THE BUZZ

The Supposed Great Equalizer: Student Loans and Their Impact on African-American Students

By Tyler Portis

The student loan crisis has become a buzz topic that presidential candidates frequently discuss in debates and town halls. Today, accumulated student loan debt equals $1.6 trillion, exceeding total accumulated car loans and credit card debt. What makes this a crisis is the fact that approximately 22 percent of student loan borrowers default on their loans; by 2023, 40 percent of borrowers may default on their student loans. Default has a negative impact on borrowers' credit scores and ability to live the American dream. Black Americans suffer the most when it comes to loan defaults, for reasons such as lack of familial financial capital, targeted recruitment by for-profit colleges, and lack of support after graduating or withdrawing from school. This article discusses student loans, their heightened impact on black Americans, and recommendations for institutions and the federal government.

History of Student Loans

Student loans have a long history in the United States. The 1958 National Defense Education Act (NDEA) created the first federal loan program: the National Defense Student Loan (NDSL) Program (Lumina Foundation n.d.). The program later became known as the Federal Perkins Loan Program. In 1965, President Lyndon B. Johnson signed into law the Higher Education Act of 1965, legislation meant "to strengthen the educational resources of our colleges and universities and to provide financial assistance to students in postsecondary and higher education" (United States Congress 1965). The legislation created new resources for higher education—including TRIO programs, the Pell grant, and support for minority-serving institutions. Specifically, Title IV of the act created the Guaranteed Student Loans (GSL) program, a public-private partnership with the federal government subsidizing capital from banks to provide loans to low- and middle-income students (Lumina Foundation n.d.).

Between 1965 and 1992, the government made many changes to the loan program—including the development of unsubsidized loans, parent loans, and consolidated loans. The 1992 reauthorization of the Higher Education Act also restructured Stafford loans and PLUS loans into the Federal Family Education Loan Program (FFELP). Through FFELP, students selected the bank that would lend their student loans. In 1993, the William D. Ford Federal Direct Loan Program started to address some issues with FFELP. For about seventeen years, competition existed between the Direct Loan program and FFELP. Students could select which program to enroll in for their student loans. The competition influenced FFELP lenders to pay some financial aid administrators to secretly push their students to certain loan providers (Burd 2019). To save on administrative costs and deter banks' shady behaviors, the 2010 Health Care and Education Reconciliation Act repealed FFELP, with the result that all students began borrowing only through the William D. Ford Federal Direct Loan Program.

Overview of the Student Loan Crisis

Thanks to news reporters and the general public, the word "crisis" is commonly associated with student loans. Nearly two-thirds of college graduates in 2018 borrowed from the federal government to finance their education (The Institute for College Access & Success 2019). The accumulated student loan debt stands at $1.6 trillion, exceeding total accumulated car loans and credit card debt (Johnson 2019). The debt is also on a trajectory to increase to an accumulated $2 trillion by 2021—a growth rate of 7 percent per year. This crisis impacts borrowers, who experience difficulty paying their loans, as well as lenders, which experience significant default rates resulting in less likelihood of earning their money back.

The federal government also suffers the adverse effects of the student loan crisis. After the repealing of FFELP, the government disallowed banks from providing federal loans to students (Minhaj 2019). Now, the government (as opposed to the banks) holds the burden of students defaulting on their loans. Over time, the Department of Education became the largest loan broker (in terms of loans) in the United States while the U.S. Treasury supplies the loan money. As more borrowers default, the federal government may never see a profit—let alone break even—from student loans.

Recognizing the crisis and its impact on the federal government, Congress passed additional legislation when reauthorizing the Higher Education Act in 2012. Rather than investing energy in individual interventions, policy makers attempted to reform institutions' roles in reducing default using their cohort default rate (CDR). An institution's CDR is the percentage of its borrowers who enter repayment on federal student loans during a particular federal fiscal year and default before the end of the next fiscal year (U.S. Department of Education 2019b). To maintain eligibility for Title IV federal financial aid, institutions must maintain a CDR of less than 30 percent.

