

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.¹ 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.²
- **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.³ 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.⁴ 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.⁵ 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.⁶
- **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.⁷ 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.⁸
- **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.⁹

Student Loan Debt is a National Crisis

- **The amount of outstanding student loan debt is staggering:** Today, more than 42 million people¹⁰ carry \$1.53 trillion of outstanding student loan debt.¹¹ 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.¹²
- **Nearly 1 out of every 3 borrowers will ultimately default on their federal student loans.**¹³ 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.¹⁴ 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 2002.¹⁵

States Must Act to Address the Student Loan Debt Crisis

- **States have authority to protect against servicing abuses:** Today, student loan servicers are failing students across the country, and particularly Black communities. Student loan servicers serve as the link between borrowers and the successful repayment of their loans. However, widespread abuses include: misapplying payments, reporting incorrect information to credit bureaus, and placing borrowers in plans that cause their debt to balloon, leading to delinquencies and defaults. Today, four states have enacted laws to protect students against these abuses by student loan servicers, and more must do the same.¹⁶
- **States have the authority to protect against predatory for-profit colleges:** States can use their authority to ensure that for-profit colleges actually spend tuition dollars on education, do not steer students into unaffordable private loans, and do not enroll students into programs for fields of employment in which they are not eligible to obtain a job.
- **States MUST act because students are under assault by the practices of the current Administration:** Under U.S. Department of Education Secretary Betsy DeVos, significant protections for students both in relation to student loan servicing and for-profit colleges have been gutted. Furthermore, DOE is seeking to actively undermine state authority. Additionally, under Acting Director Mick Mulvaney's watch, the CFPB essentially collapsed its unit that was designed to enforce against abusive student loan practices. Not only is the current Administration doing nothing to protect student loan borrowers, it is actively siding with mega-servicing companies and predatory for-profit colleges to make the problem worse.

¹ 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/>

² 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>

³ National Association of Realtors, Student Loan Debt and Housing Report, Oct. 2017, <https://www.nar.realtor/research-and-statistics/research-reports/student-loan-debt-and-housing-report>.

⁴ 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>

⁵ 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>

⁶ 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>

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

⁸ 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>.

⁹ 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>

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

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

¹² 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. 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.

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

¹⁴ https://s3.amazonaws.com/files.consumerfinance.gov/f/documents/201701_cfpb_OA-Student-Loan-Snapshot.pdf

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

¹⁶ Connecticut, California, Illinois, and Washington