and Cases Sampled. n=35,914

Jurisdiction	Filing Year	Total Debt Collection Filings	Cases Sampled	Percentage
Fresno	2017	5,261	497	9.45
	2018	7,722	753	9.75
	2019	8,669	986	11.37
	2020	5,656	561	9.92
Los Angeles	2017	46,268	3,338	7.21
	2018	80,886	7,943	9.82
	2019	92,776	9,472	10.21
	2020	63,941	6,693	10.47
San Bernardino	2017	13,087	455	3.48
	2018	20,122	803	3.99
	2019	24,016	1,012	4.21
	2020	12,615	541	4.29
Santa Clara	2017	5,182	291	5.62
	2018	7,900	842	10.66
	2019	9,136	1,062	11.62
	2020	6,212	665	10.71

We processed the documents with optical character recognition software, and then used regular expressions to scrape defendant address data from our selected sample. We used the Bing Maps API to submit the addresses for each defendant for geocoding, and we then used American Community Survey data to populate fields for census tract and block group.

American Community Survey

The third set of data in this Report comes from the American Community Survey (ACS) 5-year estimates for 2017-2021, released in December 2022.[55] The American Community Survey is an annual demographic survey conducted by the U.S. Census. We drew primarily from the DP05 “ACS Demographic and Housing Characteristics” table which contains estimates for the total population per zip code that identifies as White, Asian, Black, or Hispanic/Latino (of any race).[56] We also used the ACS S1501 (“Educational Attainment”) and S1101 (“Households and Families”) tables.

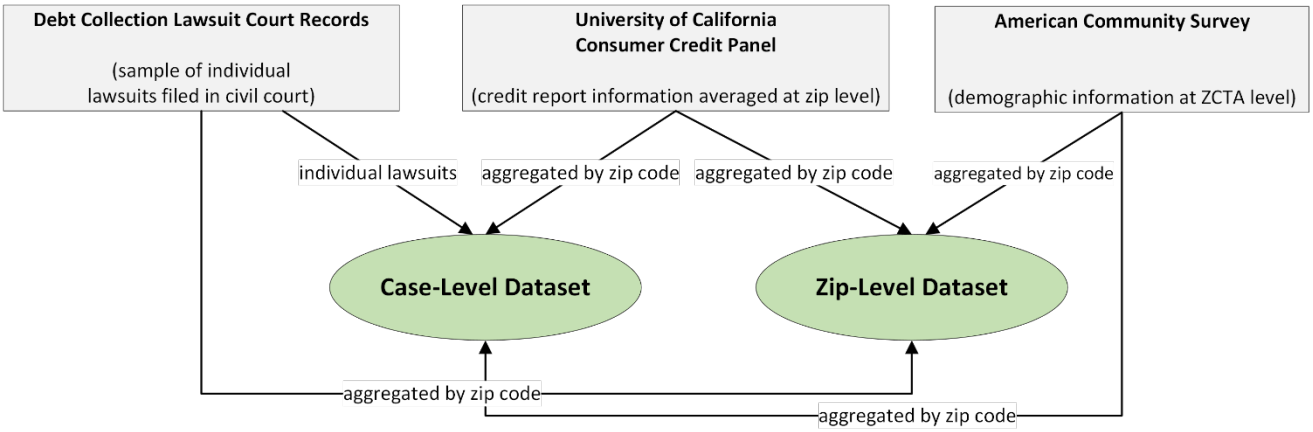
We joined tables downloaded from the United States Census website and we used the R library tidycensus to join ZCTA-level demographic variables for each zip code in our debt collection data. We used the five-year American Community Survey for our Bayesian Improved Surname Geocoding, joining this data at the census tract and block group level. This data was obtained by downloading files for each study county from the United States Census website.

We also obtained one-year ACS files to merge at the zip-code level. We downloaded these files from the U.S. Census website for the demographic variables we join to the debt collection lawsuit data set. We downloaded the full files for each one-year ACS for each study year for demographic data DP-05, S1501, and S1101. We also used the tidycensus library in R to make calls to the U.S. Census API to obtain information on the full population counts for our study counties, to calculate the filing rates per 1,000 persons.

METHODOLOGY

This Report uses three data sources that have been combined in two datasets: (1) a "case-level" dataset which has one row per person sued in our study counties and time period and aggregates the credit reporting and demographic information to zip code and (2) a "zip-level dataset" that combines lawsuit, credit reporting, and ACS demographic information at the level of zip code and year. Figure 1 graphically represents the composition of the two datasets we analyze.

Figure 1 - Datasets



All analysis was performed using R, version 4.3.1, using libraries in the Tidyverse for data analysis, cleaning, and normalization, statistical analysis library stats, and ggplot2 for data visualization.

Case-Level Dataset

To analyze lawsuit rates by race and across time, we created a dataset where each row represents a lawsuit against one person (we use the first defendant if the case had more than one).[57] After obtaining the address information for defendants, we used Bayesian Improved Surname Geocoding (BISG) to predict the race of a person based on the census tract and block group in which they reside with the R library wru.[58] Finally, we merged this information with data from the American Community Survey and the UC-CCP credit panel information.

We joined the Debt Collection Lawsuit Court records data with the correct year zip code-level data from the UC-CCP and ACS to the individual de-identified court record observation in our data. Our dataset includes all zip codes in Fresno, Los Angeles, San Bernardino, and Santa Clara counties if there was at least one debt collection lawsuit filed in that zip code and more than 25 people lived in the zip code per ACS estimates.

We estimated the race of each person sued in our sample using the BISG methodology. This method uses existing data sets for known names and census tract and block group information to deduce the predicted race/ethinicity of a person. It uses public information to proxy for race and ethnicity and has been used to predict the race of defendants in debt collection and eviction cases, as well as by the Consumer Financial Protection Bureau to identify fair lending violations in the origination of mortgage and auto loans.[59] BISG is recognized as a relied-upon methodology by researchers who have analyzed the race of Internal Revenue Service tax return filers, identifying disproportionate rates of audits against Black filers and differences by race in who takes the home mortgage interest rate deduction.[60]

We predicted the likely race/ethnicity of each defendant sued in our sample set and selected the highest probability result to code for the predicted race of each defendant in our sample. We excluded cases in which a person was sued in a study county but served in a county elsewhere in California, so the data set is comprised of people who were sued in our study counties and reside in a study county.

The UC-CCP and ACS information that was joined to a lawsuit record is described below.

Zip-Level Dataset

To build this dataset, we joined the credit panel data at the zip code level, which is the postal code in the debt collection data and the Zip Code Tabulation Area (ZCTA) in both the ACS and credit panel data.[61] To create the ZCTA-level merge, we joined the three data sets containing sums and averages by ZCTA for each variable (e.g., average credit score, total

credit scores, total number of individuals with a credit report) for that zip code in that year. We dropped any zip code with 10 or fewer individuals with a credit report in a year to avoid the possibility of reidentification.

One important note of caution is appropriate. In our four counties, there are only a handful of Asian and Black supermajority zip codes, as show in Table 2. This means that large variations in any one zip code are likely to have a sizeable effect on our graphs for the supermajority Asian and Black zip codes.

Table 2 – Zip codes categorized as supermajority, none, and total zip codes in sample in Fresno, Los Angeles, San Bernardino, and Santa Clara counties

	Asian	Black	Hispanic	White	None	Total Zips
2017	3	3	95	151	229	481
2018	7	2	96	178	246	529
2019	4	2	101	175	247	529
2020	5	1	97	122	266	491

FINDINGS

We explore the relationship between debt collection lawsuits, indicia of economic stability, and demographics. We begin by using credit panel information to dive into indicia of economic distress in the four counties at the zip code level. Second, we look at the lawsuits filed in these counties and break out the varying filing rates by race using the BISG race/ethnicity estimates at the person-case level. Third, we examine how court outcomes (e.g., defendant answering the lawsuit, default judgment, and claims of exemption) vary by racial group using the same estimates. Finally, we explore correlations between court outcomes and expected contributors, such as income, levels of education, etc. in regression models.

Financial Distress in the Four Counties

Through the UC-CCP, we can examine indicia of financial distress in the four counties during this period using the zip-level dataset. Figure 2 graphs the average number of delinquent accounts for individuals who have at least one delinquency on their credit report and who live in what we term a “supermajority” zip code—that is, a zip code where more than two-thirds (67%) of the population is of a particular racial or ethnic group according to the ACS five-year estimate.

As described above, our UC-CCP sample is already summarized at the zip-year level. To generate Figure 2, we average delinquencies by supermajority zip codes and over all zip codes. As shown, for most years, supermajority Black zip codes have the highest average number of delinquencies, although the number dips in 2018, and again in 2020. A lower delinquency rate in 2020 has been linked to COVID-19-related economic stimulus payments and other policy responses to the pandemic.[62] As discussed earlier, there are only a handful of Black and Asian supermajority zip codes so these findings should be interpreted with caution. These zip codes represent an average of 143,533 people in Asian zip codes and 21,211 in Black zip codes.

White and Hispanic supermajority zip codes are much more common and so those figures are relatively more reliable and less prone to large swings. Perhaps contrary to expectations, the figure shows that the supermajority White zip codes in our data (from the specific four counties) have a slightly higher average number of delinquencies each of the four years when compared to both Hispanic supermajority zip codes and all zip codes regardless of group composition. That said, the numbers are so close that they are almost indistinguishable.

