

## Student Loan Debt Widens the Racial Wealth Gap

- **Existing racial wealth gap increases burden of student loan debt on Black families and communities:** This means families of color are more likely to need to borrow for higher education, will have less income with which to pay it, and have less of a cushion to withstand future financial shocks, thus contributing to a higher likelihood of delinquency and default on student loan debt. Today, nearly half of Black graduates owe more on their undergraduate student loan after four years than they did at graduation, compared to 17% of white graduates.<sup>1</sup> Even a degree is no shield from racial disparities: Black bachelor's degree graduates default at five times the rate of white bachelor's degree graduates, and are more likely to default than whites who never finish a degree.<sup>2</sup>
- **Student loans create barriers to homeownership:** Research from the National Association of Realtors shows that the average student loan borrower delays the purchase of their first home by an average of seven years.<sup>3</sup> This is a significant problem in and of itself, but it is particularly worrisome in light of the fact that homeownership rates for Black people are the same today as they were in 1968.
- **Student loans create barriers to small business ownership:** Student loan debt creates barriers to both starting and growing new businesses. For example, someone with an average student loan debt of \$30,000 is 11% less likely to start a business than a person who graduated debt-free.<sup>4</sup> And, once started, small businesses owned by people with student loan debt are less likely to grow. A survey of young adults found half of young adults who either already own a business or have plans to do so identified student debt as one of their main barriers.<sup>5</sup> Given that small businesses are also such a significant source of employment, the hampering of small business growth due to student loan debt also hampers the types and number of available job opportunities.<sup>6</sup>
- **Black women are particularly burdened with student loan debt:** Women – and particularly black women—are more likely to struggle with student loan debt. Approximately 34% of all women and 57% of Black women who were repaying student loans reported that they had been unable to meet essential expenses within the past year.<sup>7</sup> Women graduate, on average, with \$2,700 more in student loan debt, and because they earn about 26% less, paying off their debt takes significantly longer. This is especially true for women of color. Black women have the greatest average amount of student loan debt.<sup>8</sup>
- **For-profit colleges are a major driver of student loan debt:** Debt and default among black students attending for-profit colleges is staggering, and the problem continues to grow. Nearly 38% of all Black first-time college entrants who attended a for-profit institution in 2004 had defaulted on their student loans within 12 years, a rate that is three times higher than their white counterparts. If this default rate continues at current levels, the default rates for Black students of for-profit colleges could reach 70% within 20 years.<sup>9</sup>

## Student Loan Debt is a National Crisis

- **The amount of outstanding student loan debt is staggering:** Today, more than 42 million people<sup>10</sup> carry \$1.53 trillion of outstanding student loan debt.<sup>11</sup> This is the largest source of non-mortgage loan debt. For the class of 2017, two out of three people graduated carrying federal student loan debt.<sup>12</sup>
- **Nearly 1 out of every 3 borrowers will ultimately default on their federal student loans.**<sup>13</sup> However, default represents only the most critically distressed student loan borrowers. In truth, borrowers who will never default are facing hardships because of unaffordable student loan debt, such as inability to pay other bills because of monthly student loan payments.
- **Delinquency and default on student loans can have serious, long-term effects on borrowers:** Defaulting on a student loan harms a borrower's credit score, making it more difficult to access jobs and housing, as employers

and landlords routinely conduct credit checks when assessing applicants. For seniors, it could mean garnishment of their Social Security income, locking them into a lifetime of poverty.

- **Student loan debt harms seniors, too:** In 2015, \$66.7 billion of total outstanding student loan debt was owed by 2.8 million borrowers age 60 and older.<sup>14</sup> This is quadruple the number of older borrowers with student loan debt since 2005. For seniors, defaulting on student loan debt can be devastating. For federal student loans, seniors can have their Social Security income seized by the federal government. In 2015, 114,000 seniors had their Social Security income seized for these purposes. This is a four-fold increase since 2002.<sup>15</sup>

