Race and Ethnicity in Higher Education: 2020 Supplement

INVITED ESSAY

The Racialization of the Student Debt Crisis

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American Council on Education®

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This chapter is part of a larger report by the American Council on Education (ACE) titled *Race and Ethnicity in Higher Education: 2020 Supplement*, which follows ACE's 2019 release of *Race and Ethnicity in Higher Education: A Status Report*. These reports, along with their accompanying microsite, provide a data-informed foundation for those working to close persistent equity gaps by providing a comprehensive review of the educational pathways of today's college students and the educators who serve them.

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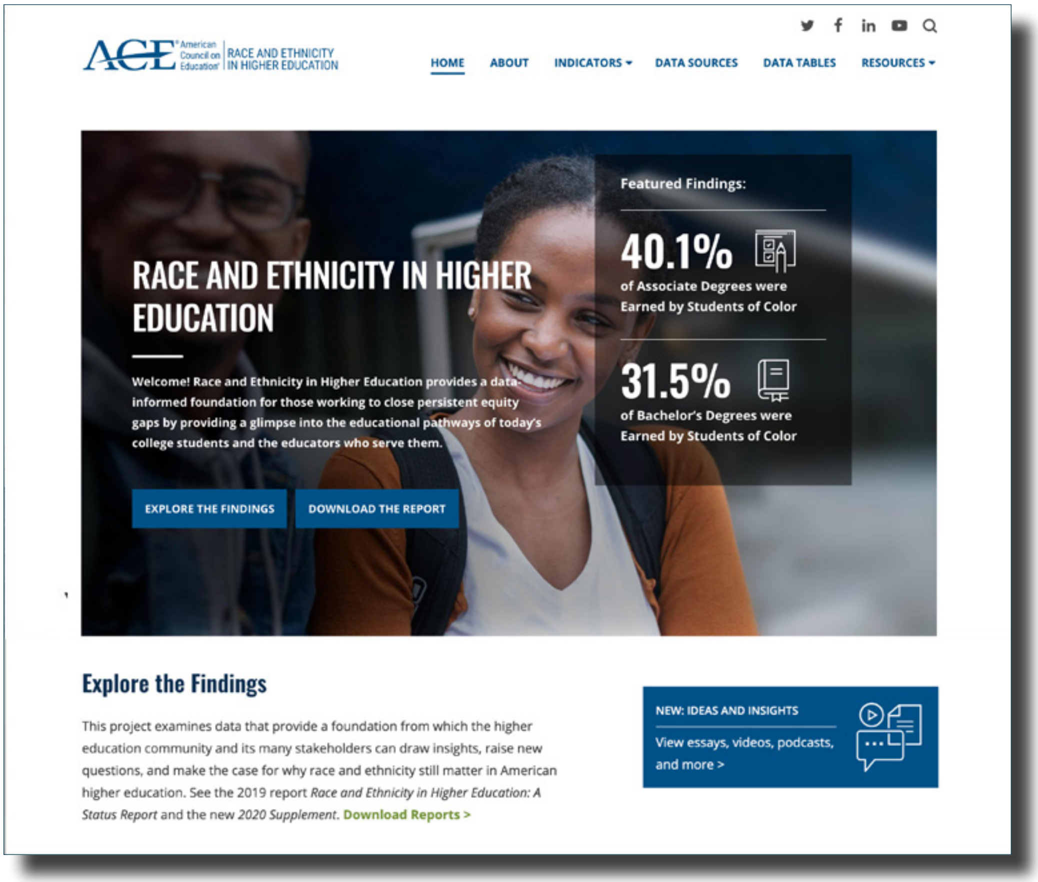
Visit **www.equityinhighered.org** to learn more about the project and to download the full report, figures, detailed data tables, and other resources on race and ethnicity in higher education.



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The Racialization of the Student Debt Crisis

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Surprisingly, the idea that we are in the midst of a student debt crisis remains a controversial one, even with the average debt for a four-year degree at $29,000 in 2018 (College Board 2019a). Those who argue against a student debt crisis posit that this amount is a relatively small burden to bear when compared with the expected lifetime incomes of college graduates, which continue to outpace the earnings of all groups with less accumulated schooling across race and ethnicity. And, of course, the media tend to highlight the stories of the small percentage of borrowers with over $100,000[1] of debt; in most cases, the student accumulated this debt during graduate school. These average figures, however, mask concentrations of debt, most notably held by more economically vulnerable populations, such as those who have not completed their degrees (Hillman 2014). Moreover, failure to disaggregate the borrower population in these conversations ignores substantial portions of our society whose student loan experience is quite different: Black borrowers and their families are accumulating more debt on average and their struggles with repayment result in some of the highest default rates (Baum 2019).