Figure 2 – Number of Delinquencies by Race

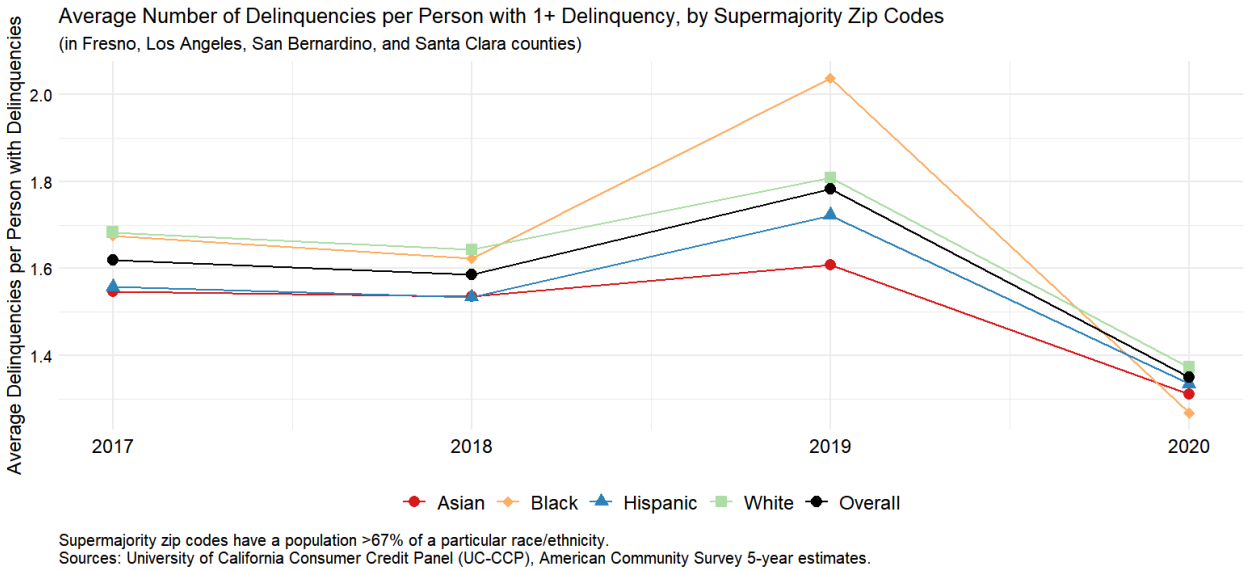
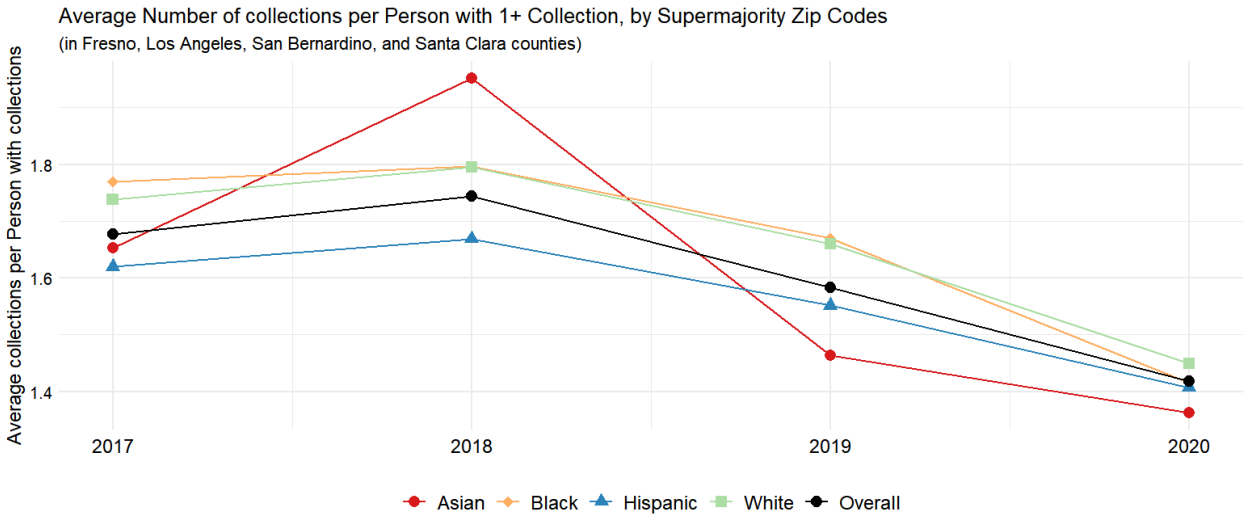


Figure 3 graphs the average number of accounts in collections for persons with a collection account, aggregated in the same way as the previous figure. It shows a similar trend when comparing White and Hispanic with the overall number of collections: White supermajority zip codes have slightly more collections than Hispanic zip codes, but the numbers are very close.

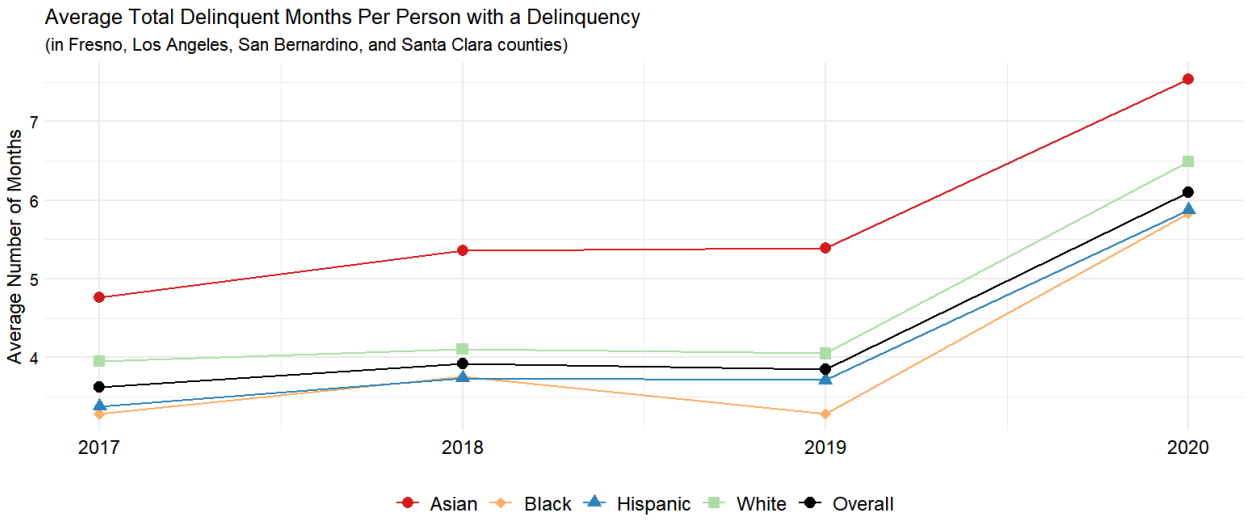
Figure 3 – Average Number of Collection Accounts by Race



Supermajority zip codes have a population >67% of a particular race/ethnicity.
Sources: University of California Consumer Credit Panel (UC-CCP), American Community Survey 5-year estimates.

Figure 4 shows the total number of months that an average person with delinquencies has been delinquent. It is averaged at the zip code and year level. This chart only includes individuals with a credit report that are reported to have at least one delinquency. As discussed, there are only a handful of Black and Asian supermajority zip codes which cautions against putting too much weight on the interpretation of the data. Nevertheless, Hispanic and White supermajority zip codes look very similar to overall zip codes and to each other: consumers with delinquencies in those zip codes have an average of between 8 and 9 delinquent accounts on their credit report.[63]

Figure 4 – Average Total Number of Delinquent Months by Race



Supermajority zip codes have a population >67% of a particular race/ethnicity.
Sources: University of California Consumer Credit Panel (UC-CCP), American Community Survey 5-year estimates.

Figure 5 displays the total collection amounts owed on average by people who owe on a debt in collections in the zip/year combination. The overall trend line is consistent with national overall trendlines reported by the Federal Reserve Bank of New York in its Quarterly Report on Household Debt and Credit. Their latest report estimates that consumers owed between $1,326 in the first quarter of 2017 and $1,438 in the fourth quarter of 2020.[64] These numbers indicate that at least for the four counties studied, overall average collection amounts were higher than the national numbers. They also indicate that there is significant variation between race/ethnicities when estimating these amounts by supermajority zip codes.

As shown, Black supermajority zip codes have higher amounts of debt in collections throughout all four years studied, although as noted earlier, a strong note of caution is important here. For example, there are only two Black supermajority zip codes in 2019. The second highest amounts in collection are owed by individuals living in supermajority White zip codes, where the average person owed just about $1,973 in 2019. By contrast, the average person in a Hispanic supermajority zip code owed $1,662 at that time.