### **Congress Must Reauthorize the Higher Education Act and include:**

- **Access to a debt-free higher education (degree or credential):** States need more funding to help make college affordable. There has been nearly a decade of state disinvestment which left a \$10 billion hole in the budgets of institutions of higher education.<sup>16</sup> Congress can and should make it possible for any American to attend college without going into debt. Already, the federal government uses federal and state partnerships, leveraging federal resources to encourage state prioritization and investment. Congress should create a federal funding match program to increase state funding of higher education institutions. As well as guarantee that a debt-free college promise covers all expenses associated with college attendance – not just tuition.
- **Increased aid for Title III and Title V schools:** Hispanic Serving Institutions (HSIs) and Historically Black Colleges and University's (HBCUs) underscore opportunity as the capstone of American exceptionalism. In 2013-2014, the average total cost of attendance at all HBCUs was 26 percent lower than the average total cost at all four-year non-profit colleges. Increasing both discretionary and mandatory aid to these institutions is essential to their survival and essential to closing the wealth gap.
- **Increase Pell:** Congress has consistently failed to increase the maximum Pell award even as the cost of college has skyrocketed. The maximum Pell award remains at less than \$6,000 per calendar year, even though the average cost of tuition for even state residents at a public college is close to \$10,000 per year. Higher Pell awards ensures that more students can attend college and graduate with significantly less debt, rather than large loan amounts that they will more than likely struggle to repay.
- **Preservation and streamlining of income-based repayment plans and loan forgiveness:** Those suffering from the burden of student loan debt would benefit significantly from a tax-free loan forgiveness/discharge of debt program after a student has made income-based payments for 10 years at 8-10% of discretionary income. Allow borrowers to pay based on what they can expect to earn, then discharge the balance - addresses the affordability of the entire debt, not just the affordability of the monthly payment.
- **Statutory requirements to ensure loan servicers meet basic consumer protection standards:** Direct the Department to ensure that all servicing contracts adequately incentivize servicing that minimizes delinquency and default, prioritizes information and disclosure, and requires transparency and accessibility.
- **Require the Department of Education to enforce the Borrower Defense (BD) repayment rule:** Secretary DeVos has attempted to make getting relief under BD more difficult currently, there are 90,000 unanswered claims. Congress should require the Department to administer claims for schools that have closed; including automatic group discharge for schools that close and eliminating mandatory arbitration clauses in enrollment contracts.
- **Strengthen Gainful Employment (GE) Rule:** Congress should require the Department of Education to be strengthened, not weakened. Secretary DeVos has attempted to eliminate the enforcement piece of GE all together.
- **Close the 90/10 Loophole:** Reduce the ratio of federal dollars to other sources of tuition payment from 90/10 to 85/15, include GI Bill dollars in the ratio.

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<sup>1</sup> Brookings Institute, Black-white disparity in student loan debt more than triples after graduation, Oct. 2016, <https://www.brookings.edu/research/black-white-disparity-in-student-loan-debt-more-than-triples-aftergraduation/>

<sup>2</sup> Brookings Institution, The looming student loan default crisis is worse than we thought, January 10, 2018, <https://www.brookings.edu/wp-content/uploads/2018/01/scott-clayton-report.pdf>

<sup>3</sup> National Association of Realtors, Student Loan Debt and Housing Report, Oct. 2017,

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<https://www.nar.realtor/research-and-statistics/research-reports/student-loan-debt-and-housing-report>.

<sup>4</sup> Krishnan, Karthik and Wang, Pinshuo, *The Cost of Financing Education: Can Student Debt Hinder Entrepreneurship?* (November 1, 2017). Forthcoming, Management Science. Available at SSRN:

<https://ssrn.com/abstract=2586378> or <http://dx.doi.org/10.2139/ssrn.2586378>

<sup>5</sup> Laura Checovich and Tom Allison, Young Invincibles, "At the Extremes: Student Debt and Entrepreneurship,"

Aug. 2016, <http://younginvincibles.org/wp-content/uploads/2017/06/AtTheExtremes-Entrepreneurship-Edited1.pdf>

<sup>6</sup> Annie Nova, CNBC.com, "Starting a business is hard. With student debt, it can be impossible," available at <https://www.cnbc.com/2018/10/22/starting-a-business-when-you-have-student-loans-can-be-a-challenge.html>

<sup>7</sup> American Association of University Women, Women's Student Debt Crisis in the United States, May 2018, <https://www.aauw.org/research/deeper-in-debt/>

<sup>8</sup> Brookings Institution, The looming student loan default crisis is worse than we thought, January 10, 2018, <https://www.brookings.edu/wp-content/uploads/2018/01/scott-clayton-report.pdf>.

<sup>9</sup> Brookings Institution, The looming student loan default crisis is worse than we thought, January 10, 2018, <https://www.brookings.edu/wp-content/uploads/2018/01/scott-clayton-report.pdf>

<sup>10</sup> <https://studentaid.ed.gov/sa/sites/default/files/fsawg/datacenter/library/PortfolioSummary.xls>. Reflects totals through the end of June 2018.

<sup>11</sup> <https://www.federalreserve.gov/releases/g19/current/default.htm>. Reflects totals through the end of June 2018.

<sup>12</sup> The Institute for College Access & Success, *Student Debt and the Class of 2017* 1 (2018), [https://ticas.org/sites/default/files/pub\\_files/classof2017.pdf](https://ticas.org/sites/default/files/pub_files/classof2017.pdf). The report includes data only for those borrowers who graduated from 4-year degree programs at public and non-profit private colleges and universities as very few forprofits report data on what their graduates owe.

<sup>13</sup> <https://www.brookings.edu/research/the-looming-student-loan-default-crisis-is-worse-than-we-thought/>

<sup>14</sup> [https://s3.amazonaws.com/files.consumerfinance.gov/f/documents/201701\\_cfpb\\_OA-Student-Loan-Snapshot.pdf](https://s3.amazonaws.com/files.consumerfinance.gov/f/documents/201701_cfpb_OA-Student-Loan-Snapshot.pdf)

<sup>15</sup> <https://www.gao.gov/assets/690/681722.pdf>

<sup>16</sup> Michael Mitchell, Michael Leachman, and Kathleen Masterson, Center on Budget and Policy "Priorities, Funding Down, Tuition Up State Cuts to Higher Education Threaten Quality and Affordability at Public Colleges", August 2016.

<https://www.cbpp.org/sites/default/files/atoms/files/5-19-16sfp.pdf>