Thankfully, the conversation about the racial disparity in student debt has moved from a relatively small group of academics and policymakers to the national political stage. On June 18, 2018, 62 members of Congress representing 29 states sent a letter to Secretary of Education Betsy DeVos. It had a clear message: the federal student loan program disproportionately impacted students of color, and the current structure and actions of the department have failed to protect these borrowers (Warren et al. 2018). Then, in early 2019, Senators Kamala Harris (CA), Doug Jones (AL), Catherine Cortez Masto (NV), and Elizabeth Warren (MA) asked for stakeholder input on how to address racial disparities in student debt (Jones et al. 2019). As the 2020 election campaign cycle kicked into full gear, racial disparities in student debt and the need for policy-based solutions have become central talking points among politicians, policymakers, and the media.

How Did We Get Here? Racial Wealth Inequality and College Affordability

As state funding for public education declined, students and their families have had to cover an increasing share of college costs. Rising aggregate student debt reflects this reality, as does the increase in the number of students enrolling in postsecondary education. Meanwhile, economic inequality has dramatically increased. Stagnant wages and earnings that failed to keep pace with inflation at the lower ends of the income distribution have made it impossible to draw from resources that do not exist. Focusing solely on income differentials, however, provides an incomplete picture of the household balance sheet and the relationship between higher education and familial resources. It also masks vast racial disparities among American households, given that wealth differentials are much greater than income disparities. For example, in 2016, the median income of White households was $61,200, compared with $35,400 for Black households. However, the median net wealth (total assets minus total debts) of White households was $171,000, compared with $17,600 for Black households (Dettling et al. 2017). This tenfold difference in net wealth holdings is important because familial wealth is a key determinant of postsecondary success when measured by students' ability to attend college, complete their studies, and depart with a reduced debt burden. A debt-financed higher education system in a society with extreme wealth inequality means those with fewer resources are more likely to take on debt to access postsecondary education.

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1 According to the College Board, in 2019, 10 percent of borrowers held 43 percent of the outstanding loan debt (College Board 2019b).

There has been a growing awareness within both academic and policy circles of these links between racial disparities in student loan debt and greater societal racial wealth inequality (Morgan and Steinbaum 2018; Steinbaum 2019; McKay and Kingsbury 2019; Mishory, Huelsman, and Kahn 2019). Black families and their children turn to student loans to cover the cost of college attendance, expected family contributions, and any remaining unmet need. In a 2016 study, Addo, Houle, and Simon found that as parental wealth increased, student loan debt decreased. When disaggregated by race, however, the inverse association held for White families but did not for Black families. In other words, Black parental wealth was not associated with the amount of debt their children accumulated. Between 1989 to 2013, a period of increasing Black-White wealth inequality that included the Great Recession, Seamster and Charron-Chénier (2017) found that racial disparities in student loan debt grew. In their analysis, both the proportion of Black households that carried loans as well as the student loans' share of total household debt grew faster than White households. Fishman (2018) found that low-income and low-wealth Black students whose families have Parent PLUS[2] loans had more average debt than their White counterparts. All of these studies highlight one important, overarching finding: Black students and their families take on more debt for their postsecondary education in pursuit of what has become an increasingly expensive investment.

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Student Debt and Black-White Differences in Repayment Outcomes

In addition to racial disparities in student loan debt accumulation, mounting evidence—including in this report—also shows racial disparities in student loan debt repayment rates, with Black borrowers having the highest default rates (Hillman 2014; Miller 2017; Scott-Clayton 2018b). Studies have shown default rates for Black borrowers exceeded those of White borrowers, independent of whether they completed their studies (Scott-Clayton 2018a). Paydown rates of White borrowers are more than two times greater than those of Black borrowers (Houle and Addo 2019). Ten years post-graduation, Black borrowers owed 51 percent of their initial loan debt, and 21 percent had some experience with nonpayment either through loan deferment or forbearance. Compare these percentages with White borrowers who owed 16 percent of their initial debt, and 4 percent experienced nonpayment (Lochner and Monge-Naranjo 2014).

It was also the case that family and parental resources explained only a portion of racial differences in default rates, signifying that postsecondary experiences and the socioeconomic status of young adults also matter (Houle and Addo 2019; Scott-Clayton 2018b). Divergences in labor markets and life circumstances upon leaving school lead Black young adults to repay their loans more slowly than their White counterparts. Black college graduates also have higher rates of unemployment and underemployment than White college graduates (Jones and Schmitt 2014). And for those who find jobs, Black college graduates still must contend with discriminatory labor market practices (Gaddis 2015), which make them more likely to receive lower pay and attract fewer opportunities for career advancements relative to their White college graduate counterparts.