Black Students Borrow More

A significant factor in the heightened impact of student loans on black students is their need to borrow more money. Many black students are Pell grant–eligible, meaning they come from low-income backgrounds (New Report Offers Statistics on Pell Grant Recipients by Racial and Ethnic Group 2019). As a result, policy and economic changes affect this group the most. In the past 20 years, the federal government's policies shifted away from grant-based aid (*i.e.* aid that recipients do not have to repay) and toward student loans (Hillman 2013). In addition, the increasing cost of college has outpaced inflation, median family income levels, and the growth rate of the maximum Pell Grant awards. A factor in college cost is the 24 percent per student decrease in state spending between 2008 and 2013 (The Institute for College Access & Success 2019). From 2008 to 2012, to offer comparable per student funding, institutions had to increase tuition by an average of 11 percent. Since then, states have increased the amount allocated to their public institutions but not to the level prior to the Great Recession.

To help ease some of the burden of increased tuition, individual states also offer student aid. It is important

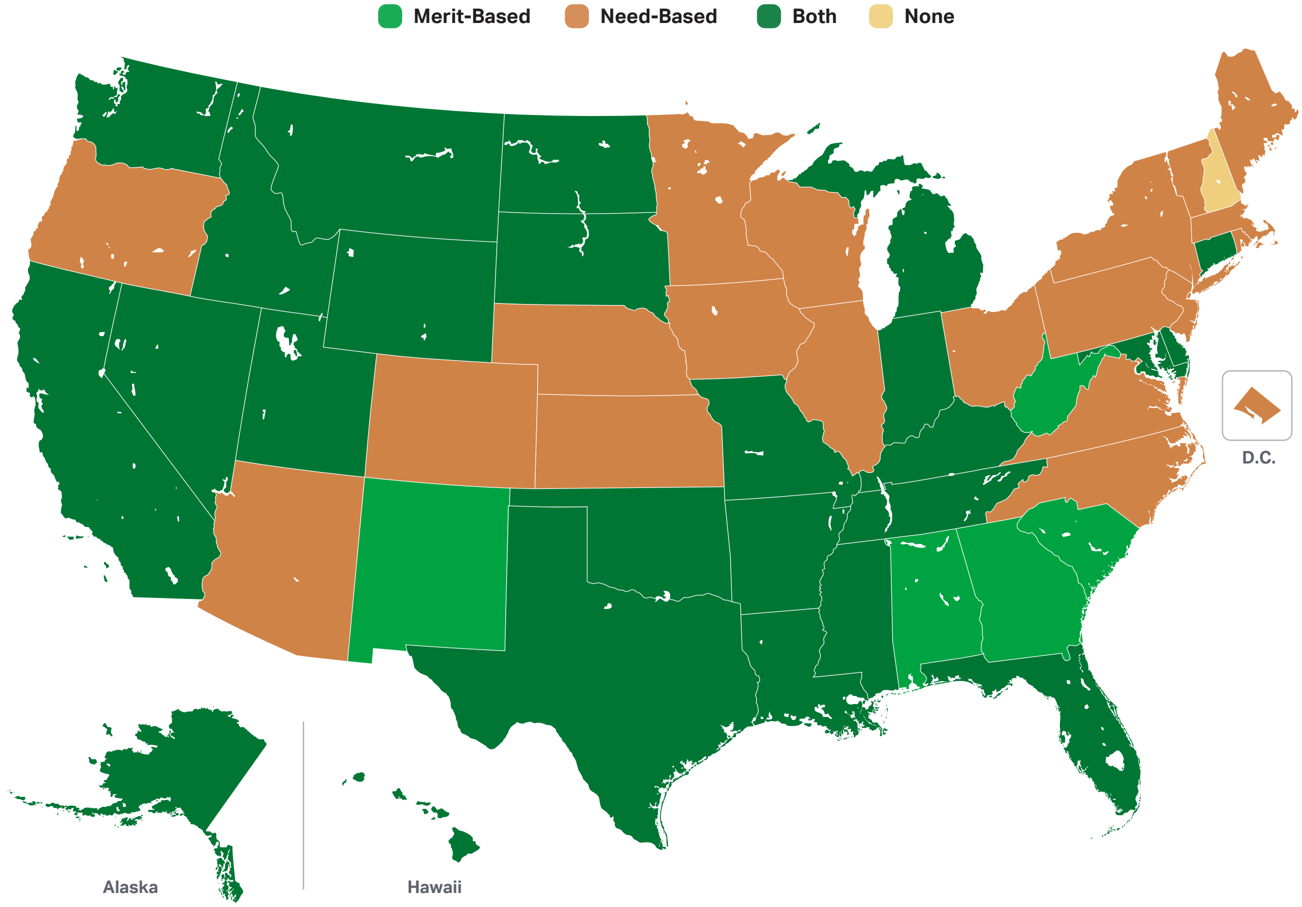

FIGURE 1 ➤ State Student Aid Programs

Source Data from Education Commission of the States (ECS) 2019

to note that not every state offers aid, and each has a different maximum aid award (Doyle and Pingel 2016). States also hold the right to determine which students receive state aid. Some use merit so they can retain top talent; others use only student need to make the determination. (Figure 1 shows states that use merit versus need for state aid programs.) Students may have different results as states often do not fund every student who qualifies (Kolodner 2018). Maine and Alabama, for example, fund students on the basis of whose need is greatest. Others award funding on a first-come, first-served basis, which disadvantages first-generation students, adult students, and students with inadequate college counseling. Other states delegate the decision to colleges, where administrators decide which students receive the funds.

In some cases, the nuances of financial aid disadvantage black students more than other students. As black students are least able to pay for college, they either do not attend college at all or they take out loans (Smith-Barrow 2019). Studies consistently find that among those students who enroll in higher education, black students tend to borrow at higher rates than their white peers: 86.6 percent of black students and 59.9 percent of white students take out federal loans (Akhtar and Hoffower 2019). The average black graduate owes $7,400 more than the average white counterpart. This disparity in student loan borrowing by racial groups needs to be addressed (and is a topic for another paper).

Defaulting