Figure 5 – Average Total Collection Amounts per Person with Collections, by Supermajority Zip Code

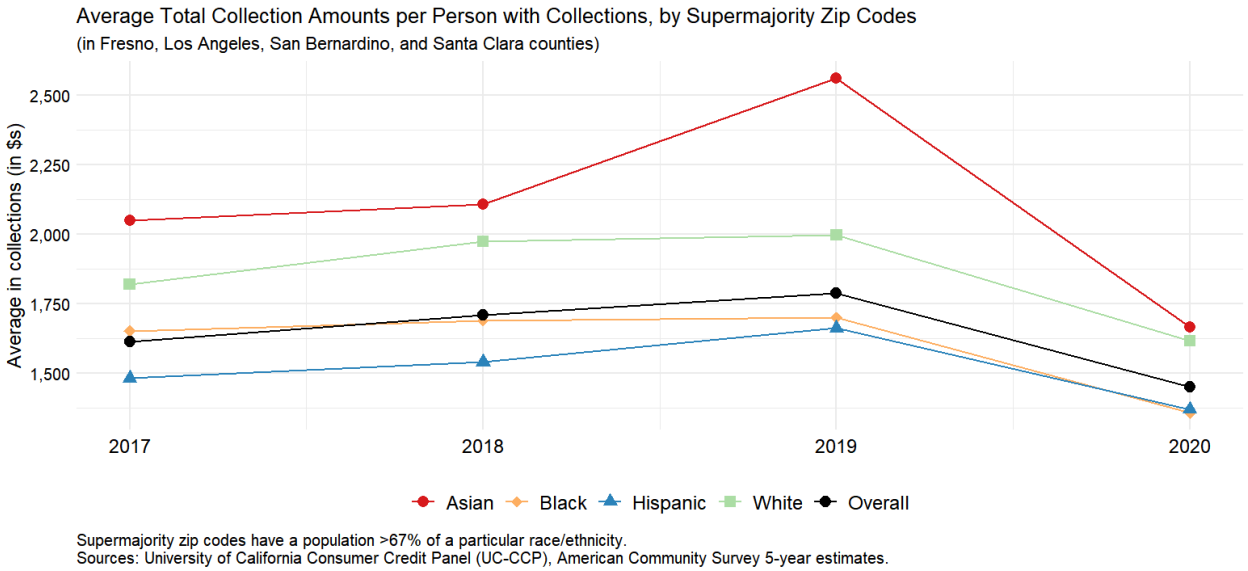
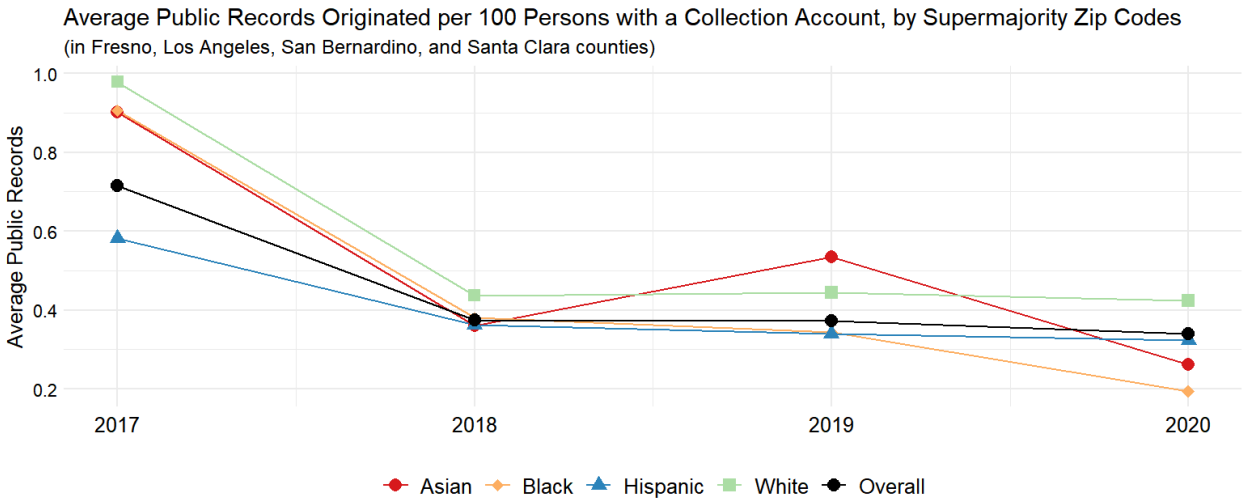


Figure 6 shows the average new public records originated per 100 persons with a collection account in supermajority districts. Our annual credit reporting data comes from a snapshot of December in that year (fourth quarter of the year). Before July 1, 2017, public record data included civil judgments, child support judgments, and tax liens as well as bankruptcies. July 1, 2017 was the effective date of a settlement between the Consumer Financial Protection Bureau, 31 states, and a separate lawsuit by the NY State Attorney General which according to the National Consumer Law Center meant that "about 50% of tax liens and most civil judgment will not be included in the consumer's [credit report]."[65] There are no civil judgments

in our December 2017 data, but there remain various tax liens. However, by June 2018, tax liens also disappear from the credit records—this is the likely reason for the observed drop. The only type of public record in 2018-2020 are bankruptcies.[66] Our data show flat declining new bankruptcy filings in these years, and not much differentiation between supermajority zip codes. It's worthwhile noting that research on consumer bankruptcy filings during the COVID-19 pandemic indicates that these filings are comprised of a different makeup of debts than before the pandemic.[67]

Figure 6 - Average New Public Records per 100 Persons with a Collection Account



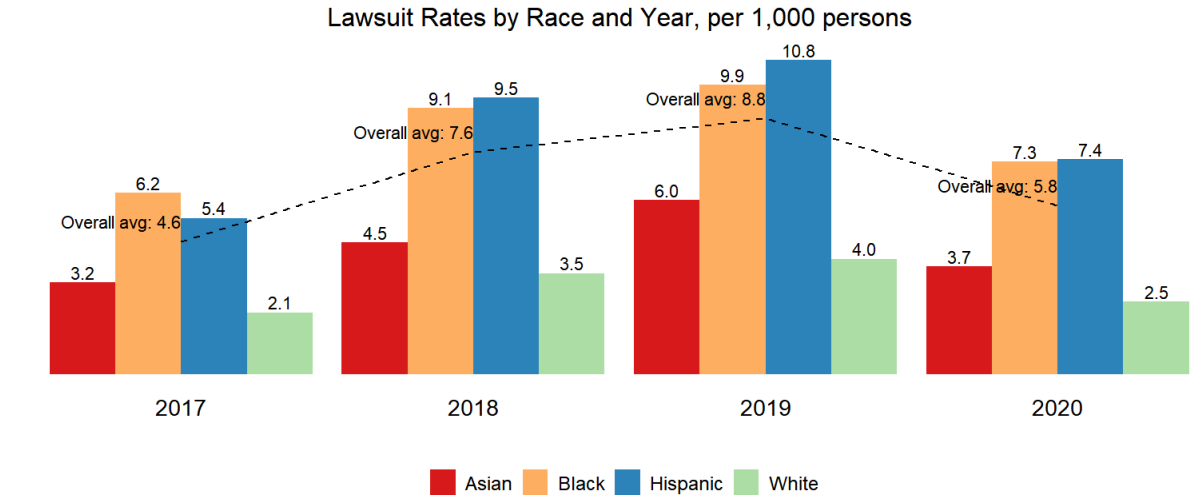
Lawsuit Rates, by Race, County, and Creditor Types

Whereas the previous section drew upon data from the UC-CCP and used the zip-level dataset, here we present information about the debt collection lawsuits using the case-level dataset. The race/ethnicity estimates here were calculated at the lawsuit-person level using BISG as implemented in R as described earlier.

Figure 7 calculates the estimated rate at which persons of different races/ethnicities are sued in the four counties in California over the 2017-2020 period. To generate it, we first normalize our case counts by the samples drawn as shown in Table 1. This yields an estimated count of lawsuits for each of the jurisdictions and years. We compare these counts to the total population of each race each year, as estimated by the American Community Survey five-year count and generate a rate of lawsuits over this period. We also calculate the overall rate of lawsuits each year by summing all the estimated lawsuits in a particular year and dividing them by the total population in our four counties in that year.

Averaging over the four years studied, we estimate that Black and Hispanic Californians are sued at 2.7 times the rate of their White neighbors, while and Asians at 1.45 times their White neighbors.[68]

Figure 7 – Debt Collection Lawsuit Rates by Race and Year, per 1,000 persons

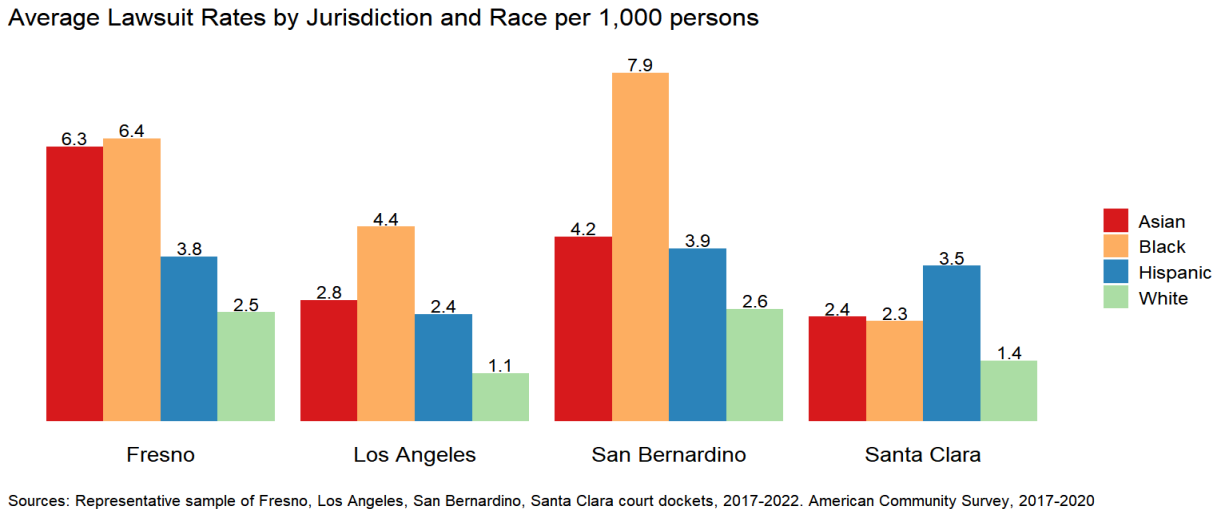


Sources: Representative sample of Fresno, Los Angeles, San Bernardino, Santa Clara court dockets, 2017-2022. American Community Survey, 2017-2020

Figure 8 breaks out the rate of lawsuits by jurisdiction and race/ethnicity, showing the diversity of both racial composition and economic circumstances in the counties we study. Los Angeles County has the highest difference in rates of lawsuits: Black Angelinos are sued four times more often than their White neighbors over this period. Breaking the lawsuit rate by county allows us to compare the relative differences between the groups in the different counties.