Another critical piece for understanding racial student debt disparities is financial assistance from family. Fewer Black students receive financial help from family, and the overall amounts received are smaller, on average. It is important to note, however, that while in absolute terms, White adult children receive more financial support from their parents, Black parents tend to give more financial assistance as a share of their available resources to their children (Nam et al. 2015).

The consequences of student debt repayment issues can reverberate throughout an individual's life. Households with student debt are at greater risk of adverse financial outcomes such as trouble paying bills and issues with default and delinquency (Bricker and Thompson 2016), which can lead to wage garnishment and poor credit that make future borrowing more

2 A Parent PLUS loan is a loan that parents of dependent undergraduates students can use to help pay for college or career school. Compared with the amount students can borrow, which is capped, parents can borrow up to the total costs of attendance (COA). PLUS loans can help pay for education expenses not covered by other financial aid.

expensive or impossible. If borrowers are having difficulty repaying their loans or require a longer time horizon, these circumstances also impact their ability to accumulate wealth. Individuals who can start accumulating assets earlier acquire more wealth, and the young adults paying down debt in the years after college are unlikely to catch up or surpass the young adults that were able to accumulate savings, purchase a home, or begin saving for retirement during that time. Given the racialized nature of the student debt crisis, White young adult borrowers can often pay down their debt faster, start accumulating wealth sooner, and build upon a wealth foundation that is essentially nonexistent for Black borrowers.

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How Do We Assist Black Families with Student Debt?

As college tuition continues to increase, families and students will remain accountable for overall college costs, but steps can be taken to ease the burden. At a minimum, financial education and counseling are critical for navigating the complex, decentralized system of student aid. For example, receiving assistance with completing the FAFSA form increases the likelihood families will submit the application, students will enroll, and that they persist from one year to the next (Bettinger et al. 2012; Social Programs That Work 2017). Credit markets and predatory lenders must also be regulated to protect vulnerable borrowers.

As colleges and universities expand access to serve today's students, they must also commit to meeting their academic and financial needs. Doing so means more than providing direct grant or loan aid to cover tuition and books, especially if the students are low income, first generation, or face high tuition costs. Proposals to increase the amount of federal aid institutions receive to cover the lack of growth in state aid, such as Deming's (2017) federal matching grant proposal that ties assistance to college completion, are promising. Colleges and universities should also ask the following questions when creating their financial aid offers:

- Do students receive enough to cover all their expenses?
- Can they afford housing?
- Is food insufficiency a concern?
- Will students be more likely to burden themselves in other ways to avoid accumulating debt, such as overloading their courses in an attempt to reduce their time in school, or working time-consuming jobs while trying to complete their studies?

Repayment systems must also be designed to serve all borrowers. For example, income-based repayment programs restrict repayment to 10 to 20 percent of a borrower's discretionary income and discharge any remaining debts after a 20–25-year repayment window. Currently, though, these programs are restricted to federal loan borrowers; Black borrowers are more likely to hold private education loans. Income-based repayment programs also rely on borrowers' knowledge of the program and capability to determine which plan best suits their needs. Income-based repayment is not the default loan repayment system—borrowers must complete an application, and applicants must reapply every year, causing a lag in the system that cannot adjust automatically to a person's life circumstances. These seemingly minor structural factors have massive implications, including a reduced probability that the intended beneficiaries are aware of these programs and will use and benefit from the system.

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Conclusion

Growing political and societal attention to Black-White disparities in student debt has shed light on the inherent inequities in a system that has provided opportunities but also failed to deliver to all students. As Jackson and Reynolds wrote in their 2013 article, loans are "imperfect" tools for college accessibility; they create financial risks for young people and are "contradictory" to reducing racial inequality. For some students and their families, borrowing for college may be worth the risks, but the associated costs are not uniformly distributed throughout the college-attending population.

In addition to bringing attention to the racial divide in student debt, the senators' letter mentioned in the introduction also suggests that the Department of Education contributed to this growing inequality. This acknowledgment highlights the need for policy-based solutions to address this growing societal injustice. Recent attention to philanthropic acts, such as billionaire Robert Smith's pledge to eliminate the student loan debt of the 2019 graduating class at Morehouse College and the debt of their parents (Morehouse College 2019), is important because it validates concerns and mounting evidence that student debt may have long-term negative effects in the lives of college graduates. However, reliance on piecemeal private solutions to address a structural problem are not enough; rather, big, bold solutions are needed. So as politicians continue to debate whether debt cancellation should be for all borrowers, or as researchers argue for universal tuition-free college, real policy change still must be the focus—not just theoretical arguments. Debt-based economic fragility does not need to be the defining characteristic of this generation of Black college students.

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