An unfortunate but common experience of many student loan borrowers is default. Approximately 22 percent of student loan borrowers default; 40 percent of student loan borrowers may default on their student loans by 2023 (Nova 2018). Borrowers default after being delinquent for nine months (Farrington 2018). In other words, if a borrower neglects payment for 270 days or more, the loan is considered in default and typically is sent to a collection agency. Trouble only gets worse for borrowers who default on their loans. Borrowers may have their wages garnished (*i.e.* have a portion of their paycheck withheld), have federal payments (like tax refunds) withheld, and be ineligible for federal student aid in the future (Farrington 2018). Borrowers with student loans after 2012 cannot discharge them via bankruptcy. Borrowers who default also may experience a credit score drop of nearly 60 points, to an average score of 550 (Nova 2018). Such a score is considered "poor" and can result in people having to pay higher interest rates, delaying buying houses, and being disqualified from jobs that use credit scores in their hiring decisions.

The effects of defaulting on student loans disproportionally affect non-white borrowers. Among the 2004 Beginning Postsecondary Education (BPS) cohort, 12.4 percent of white borrowers defaulted within twelve years of entry (Scott-Clayton 2018). By contrast, 6.5 percent of Asian/Pacific Islander borrowers, 20 percent of Hispanic borrowers, and 37.5 percent of black borrowers defaulted within twelve years. A clear disparity exists for black borrowers. According to the National Center for Education Statistics, the default rate of black students who earned their bachelor's degree is 4.7 percentage points more than that of their white peers who earned their bachelor's degree (Jackson and Reynolds 2013). Moreover, the default rate of black students who did not earn their bachelor's degree is 24 percentage points higher than that of their white counterparts. Because many black students are also low income, their families tend to incur more debt and feel more burden once their repayment period begins (Kreighbaum 2019). Families with more money can provide a safety net that students from low-income families do not have.

For-Profit Colleges

Black students are also adversely affected by the practices of some for-profit colleges. Black students who graduate from high school are subject to societal pressures to earn more credentials than their white counterparts (Cottom 2017). These students perceive any college as a means by which to compete in the labor market. As a result of a lack of college counseling and urgency to find employment, black youths enroll at for-profit schools they often can't afford (Elejalde-Ruiz 2016). Those who do so sometimes find themselves in greater debt and enrolled in programs that are less flexible in terms of transferring credits or changing academic paths. In fact, the average debt incurred at a for-profit school is $39,900 (Carter 2019), compared to $26,266 at Historically Black Colleges and Universities (HBCUs) (Quinn 2016).

