

DATA POINT:

SBA Student Loan Restriction Disproportionately Impacts Black and Latino Business Owners

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The Paycheck Protection Program (PPP) application stipulates that forgivable business loans may not be made to any business with 20% or more ownership by a federal loan borrower (including federal student loan borrowers) who has defaulted in the last seven years and caused a loss to the government or who is currently delinquent on their federal loan. Thus, a business owner who has experienced default on their student loans in the past seven years may be unable to access emergency funding that may save their own job or the jobs of those they employ.¹ And because the application does not clearly define delinquency, some business owners who need these funds may assume they are not eligible even if they are only slightly behind on their payments.

Prior research has found that two in five borrowers are likely to experience default. For the cohort of borrowers who entered higher education in the 2003–2004 academic year, nearly 40% will likely experience default by 2023.² The number is even higher for borrowers of color, indicating that a policy excluding any borrower who has been in default on their student loans over the past seven years could impact millions of self-employed student loan borrowers.

Self-employed people are more likely to be in delinquency or default on student loans than respondents with other types of employment (Figure 1).³ Of the 2.7 million self-employed individuals who also have student loans, 29% (approximately 807,000 individuals) are behind in payments or in collections for one or more loans from their own education. These borrowers were in default or delinquency prior to the crisis and, thus, many of them were likely ineligible for PPP financing. This indicates that almost one-third of self-employed people may have missed out on emergency funding for themselves and their employees. These estimates likely understate the true scope of the exclusion because they do not include borrowers who were in default within the past seven years but were not behind or in default in October 2019, when the survey was conducted.



Student loan default and delinquency could bar business owners from accessing Paycheck Protection Program loans.

Over 800,000 self-employed people are behind in payments or in collections for a student loan.

500,000 self-employed student loan borrowers of color may have missed out on PPP loans for themselves and their employees based on their student loan repayment status.

Figure 1: Almost 30% of Self-Employed Borrowers Report Delinquency or Default

	Behind or in Collections on a Student Loan	
	Count	Percent
Self-Employed	807,447	29%
Government	785,641	13%
Nonprofit	524,023	10%
Private For-Profit	2,888,058	15%
Working in the Family Business	66,427	17%
Total	5,071,596	15%

Source: CRL analysis of the 2019 Survey of Household Economics and Decisionmaking (SHED), published by the Board of Governors of the Federal Reserve System. Analysis uses weighted totals and questions SL6: “Are you behind on payments or in collections for one or more of the loans from your own education?” and ppcm1301: “Employer type.” Analysis excludes respondents who refused to disclose their employer type and those who did not answer question SL6.

Self-employed Black and Latino borrowers are much more likely to be behind or in collections on their student loans than their white self-employed peers (Figure 2). Previous research has established that Black borrowers and other borrowers of color tend to have more difficulty in student loan repayment than their white peers due to a history of federal policies and practices resulting in higher loan amounts for the same degree, racial wealth gaps, discrimination in the labor market, lower funding for institutions that serve higher numbers of students of color, and a number of other structural disadvantages.⁴ In 2019, almost 500,000 self-employed borrowers of color were in this group and may have missed out on receiving PPP loans for themselves and their employees based on their student loan status.

Figure 2: Self-Employed Black and Latino Borrowers Almost Twice as Likely To Report Being Behind or in Default on Student Loan

	Share ⁵	Weighted Count
Black	39%	267,990
Latino	39%	225,027
White	22%	294,319

Source: CRL analysis of the 2019 Survey of Household Economics and Decisionmaking (SHED), published by the Board of Governors of the Federal Reserve System. Analysis uses weighted totals and questions SL6: “Are you behind on payments or in collections for one or more of the loans from your own education?”; ppcm1301: “Employer type”; and ppethm: “Race/Ethnicity.” Analysis excludes respondents who did not answer question SL6.

This analysis confirms that the structural discrimination faced by people of color in higher education contributes to and reinforces discrimination in small business ownership and survival during the COVID-19 crisis. Research conducted since the implementation of the CARES Act has established that the structure and implementation of PPP disadvantage smaller businesses, including the self-employed, and that businesses owned by people of color are more likely than white-owned businesses to be impacted by these limitations.⁶ The apparent PPP prohibition on student loan borrowers who are behind on their loans or in default is one way this disadvantage is created.