Santa Clara, the county with the highest average median household income among our study counties ($109,123) and the highest percentage of individuals with a bachelor's degree (24.8%) unsurprisingly has the lowest overall rate of lawsuits.[69]

Figure 8 – Debt Collection Lawsuit Rates by Jurisdiction and Race per 1,000 persons, 2017-2020



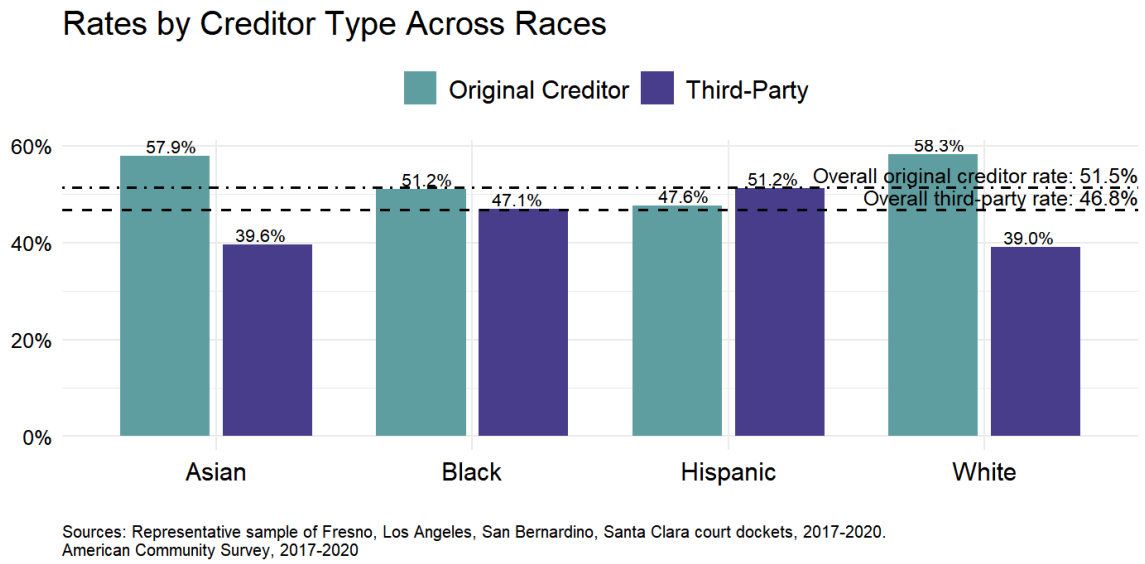
Sources: Representative sample of Fresno, Los Angeles, San Bernardino, Santa Clara court dockets, 2017-2022. American Community Survey, 2017-2020

After normalizing plaintiff names, we categorized every plaintiff who filed more than 20 lawsuits in a year as either an original creditor (e.g., a bank or other entity that originates credit or financial obligations) or a third-party debt collector (e.g., a debt buyer).[70] This categorized all but 1.74% of the dataset. Figure 9 displays the categories of plaintiffs broken out by the race/ethnicity of the party sued. It also displays the creditor rates on the overall population: 51.5% of cases in the 2017-2020 sample were brought by original creditors whereas third party creditors brought 46.7% of cases during the period.

As shown in Figure 9, original creditors sued White and Asian defendants at a slightly higher rate (57.4% for each) than their overall rate. Black defendants were sued at almost the exact overall rate (50.9%) whereas Hispanic defendants were sued at a slightly lower rate (47.1%). Third-party creditors took almost an opposite approach, suing White and Asian defendants less than overall (39.9% and 40% respectively). Black defendants at close to the overall rate (47.3%) and Hispanic defendants at more than the overall rate (51.7%).

It is known that original creditors tend to hold on to those debts they deem to be more likely to be repaid ("better" risks) and sell off those they are less likely to collect on, selling pools of debt "as-is" and without any warranty that the debts are collectible.[71] If that is true of this population, it appears that original creditors' estimate of repayment correlates with race/ethnicity in that original creditors are more likely to be suing Asian and White Californians while third party creditors are more likely to sue Black and Hispanic citizens.

Figure 9 – Lawsuit Rates by Creditor Types Across Race/Ethnicities, 2017-2020

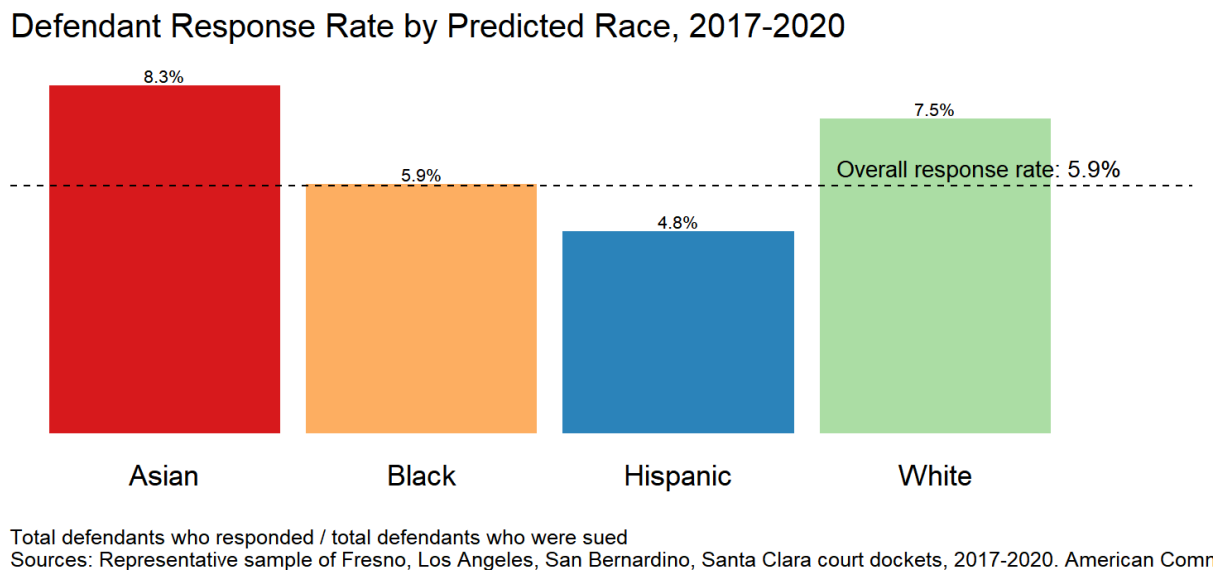


Sources: Representative sample of Fresno, Los Angeles, San Bernardino, Santa Clara court dockets, 2017-2020.
American Community Survey, 2017-2020

Lawsuit Outcomes by Race/Ethnicity

In *Pay to Plead*, Raba and Jiménez documented the effect of California's requirement that defendants to pay a fee to plead their case, at minimum $225 in debt collection cases.[72] This fee poses a significant barrier to access to justice. Figure 10 displays this in stark contrast. Hispanic lawsuit defendants respond to lawsuits at a rate that is 18.5% lower than the overall rate. By contrast, White-predicted defendants responded to their lawsuit at a 26.4% higher rate than the average defendant. Like their White counterparts, Asian and Black defendants responded at higher rates than average.

