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Debt Burden from Automobile Loans Exacerbates Racial Inequality in California's Communities

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Issue

Automobiles can greatly enhance access to employment and other opportunities. However, many households do not have the resources to purchase a vehicle outright and must rely on automobile loans. This increases the total cost of owning a vehicle, particularly for non-white consumers who may have to pay higher purchase prices and/or higher interest rates due to discriminatory lending practices. The effects of high household debt—of which automobile loans are one component—are magnified in lower income neighborhoods, leaving residents with fewer resources to invest in the local economy.

Our team used the University of California Consumer Credit Panel, a dataset from Experian, which tracks every loan and borrower in California, to examine how and why automobile loan debt varies from place to place in the state and its consequences. We specifically tested whether total automobile debt, debt burden (the ratio of automobile debt to income), and automobile loan delinquencies in 2021 disproportionately affected non-white neighborhoods.

Key Research Findings

Majority Black and Latino/a neighborhoods in California have higher automobile loan debt per borrower, debt burdens, and loan delinquency rates than the state and compared to majority white and Asian neighborhoods, controlling for other relevant factors including income. In

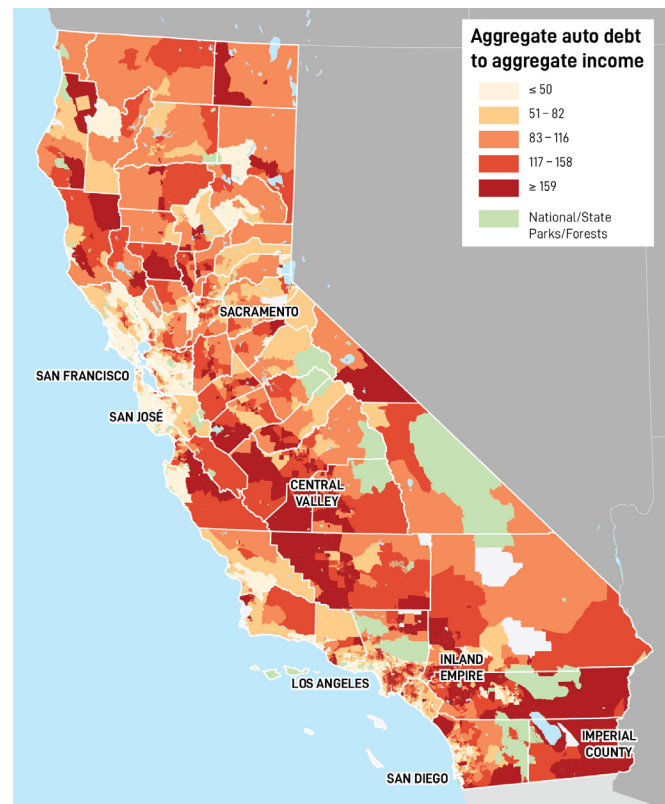


Figure 1. Neighborhood Automobile Debt Burden, 2021 Q2

particular, Latino/a neighborhoods shoulder significant automobile debt, while borrowers in Black neighborhoods have the highest delinquency rates.

Total automobile loan debt and debt burdens are lower in highly urbanized areas and in neighborhoods located near rail transit. The Central Valley, Inland Empire, and the southeast part of the state have the most automobile debt per borrower. The higher-income, more transit-rich San Francisco Bay Area has among the lowest levels of automobile debt. Looking at debt burdens, the pattern is similar, with an especially pronounced divide between the Bay Area, with near-uniformly low burden, and much of the Los Angeles and San Diego areas, with mixed to high burdens (See Figure 1. Areas with low automobile debt burden are shaded lighter; those with higher debt burdens are shaded darker.).

Some places with high debt per borrower have only moderate levels of debt burden. These are generally higher-income areas where households reduce their burden not by borrowing less for cars but rather by having enough money to do so. In less wealthy areas like Imperial County, however, individuals may borrow less but have severe debt burdens.

Policy Considerations

Our research shows concentrations of automobile debt in communities of color, putting borrowers in these

neighborhoods in a precarious financial situation despite the many benefits of car ownership. California agencies are currently experimenting with low-income, clean-fuel vehicle subsidy, loan, and sharing programs (for example, the California Air Resources Board’s Driving Clean Assistance Program, which provides lower-income Californians with assistance to purchase zero-emission vehicles). These initiatives could potentially reduce the economic burden placed on households while improving their mobility and advancing a broader shift to low-carbon travel.

However, our research also signals that income-based policies alone are not sufficient to combat highly racialized disparities in automobile debt, if underlying issues related to fair lending and other discriminatory and predatory practices are not addressed. Data on automobile lending practices by race, currently largely inaccessible, could help inform efforts to understand the magnitude of this issue along with potential solutions for addressing it.

More Information

This policy brief is drawn from the article “Putting Automobile Debt on the Map: Race and the Geography of Automobile Debt in California” in Transportation Research Part A: Policy and Practice, available at <https://doi.org/10.1016/j.tra.2024.104230>. For more information, please contact Evelyn Blumenberg at ebumenb@ucla.edu.

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