Preserving businesses owned by people of color is paramount to an equitable recovery from the COVID-19 pandemic.

Employer businesses owned by people color are a substantial source of income and employment—accounting for more than 8.9 million jobs at a total annual payroll of \$295 billion, and \$1.4 trillion in revenue.⁷ Yet many of these businesses, as well as non-employer or self-employed businesses, were likely excluded from the first round of PPP funding. Business ownership is also a proven mechanism for wealth-building, with economic benefits that extend beyond the individual business to the entire community. Ensuring that federal small business relief works for small businesses owned by people of color is essential to an inclusive economic recovery.

RECOMMENDATION: Ensure that federal relief programs work for everyone and remove barriers that disadvantage business owners of color and exacerbate racial wealth disparities. Lawmakers should work to provide more affordable pathways for borrowers to manage their student loans and eliminate the negative impact of default. SBA should immediately suspend any restrictions that bar access to funding for federal student loan holders who are behind on their payments, have defaulted on a loan but have cured, or are in the process of rehabilitating the loan.

1 The Borrower Application Form for PPP includes, as Question 2: “Has the Applicant, any owner of the Applicant, or any business owned or controlled by any of them, ever obtained a direct or guaranteed loan from SBA or any other Federal agency that is currently delinquent or has defaulted in the last 7 years and caused a loss to the government?” The application also states that if Question 2 is answered “Yes,” the loan will not be approved. Available at <https://www.sba.gov/sites/default/files/2020-04/PPP%20Borrower%20Application%20Form.pdf>. It is likely that, based on the database (the Credit Alert Verification Reporting System, or CAIVRS) used by the federal government, individuals would only be denied a loan if their default or delinquency “caused a loss to the government,” which may be defined more narrowly as loans that were 270 days delinquent or more. The language on the SBA application implies a stricter standard that may have led borrowers to assume they were ineligible, having a similar deterrent effect.

2 Scott-Clayton, J. 2018, January 11. “The looming student loan default crisis is worse than we thought.” *Brookings Institution*. Available at <https://www.brookings.edu/research/the-looming-student-loan-default-crisis-is-worse-than-we-thought/>.

3 This analysis uses the Survey of Household Economics and Decisionmaking (SHED), conducted in September 2019 and published by the Board of Governors of the Federal Reserve System. Available at https://www.federalreserve.gov/consumerscommunities/shed_data.htm. To establish whether a respondent is in delinquency or default on a student loan, this analysis uses the question “Are you behind on payments or in collections for one or more of the loans from your own education?” This question may undercount the number of self-employed borrowers who are impacted by the PPP exclusion, because PPP excludes borrowers who have defaulted any time in the past seven years and because this question only asks about loans for one’s own education, excluding borrowers who take on debt for someone else’s education, such as parent borrowers. It could also overcount, given that not all students with loans are borrowing from the federal government, though ~90% of student loans are federally-held. Further, self-employment is used in this analysis as a proxy for small business ownership and entrepreneurship, based on prior research by the SBA. See: Headd, B. November 2014. “Student Debt Among Young Entrepreneurs.” *Small Business Administration Office of Advocacy*. Available at <https://www.sba.gov/sites/default/files/Student%20Debt%20Among%20Young%20Entrepreneurs%20Nov%202014.pdf>.

4 Center for Responsible Lending, UnidosUS, the National Association for the Advancement of Colored People, the National Urban League, and the Leadership Conference Education Fund. September 2019. *Quicksand: Borrowers of Color and the Student Debt Crisis*. Available at <https://www.responsiblelending.org/sites/default/files/nodes/files/research-publication/crl-quicksand-student-debt-crisis-jul2019.pdf>.

5 Representing the share of all self-employed individuals (who have student loans for their own education) in each category who indicated that they were behind on payments or in collections for one or more of the loans from their own education.

6 Harrington, A. June 17, 2020. “Paycheck Protection Program: Loan Forgiveness and Other Challenges; Testimony Before the United States House Committee on Small Business.” *Center for Responsible Lending*. Available at <https://www.responsiblelending.org/sites/default/files/nodes/files/research-publication/crl-testimony-harrington-house-smallbusiness-17jun2020.pdf>.

7 2018 Annual Business Survey