Figure 10 - Defendant Response Rate by Race, aggregated over 2017-2020

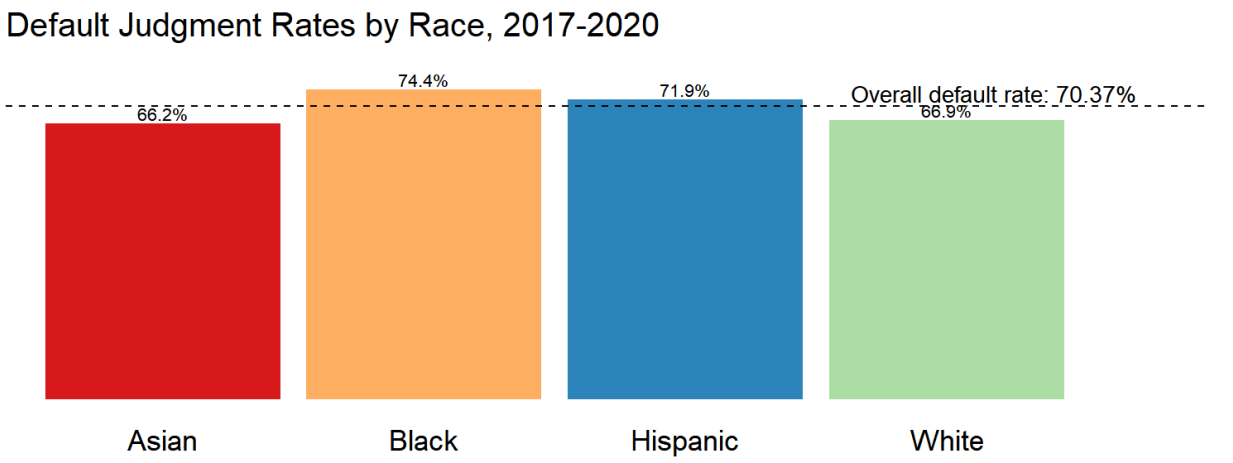


The analysis in *Pay to Plead* was for the full set of California limited civil debt collection cases in 16 counties over an eleven-year period (2009-2020) and representing data from 16 counties which comprise 80% of the state's population. The analysis in this Report is from a random sample of four counties' filings over a four-year period. In *Pay to Plead,* Raba and Jiménez reported average response rates of 9.9% among cases where a proof of service was filed, indicating that the defendant was informed about the lawsuits.[73] Like in *Pay to Plead*, the response rate here was calculated as the total number of cases in which a defendant filed a responsive pleading divided by the total number of cases in which a defendant was served. The average response rate for all the sixteen counties studied also varied by year, hovering at just about 10% over the period.[74]

Our data show a great deal of variability in the response rate over time in this sample, with a distinctly downward trend over the four-year period.[75] This is consistent with *Pay to Plead*'s findings. If a defendant does not respond to the lawsuit after they have been served, the plaintiff will move for a default judgment, which will likely be granted. Our sample of lawsuits is 100% comprised of cases in which a defendant was a process server reported that a defendant was served, as our address data was gleaned from proofs of service. As shown in Figure 11, about 70% of defendants who are served fail to file a responsive pleading and end up losing their case by default.

In Figure 11, we calculate default judgment rates by race/ethnicity and in the entire sample. Asian defendants have the lowest default rates, followed closely by White defendants. Both are below the overall default rate. On the other hand, Black or Hispanic defendants have a slightly higher default rate than overall and that the other two groups. That said, the absolute differences in the default rates are not that large.

Figure 11 - Default Judgment Rate by Race



Total defendants who had a default judgment / total defendants who were sued
Sources: Representative sample of Fresno, Los Angeles, San Bernardino, Santa Clara court dockets, 2017-2020. American Commu

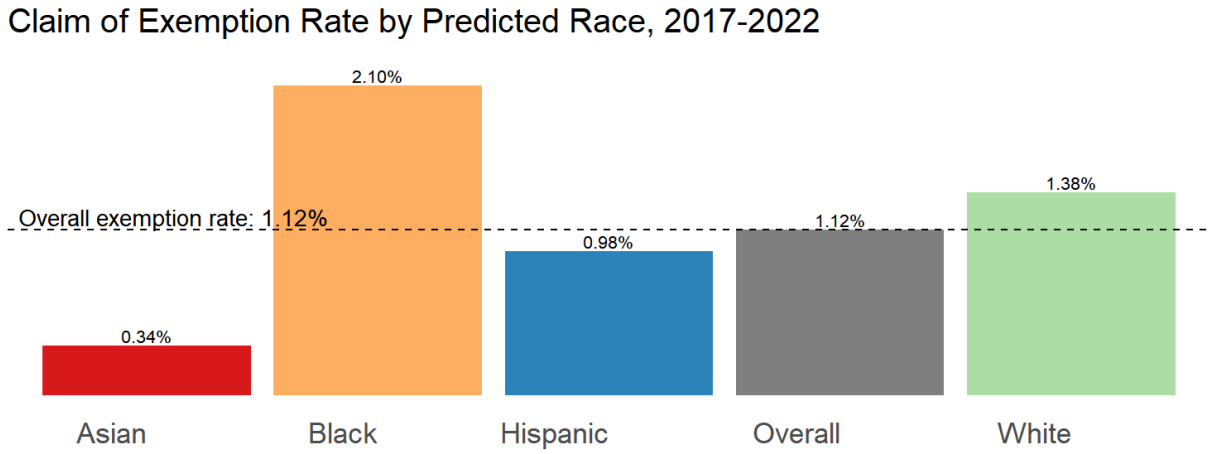
Once the plaintiff wins a lawsuit (whether by default, stipulation, or otherwise), they may use the court to enforce the judgment. Since the universe of cases here is one in which defendants allegedly owe a debt they did not pay, leading to default, it is not surprising that defendants would not be able to pay even after a court has issued a judgment. In that case, plaintiffs can use court process to obtain a writ of execution and levy (take) property of the debtor through a sheriff.

Judgment creditors (the plaintiff who won the lawsuit) are not entitled to take whatever property they like; however, California post-judgment execution laws permit a creditor to levy a bank account, garnish wages from a paycheck, or place a lien on real property, subject to exemption laws. Although states have myriad laws protecting the property of the debtor, often the procedural burden is placed on the consumer defendant to assert an exemption to levy or garnishment. In those circumstances, our data show that few consumers avail themselves of these exemptions. California has a grade of “B” from the National Consumer Law Center for having “strong protections in most categories” that they track.[76] However, in many instances, a defendant must assert a “claim of exemption” in court to make sure that the judgment creditor will be unable to seize their protected property. During all but the last four months of the study period, defendants were required to file a claim to assert that any earned income or savings was exempt from bank levy or garnishment, although legislative reform after the study period has created an exemption floor, allowing consumer debtors to keep about $1,700 in a deposit account and only requiring a claim to exempt amounts that exceed this floor.[77]

Figure 12 displays the rate at which defendants who lost their suit filed a claim of exemption. The numerator is the total number of exemptions asserted by individuals the BISG algorithm

predicted as a particular race/ethnicity. The denominator is the total number of judgments over the four-year period. This is because exemptions can only arise after there's been a judgment. Black consumers are more likely to file exemption claims compared to their counterparts, although the overall rate of exemption is abysmally low, barely over 1% of defendants who lose their case file the right form. What's even more disheartening is that such small number of Asian defendants file exemptions (0.04%). However, it is important to note that filing of claims of exemption (n=118) represent a small fraction of the total cases in which a judgment was entered (N=10,197), which should caution against putting too much weight on these findings.

Figure 12 - Claim of Exemption Rate by Race



Total defendants who had a claim of exemption / total defendants who had a judgment
Sources: Representative sample of Fresno, Los Angeles, San Bernardino, Santa Clara court dockets, 2017-2022. American Commu

Case Outcomes and Correlates

Debt collection lawsuits end when judgment is entered in favor of one litigant, or when the plaintiff or the court dismisses the case. The court will dismiss a case if the plaintiff fails to give proper notice of the lawsuit to the defendant (e.g., serve them). A case can also be dismissed by the plaintiff for many reasons—an out-of-court settlement, realization that there is something wrong with the lawsuit (e.g., they've sued the wrong person), or any number of other reasons. The sample in this Report was drawn exclusively from cases in which the plaintiff filed a document proving they had properly served the defendant. This means we do not observe any cases that were dismissed for lack of service. This is because we needed to obtain the proof of service document to obtain the defendants' address information.

Within our dataset, 21.7% of cases ended in a dismissal, likely as a result of an out-of-court agreement. In other work, Jiménez and Raba have found that the rate of dismissal goes up

and judgment goes down for California defendants who file an answer or other responsive pleading.[78] Most debt collection lawsuits end in default judgment, which is a judgment entered in favor of the plaintiff because the defendant failed to respond to the debt collection lawsuit. In our study, we observe an average default rate of 70.3%.[79] Of the remaining cases, 6.6% were pending at the end of the study period, and fewer than 2% were entries of judgment in cases where an answer was filed (comprised of judgment pursuant to dispositive motion or judgment after trial).[80]

We used linear regression models to test whether there are correlations between race/ethnicity, default judgments, consumer response rates, and variables in the credit panel. We used ACS variables to control for the demographic characteristics of the zip codes in which the defendant addresses in our sample are located. We control for income by zip code by creating a binary variable for low-income zip codes where median household income is below $50,000, and control for families with children by coding for zip codes where the average percent of households with children under 18 exceeds the mean of the zip codes in our sample for this variable (38%).

For our linear regressions, we use our data set of 35,914 observations from our four study counties for cases filed 2017-2020. These observations have zip code-level data from the American Community Survey and from the credit panel. The only zip codes included in our sample are those in which a person was served with a debt collection lawsuit, so when we constructed our linear regressions, we observe correlations within only the set of zip codes where people are sued to collect a debt, rather than all zip codes in the four counties studied in California.

We regressed debt collection cases on average credit score to determine the correlation between debt cases filed and the credit score in the neighborhood where people in our sample live. We observe that among people sued to collect a debt, race is correlated with living in a neighborhood with a lower average credit score, even when controlling for median income and family composition.

Table 3 - Correlations with Average Credit Score.

