

How can my city end unfair debt traps?

Some cities and states require entrepreneurs to certify that they do not owe debts to the government before they can start businesses. In these jurisdictions, minor traffic tickets and parking fines become major stumbling blocks to earning an honest living. Other cities impose punitive fines and fees that trap residents in a devastating cycle of debt. Rules like these place heavy burdens on at-risk populations, like returning citizens and low-income entrepreneurs.

Municipal debt traps are a lose-lose scenario

As studies from cities like [San Francisco](#) and [New Orleans](#) have shown, debt collection efforts **often cost more** than the revenue they produce. DC's Clean Hands provision, which prohibits residents with \$100 or more in government debt from obtaining licenses, has failed to achieve results. Of the city's \$682,450 in outstanding fare evasion fines issued between late 2017 and early 2019, **only about 17%** were collected. That creates a lose-lose situation where citizens who can't afford to pay an outstanding ticket are ineligible for a business license while the city never even recovers the minor debt.

Focus groups with DC entrepreneurs revealed that rules like the city's "Clean Hands" provision deter many low-income entrepreneurs from even starting the licensing process in the first place.

Recent reforms show promise

Increasingly, cities are recognizing the failure of their debt traps and changing their laws to lift this burden. [Reforms](#) have so far focused on driver's license suspensions related to unpaid fines and fees, but local officials should expand those efforts to exempt all forms of licenses and permits from Clean Hands-like barriers.

How can I end debt traps in my city?

- ✓ Eliminate fines and fees that trap entrepreneurs in a cycle of debt, including punitive, unreasonable late fees.
- ✓ End requirements that prevent entrepreneurs from obtaining a business license if they have unrelated, minor unpaid fines and fees.
- ✓ Raise the threshold to target true repeat offenders, so that a single parking ticket is not the difference between starting up and having to go back to square one.



[Contact us](#) to discuss tailored recommendations for how your city can end debt traps for low-income entrepreneurs.

IJ is a nonprofit law firm that works with city officials, entrepreneurs, and advocates to remove regulatory barriers to entrepreneurship. For more information, visit <https://2021initiative.com>.