	Model 1		Model 2	
Average Credit Score by Zip Code	**684**		**693**	
	Estimate	**t-Statistic**	**Estimate**	**t-Statistic**
Predicted Hispanic	-31.40 (1.75)	-17.72 ***	-14.31 (1.30)	-11.02 ***
Predicted White	1.10 (1.96)	0.560	0.67 (1.43)	0.47
Predicted Black	-54.15 (2.00)	-27.127 ***	-32.54 (1.46)	-22.26 ***
Predicted Asian	0.085 (1.87)	0.045	3.49 (1.37)	2.56 *
Median Income below $50,000			-39.99 (0.28)	-145.31 ***
Higher % of Families with Kids			-20.99 (0.25)	-85.37 ***

*** p<0.001, ** p<0.01, * p<0.05; standard errors in parentheses

People who are sued on debt collection lawsuits live in zip codes with an average credit score of 693. In our sample, before we included controls, we observe that a predicted race of Hispanic and being a defendant in a debt collection lawsuit is very strongly negatively correlated with living in a neighborhood with an average credit score that is 31 points lower than average. Once we control for income, we see that race correlates with a 14-point drop in average credit score among Hispanic defendants. Defendants with a predicted race of Black are correlated with living in a zip code with an average score 54 points lower before controls, and a 33-point drop after controlling for median household income by zip code. Having a predicted race of Asian is positively correlated with a 3-point change from the average credit score by zip code of people sued in debt cases.

Table 4 - Correlations with Default Judgment

	Model 1		Model 2		Model 3	
Average Rate of Default Judgment	73.1%		72.3%		76.0%	
	Estimate	**t-statistic**	**Estimate**	**t-statistic**	**Estimate**	**t-statistic**
Predicted Hispanic	-0.009 (0.027)	-0.328	-0.289 (0.027)	-1.07	-0.044 (0.027)	-1.630 ·
Predicted White	-0.079 (0.027)	-2.635 **	-0.077 (0.299)	-2.60 **	-0.078 (0.030)	-2.627 **
Predicted Black	0.026 (0.030)	0.866	0.003 (0.030)	0.97	-0.017 (0.031)	-0.553
Predicted Asian	-0.079 (0.029)	-2.771 **	-0.084 (0.028)	-2.94 **	-0.084 (0.029)	-2.957 **
Median Income Below $50,000			0.034 (0.006)	6.00 **		
Higher % of Families with Kids			0.028 (0.005)	5.56 **	-0.009 (0.006)	-1.373
Higher % college degree					-0.047 (0.008)	-5.660 ***
Higher % some college					0.025 (0.006)	4.396 ***
Higher % no diploma					0.016 (0.007)	2.228 *

Notes: *** p<0.001, ** p<0.01, * p<0.05, · p<0.1; standard errors in parentheses.

Table 4 above, shows the rate of default judgments entered against consumer defendants by race. In Model 1, we regressed predicted race on default rate and controlled for median income and percent of households with children under 18 in zip codes. The average rate of entry of default judgment was 72.3%. A predicted race of White or Asian is negatively correlated, showing lower rates of default judgment, with White consumers having default rates 7.7% lower than the overall average and Asian defendants 8.4% lower. We also controlled for median income, by adding to the regression a binary variable set to 1 where the median income in a zip code is under $50,000 per year.

We control for income below $50,000 per year because this income level is approximately 150% of the Federal Poverty Level for a family of four, which would put people over this income level over the income limits for legal aid services, and it would make them ineligible

for an automatic fee waiver to waive filing fees for responding to the lawsuit. We also controlled for family composition, by identifying the mean percentage of households with children under 18 (38%) and creating a variable that identifies zip codes where the percentage of households with minor children is greater than the mean. We control for family composition because the presence of children in the home has been found to be correlated with other types of litigation that disproportionately burdens marginalized communities, such as eviction cases.[81]

When we control for income by adding a coefficient for living in a zip code with a median income below $50,000 per year and higher rates of households with children (Model 2), we find that that both income and high rates of households with children under 18 are both positively correlated with default judgment rate; however, adding these controls does not change the correlations between lower default rates and predicated race of White or Asian in Model 1, showing that these correlations are robust, true for both with and without controls. A predicted race of Hispanic and Black does not have a statistically significant correlation with lower default judgment rates, a finding reflected in the observations above which show default judgments are entered at higher rates against these consumers when adjusted for population.

In Model 3, we observe that defendants who live in zip codes with higher-than-average percentages of people with college degrees have 4% fewer default judgments entered against them, which people who live in zip codes with higher-than-average rates of no high school diploma or high school diploma and some college (no degree). People who live in zip codes with lower average rates of college completion have 1.6%-2.5% more default judgments entered against them in their cases. These findings are statistically significant when we control for zip codes with high rates of families with children.

We then regressed race on defendant response rate to determine whether there was a correlation between predicted race and rate of response (answers and general denials filed by defendant), controlling for median income and for household composition. We present those results at Table 5.

Table 5 - Correlations with Defendant's Response

	Model 1		Model 2	
Average Answer Rate	**7%**		**8.5%**	
	Estimate	**t-Statistic**	**Estimate**	**t-Statistic**
Predicted Hispanic	-0.031 (0.013)	-2.410 *	-0.031 (0.014)	-2.23 *
Predicted White	-0.004 (0.014)	-0.315	-0.004 (0.015)	-0.31
Predicted Black	-0.016 (0.014)	-1.151	-0.019 (0.016)	-1.19
Predicted Asian	0.007 (0.015)	0.508	0.00 (0.015)	0.32
Median Income below $50,000			-0.01 (0.003)	-2.86 **
Higher % of Families with Kids			-0.01 (0.000)	-3.62 ***

*** p<0.001, ** p<0.01, * p<0.05. Standard errors in parentheses.

We found a statistically significant negative correlation between a predicted ethnicity of Hispanic and answer rate. Individuals predicted Hispanic participated in the formal court process by filing an answer at a lower rate than other defendants, even when we control for median income by zip code and for zip codes with a higher rate of households with children under 18. We find that both variables are also negatively correlated with response rate, but at less than 1%. Hispanic consumers file an answer or other responsive pleading in 3% fewer cases than average. With these controls, we have a statistically significant finding with a p<.05, a finding that is not affected when we control for income and family composition. There was no statistically significant correlation between the other predicted races and answer rate in our sample.

DISCUSSION

In this Report, we explain findings from combining three sets of data: a sample of debt collection lawsuits, American Community Survey demographic data by zip code, and credit panel data by zip code. This Report goes beyond describing events in debt collection lawsuits to identify correlations between demographic patterns, credit panel differences by neighborhood, and debt case filings. We observe differences among the race/ethnicity composition of zip codes and debt collection case filings, as well as between debt cases and credit scores, and in rates of severe delinquencies in credit panel data. We find that Black and Hispanic consumers have more debt cases filed against them, even when rates of filing are adjusted for population, affirming prior findings that debt collection lawsuits in California

unfairly burden communities of color. When controlling for education, income, and family composition, we find correlations between each of these demographic parameters and debt cases, but we also find that controlling for these variables supports findings of correlations between race and debt filings, outcomes, and rates of answer.

In studying debt collection lawsuits, we do not draw conclusions about causation. Our models are descriptive and observational and are limited to what we can glean from the lawsuits themselves, and the demographic and credit profiles of the communities affected by these cases. Upstream economic factors, including lending patterns and rates of delinquency, are known to be correlated with the demographic values we study. Our findings present a starting point for studying the intersection of these issues, and the correlations we observe in debt cases lay the groundwork for future research.

We do not include in our analysis economic factors that are known to be correlated with race, income, and education. For example, we do not know if the higher rate of lawsuits against Black Californians due to their race or is due to other factors, such as lower wages (which may themselves be because they are Black), or because Black and Hispanic borrowers are targeted by sub-prime lenders for revolving credit and non-mortgage installment loans. The racial wealth gap, including intergenerational wealth transfers that benefit White borrowers, is a known factor in allowing some demographic groups to avoid falling into default, resulting in Black and Hispanic communities having fewer resources to draw in to pay for an unexpected expense or financial disruption, such as illness or unemployment. Our data show that White defendants are less likely to be sued on defaulted debt and less likely to have default judgment entered against them once sued, outcomes that may be impacted by these broader economic differences by race.

Geographic Distribution and Filing Rates of Debt Cases by Race

With this caveat, we note that our observations of debt collection lawsuit filings, zip code demographic data, and credit panel tradeline data tells an important story about what happens to different families and communities when debts fall delinquent and creditors file lawsuits in state court. In looking at supermajority zip codes, we find that zip codes in which more than two-thirds of the population is White, the rate of debt collection filings to delinquent accounts is lower, indicating that people who live in these zip codes are sued less frequently on delinquent accounts than people living in super-majority Black and Hispanic zip codes.

Our data show that Black and Hispanic borrowers are sued at rates about twice that of White borrowers when filing rates were adjusted for population. Adjusting for population also shows that Asian borrowers are also sued at higher rates than White borrowers, at about 1.5 times the rate. This pattern persists in each year of our Report. We observe these differences in

each of the four study counties. In supermajority White-majority zip codes, the rates of debt collection lawsuit filings are lower than Black and Hispanic supermajority zip codes even when the length of time tradelines have been delinquent is the similar. This may implicate intervening economic factors such as employment and ability to borrow from family and friends, as discussed above, which may allow White borrowers to more frequently resolve delinquent accounts before a creditor files a case in court.

Correlations between Demographic Variables and Debt Cases by Race

To better understand the relationships between income, education, family composition, race/ethnicity, and debt cases, we constructed and interpreted linear regressions that evaluated correlations between debt collection lawsuit outcomes, the predicted race of the defendants in our study sample, and American Community Survey variables zip code. We also evaluated correlations between these variables and average credit score by zip code.

First, we evaluated correlations between the predicted race of the defendants in our sample and the average credit score by zip code. We find that that average credit score of zip codes in our sample (comprised of zip codes where people were sued on debt cases) is 693. We find that among people sued on debt collection lawsuits, a predicted race of Black or Hispanic is correlated with a reduction in the average credit score in the zip code in which the borrower lives, with a reduction in the average credit score by zip code of 14 points for Hispanic defendants and 33 for Black defendants. We controlled for median income, finding that median income is negatively correlated with zip code credit score, as is having a higher-than-average percentage of families with children. Including each of the covariates shows us that people sued to collect a debt who are low-income reside in zip codes with an average credit score of only 653 when controlling for race, and neighborhoods with many families have an average credit score of 672, when controlling for race. Each of these are statistically significant findings, showing that race, income, and family composition are strongly correlated with average zip code credit score.

We also regressed demographic variables and predicted race on case outcomes, evaluating whether race, income, family composition, and income are correlated with default judgments. We found that cases in which the defendant was predicted to be White and Asian were correlated with lower default judgment rates at a statistically significant level, showing default rates about 8% lower than the overall rate, and lower than the default rates for defendants predicted to be Black or Hispanic. Running these regressions with controls for median income and family composition results in a robust correlation, supporting the findings we report in observation of the data at Figure 2. When controlling for median income by zip code

and for higher percentages of families with children, we find these correlations to be significant.

We also controlled for education level, coding three variables to map to percentages of household by zip codes with the following levels of education: less than high school, high school diploma and/or diploma and some college; college degree (Associates, Bachelor's, or graduate degree). We found that living in a zip code with a higher-than-average rate of people with only a high school diploma or a diploma and some college is correlated with slightly higher default rates, and that living in a zip code with a high percentage of people with a college degree is correlated with a 4% drop in default judgment rates. We controlled for education, and the correlations between default judgments and race were not affected, showing that education rates by zip code was not affecting the relationship between race and default judgments.

Finally, we studied whether there was a correlation between answer rates and race, controlling for median zip code income and rates of families with children. We found a correlation only for defendants with a predicted race/ethnicity of Hispanic and found a strong correlation between neighborhood income and family composition in answer rates. This indicates that some of the variation we see in answer rates by race in Figure 9 may be driven by income, family composition, or other, unobserved economic or demographic factors.

By evaluating our data using control variables, we increase our understanding of the relationships between demographic factors in neighborhoods and defendants and case outcomes. We find that controlling for variables supports the findings observed in the data and demonstrates the importance of studying additional economic variations in debt collection defendants to improve court services and legal assistance for debt collection defendants.

CONCLUSION

Debt collection lawsuits disproportionately burden those least able to bear the costs of a judgment. This study highlights the impact of debt collection lawsuits on non-White and low-income communities in California. The findings indicate significant racial disparities in lawsuit outcomes and response rates, suggesting systemic issues in the filing of lawsuits against individuals. Further research is needed to understand the underlying factors driving these disparities and to inform targeted reforms that ensure equitable treatment in debt collection practices.

The data show that default judgments and answer rates are not evenly distributed by race across our study counties. Our findings show that people in low-income neighborhoods, in

areas where fewer people have college degrees, and in zip codes with higher populations of families, are more likely to have a default judgment entered against them. These defendants are also less likely to file an answer with the court to assert their rights and defend the case. By bringing together financial data from credit panels, demographic data from the American Community Survey, and our sample of debt collection lawsuits that spans four large and diverse counties in California, we gain a better understanding of who is sued to collect debts. These findings shine an important light on disparities in access to courts, attorneys, and resources for self-represented defendants, informing advocates and courts about the communities they serve.

The Debt Collection Lab

The Debt Collection Lab uses arts and different storytelling traditions to interrogate, transform, and spread new dignifying narratives for debt justice. The Debt Collection Lab is an interdisciplinary collaboration of researchers led by Frederick F. Wherry, the Townsend Martin, Class of 1917 Professor of Sociology at Princeton. The Debt Collection Lab conducts research on debt collection in state courts and collects and reports data on the Debt Collection Lawsuit Tracker to monitor regular updates to the number of debt cases being filed across the United States.

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Endnotes

[1] *See* Claire Johnson Raba, ONE SIDED LITIGATION: LESSONS FROM CIVIL DOCKET DATA IN CALIFORNIA DEBT COLLECTION LAWSUITS, THE DEBT COLLECTION LAB (July 2023), https://debtcollectionlab.org/research/one-sided-litigation [hereinafter *One Sided Litigation*] (reporting 2.2 million cases filed in 16 counties which comprise 80% of the state's population].
[2] *Id*.
[3] Claire Johnson Raba & Dalié Jiménez, *Pay to Plead: Unconstitutional Answer Fees in California Debt Collection Lawsuits* 9, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4611756 [forthcoming Review of Banking & Financial Law (2024)].
[4] LaVoice, Jessica and Vamossy, Domonkos F., Racial Disparities in Debt Collection (September 1, 2019). Available at SSRN: https://ssrn.com/abstract=3465203
[5] *See* Olivia Munson, *What is the Biggest State in the US? The States from Largest to Smallest by Land Area*, USA TODAY (April 19, 2024), https://www.usatoday.com/story/news/2022/12/09/what-largest-state-us-size-states-land-area/8083288001 (noting the three largest states by land area in 2022 were: Alaska, Texas, and California); *see also* Hans Johnson et al., *California's Population*, Public Policy Institute of California (Jan. 2024), https://www.ppic.org/publication/californias-population.
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[7] *See* Kaia Hubbard, *The 10 States With the Most Racial Diversity*, U.S. NEWS & WORLD REPORT (Aug. 19, 2021), https://www.usnews.com/news/best-states/slideshows/the-10-most-racially-diverse-states-in-the-us?slide=10.
[8] Hans Johnson et al., supra note 5.
[9] California, *supra* note 6.
[10] *Id.*
[11] *Debt by State: Maps and Charts*, Cultural Currents Inst., https://www.culturalcurrents.institute/insights/debt-by-state (last visited June. 9, 2024) (noting the most indebted state is Colorado, followed by California).
[12] *Debt in America: An Interactive Map*, https://apps.urban.org/features/debt-interactive-map/?type=overall&variable=totcoll (last updated Oct. 10, 2023).
[13] Id.
[14] *Household Debt and Credit Report*, NEW YORK FED (Q3 2023), https://www.newyorkfed.org/microeconomics/hhdc.
[15] *Id*.
[16] The federal Fair Debt Collection Practices Act defines consumer debt as any "obligation of a consumer to pay money arising out of a transaction" for "personal, family, or household purposes." 15 U.S.C. 1692a(5).
[17] Claire Johnson Raba, THE UNEQUAL BURDEN OF DEBT CLAIMS: DISPARATE IMPACT IN CALIFORNIA DEBT COLLECTION CASES, THE DEBT COLLECTION LAB (July 2023), available at https://debtcollectionlab.org/research/unequal-burden-of-debt-claims.
[18] *See* Cal Civ Code § 3287.
[19] *Id*.
[20] Cal Civ Code § 1788.50.
[21] *See* Cal Civ Pro Code § 116.210 (2023).
[22] *Id*.
[23] *Id*.
[24] Active Legal Services, Small Claims Court California, https://perma.cc/6NV8-XXUB (showing the jurisdictional limit for small claims in 2020). As of January 1 2024, California raised the limits for small claims to $12,500 for individuals and to $6,250 for businesses. Judicial Branch of California, California Courts Self-Help Guide https://selfhelp.courts.ca.gov/small-claims-california.
[25] Cal Civ Code § 403.040.
[26] Cal. Code Civ. Proc. § 85.
[27] *Id.*

[28] California Civil Case Cover Sheet, form CM-010 allows a plaintiff to select ”Rule 3.740 collections” as a case type. This refers to California Rule of Court 3.740 which defines a collection case as a matter for less than $25,000 and ” arising from a transaction in which property, services, or money was acquired on credit." Excluded are tort claims and claims to recover real or personal property.
[29] Cal Civ Code §§ 90-100.
[30] Claire Johnson Raba & Dalié Jiménez, Pay to Plead, supra note 3. The California Case Management Statement is a mandatory form found at CM-110. On page 4, par. 17, a party may select in or out of limited civil economic litigation, indicating whether California Code of Civil Procedure sections 90-98 will apply to the case.
31 Mullane v. Central Hanover Bank & Trust Co., 339 U.S. 306, 314-15 (1950).
[32] Cal. Code Civ. Proc. § 415.30; at § 415.30(d) (“If the person to whom a copy of the summons and of the complaint are mailed . . . fails to complete and return the acknowledgment form” with 20 days, the plaintiff must serve through personal or substitute service).
[33] Cal. Code Civ. Proc § 412.20(a)(3) (directing the defendant to respond within 30 days). When service is made by substitute service under Cal. Code Civ. Proc § 415.20, a process server must all send a certified copy of the summons and complaint to the defendant, and service is considered complete ten days after the mailing, resulting in an effective 40 days to respond to substitute service.
[34] Cal. Code Civ. Proc. § 431.30
[35] Claire Johnson Raba & Dalié Jiménez, *Pay to Plead, supra* note 3 discussing filing fees. *See also, e.g.,* Superior Court of California, County of Los Angeles, https://www.lacourt.org/forms/pdf/fees/fee-schedule-2019.pdf.
[36] In *Pay to Plead,* a study covering a longer time period and 16 counties (instead of 4), Raba and Jiménez found a 9.5% response rate. Claire Johnson Raba & Dalié Jiménez, *Pay to Plead, supra* note 3, at 34.
[37] Claire Johnson Raba & Dalié Jiménez, *Pay to Plead, supra* note 3.
[38] *Id.*
[39] *Id.*
[40] *One Sided Litigation*, *supra* note 1.
[41] *Id*.
[42] Julia Barnard et al., *Court System Overload: The State of Debt Collection in California after the Fair Debt Buyer Protection Act*, CTR. FOR RESPONSIBLE LENDING (Oct. 2020), https://www.responsiblelending.org/sites/default/files/nodes/files/research-publication/crl-california-debt-oct2020.pdf.
[43] *Id*.
[44] *Id*.
[45] 15 U.S.C. §§ 1692 and following (Fair Debt Collection Practices Act); Cal. Civ. Code §§ 1788 to 1788.33 (Rosenthal Act).
[46] Counties in California, Ballotpedia, https://ballotpedia.org/Counties_in_California (last visited Jan. 23, 2024).
[47] San Bernardino County, California, U.S. CENSUS BUREAU, https://data.census.gov/all?q=San%20Bernardino%20County,%20California (last visited Jun. 9, 2024); Los Angeles County, California, U.S. CENSUS BUREAU, v (last visited Jun. 9, 2024); Santa Clara County, California, U.S. CENSUS BUREAU, v (last visited Jun. 9, 2024); Fresno County, California, U.S. CENSUS BUREAU, v (last visited Jun. 9, 2024).
[48] *Id.*
[49] United States Census, *Why We Ask Questions about Hispanic or Latino Origin*, https://www.census.gov/acs/www/about/why-we-ask-each-question/ethnicity/
[50] Estimated Percent of People of All Ages in Poverty for Fresno County, CA, St. Louis Fed (Dec. 14, 2023), https://fred.stlouisfed.org/series/PPAACA06019A156NCEN.
[51] University of California Consumer Credit Panel (UC-CCP), CALIFORNIA POLICY LAB, https://www.capolicylab.org/data-resources/university-of-california-consumer-credit-panel/ (last visited Apr. 8, 2024).
[52] *Id.*
[53] A more detailed description can be found at Claire Johnson Raba & Dalié Jiménez, *Pay to Plead: Unconstitutional Answer Fees in California Debt Collection Lawsuits, supra* n.3 at 9.

[54] One Legal, Understanding Substitute Service of Process in California, One Legal Blog (Feb. 16, 2024), https://www.onelegal.com/blog/understanding-substitute-service-of-process-california/.
[55] US Census, American Community Survey 2017-2021 5-Year Data Release (Dec. 8, 2022), https://www.census.gov/newsroom/press-kits/2022/acs-5-year.html. We used the 5-year estimates because the 1-year estimates are often unavailable at the zip code level. US Census, When to Use 1-year or 5-year Estimates, https://www.census.gov/programs-surveys/acs/guidance/estimates.html.
[56] DP-05 Data Table, https://data.census.gov/table/ACSDP5Y2017.DP05?g=040XX00US06&q=dp05.
[57] If a person is sued in two different lawsuits, that would be two rows in our dataset. To our knowledge, no one has published a study on debt collection lawsuits where the unit of analysis was "person" rather than "case." This is an issue the Debt Collection Lab hopes to remedy soon.
[58] More information on the BISG methodology can be found in a previous report. *See* Claire Johnson Raba, *The Unequal Burden of Debt Claims*, *supra* note 17.
[59] *See Using publicly available information to proxy for unidentified race and ethnicity*, Consumer Financial Protection Bureau (2024). For examples of BISG used with debt collection and eviction court record data, see Peter Hepburn, Renee Louis & Matthew Desmond, *Racial and Gender Disparities Among Evicted Americans*, 7 Sociological Sci. 649 (2020); Jessica LaVoice & Domonkos F. Vamossy, *Racial Disparities in Debt Collection*, Cornell Univ. (Oct. 7, 2019), http://arxiv.org/abs/1910.02570.
[60] Cory McCartan et al., Estimating Racial Disparities When Race Is Not Observed, (2024), https://www.nber.org/papers/w32373 National Bureau of Economic Research working paper. Measuring and Mitigating Racial Disparities in Tax Audits | Stanford Institute for Economic Policy Research (SIEPR), https://siepr.stanford.edu/publications/working-paper/measuring-and-mitigating-racial-disparities-tax-audits.
[61] Zip Code Tabulation Areas (ZCTAs), https://www.census.gov/programs-surveys/geography/guidance/geo-areas/zctas.html.
[62] Cooper, Cheryl R., et al. COVID-19: Household Debt During the Pandemic, *Congressional Research Service (CRS) Reports and Issue Briefs*, Congressional Research Service, 2021.
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[64] Federal Reserve Bank of New York, Quarterly Report on Household Debt and Credit 2024Q1 18 (May 2024), https://www.newyorkfed.org/medialibrary/interactives/householdcredit/data/pdf/HHDC_2024Q1. Exact figures available through Excel download, Page 18 Chart, https://www.newyorkfed.org/medialibrary/interactives/householdcredit/data/xls/HHD_C_Report_2024Q1.
[65] National Consumer Law Center, *Big Changes for Credit Reports, Improving Accuracy for Millions of Consumers*, Jul. 27, 2017, https://library.nclc.org/article/big-changes-credit-reports-improving-accuracy-millions-consumers (reporting July 1, 2017 changes to credit reporting standards that will exclude half of tax liens and civil judgments).
[66] Ben Luthi, Experian, *Which Public Records Can Appear on My Credit Report?* (Oct. 29, 2023), https://www.experian.com/blogs/ask-experian/public-records-that-appear-on-your-report/.
[67] Hackney, D. D., & Friesner, D. L. (2021). The Impact of the COVID-19 Pandemic on Consumer Bankruptcies. Journal of Applied Business and Economics, 23(6).
[68] Data on file with authors.
[69] Fig. 9; median household income is drawn from American Community Survey data on file with authors. The average median income for Santa Clara County by year ranges from $97864 (2017) to $119,195 (2020) and the average number of people over 25 in Santa Clara County with a bachelor degree ranges from 24-25% during our study period.
[70] *Id.*
[71] Dalié Jiménez, *Dirty Debts Sold Dirt Cheap*, 52 HARV. J. ON LEGIS. 41, 46 (2015), https://papers.ssrn.com/abstract=2250784. Debts are sold to third party debt collectors as-is and without warranty as to collectability. *Id. See also* Kabir Masson, *Paradox of Presumptions: Seller Warranties and Reliance Waivers in Commercial Contracts*, 109 COLUM. L. REV. 503, 507 (2009) (arguing that this solves "the adverse selection problem" sometimes known as "lemons problem" because "[f]or buyers, a seller warranty lends credibility to a product and reduces the risks related to a possible product defect."
[72] Claire Johnson Raba & Dalié Jiménez, *Pay to Plead, supra* note 3.
[73] *Id.* Table 2 at 29.

[74] *Id.* at 30.
[75] Data on file with authors. Over the four-year study period, the study counties show a drop in answer rate over time, with the answer rates by year dropping from 8.84% in 2017 to 5.6% in 2019 and 5% in 2020.
[76] Carolyn Carter & Michael Best, *No Fresh Start 2023: Will States Let Debt Collectors Push Families Into Poverty as Economic Uncertainty Looms?,* NATIONAL CONSUMER LAW CENTER (Dec. 11, 2023), https://www.nclc.org/resources/no-fresh-start-2023/.
[77] California SB 616, (eff. September 1, 2020), creates an exemption floor for a consumer's deposit account. See Cal. Code Civ. Proc section 704.220. If a consumer has more than one deposit account, or to seek an exemption above the statutory amount, the consumer must file a claim of exemption under Cal. Code Civ. Proc. section 703.520.
[78] *Pay to Plead*, *supra* n. 11 at p. 34-35 and Figure 9.
[79] We calculate default rate as the number of cases in which the defendant was served (which is 100% of the cases in this Report's dataset),
[80] Data on file with author. N=35,914. There were 7809 dismissals, 25,273 default judgments, 2388 cases still pending, and 444 entries of judgment that were not defaults.
[81] *See* Matthew Desmond, *Unaffordable America: Poverty, Housing, and Eviction: American Journal of Sociology*, in THE AFFORDABLE HOUSING READER (2 ed. 2022), noting that evictions overburden single mothers with young children. Matthew Desmond & Carl Gershenson, *Who Gets Evicted? Assessing Individual, Neighborhood, and Network Factors*, 62 SOCIAL SCIENCE RESEARCH 362, 368 (2017), finding that "family structure is an important predictor of eviction."