The certificates and degrees that for-profit colleges award tend to be 30 to 40 percent more expensive than the same credentials at a public institution (Cottom 2017). Thus, students enrolled at for-profit colleges borrow more in loans than do those at public institutions. Yet research suggests that students who enroll at for-profit institutions experience worse outcomes than do their peers at public or nonprofit private schools even when their backgrounds are accounted for (Simon 2018). These institutions spend about a quarter of their budget on recruitment and far less on instruction and support staff (U.S. Senate 2012). Approximately 55 percent of students withdraw and do not complete a degree. They also tend to find that credits from the institution are not readily transferable and that they are in debt from which they cannot readily extricate themselves (Newton 2018). Borrowers who attend proprietary schools thus are at greater risk of defaulting.

The facts about for-profit colleges are particularly pertinent to black students because, while students increasingly choosing to enroll at for-profit colleges, disproportional numbers of black students do so. Although black students account for approximately 13 percent of the student body at public colleges, they account for approximately 21 percent of the student body at for-profit schools (Conti 2019). The greater enrollment of black students is a direct result of for-profit colleges targeting their recruitment efforts at this population. For-profit institutions focus much of their recruitment on students who qualify for the maximum amount of student aid (these are also the most vulnerable students) (Cottom 2017). Those who qualify for the most aid are low-income students—and, often, students of color. Some for-profit colleges train recruiters to exploit students' emotional vulnerabilities by identifying a "pain point"—unhappiness with their job or their inability to support their children—and convince the students that the college will change their lives (U.S. Senate 2012). When students express concerns about taking out loans, recruiters create a false sense of urgency to enroll and inflate the prestige of the college.

Post-Graduation

The lives of black students after they graduate also impact the default rate. The earnings of black Americans who find jobs after graduation are less than other racial groups' (Gross, Cekic, Hossler and Hillman 2009). Post-college earnings affect the likelihood that graduates can make their loan payments and support themselves and their families. That Black Americans earn less than other groups decreases their ability to repay loans—and consequently increases their default rate and the adverse impact of student loans.

In addition, many black Americans find work in public service because they want to give back to their communities. In 2014, 38 percent of black 25- to 34-year-old bachelor's or higher degree recipients worked in public service: 13 percent in the nonprofit field, 10 percent in local government, 9 percent in state government, and 6 percent in federal government (Kena, *et al*. 2016, 7). Yet only 32 percent of white graduates, 32 percent of Hispanic graduates, and 21 percent of Asian graduates in the same age range work in public service. Black workers are over-represented in public service, where careers pay less than those in the private sector. This further contributes to black Americans' lower earnings and increased default rate.

Policies intended to support public service employees are not administered effectively. The Public Service Forgiveness Program, organized by the Department of Education, enables borrowers who work in public service (*e.g.*, in government and for non-profits) to have their student loans forgiven after ten years of repayment (U.S. Department of Education 2019a). The policy intended to help those who take these lower-paying jobs reduces the impact of loans and increases net income (*i.e.* income after accounting for loans). In 2017, almost 30,000 people applied for the Public Service Forgiveness Program (Minhaj 2019). The Department of Education only approved 96 applicants because of a lack of correct information and assistance provided to borrowers by the department and loan service managers. Thus government fails to uphold the very policy that is supposed to help those who choose to "give back to the community"—a narrative shared by many black Americans.

Recommendations for Institutional and Governmental Policy

Institutions and the government can implement initiatives and policies to help mitigate the adverse impact of student loans on black borrowers. The literature suggests some practices that may be worth considering.

Institutions should increase the amount of loan counseling and information they offer to students. Statistically, the students who are more likely to default on loans are those who receive Pell grants and earn low college GPAs (Hillman 2013). Institutions can form Default Management Taskforces to help track these students and proactively provide them with information about loan management. The Institute for College Access and Success also suggests other strategies—such as emergency scholarships and better cost of attendance estimates—to help lower default rates (The Institute for College Access & Success 2019).

Institutions should also place greater emphasis on repayment options that are better for students—for example, income-contingent plans—than on lowering their CRD rates through forbearance. Kelchen and Li (2017) found that some colleges encourage students to place their loans in forbearance. Forbearance happens when student loan holders put a temporary hold on payments (Mayotte 2017). While loans are in forbearance, interest accrues and is added to the principal balance at the end of the forbearance period; one result is that borrowers pay interest on the interest. Thus, monthly payments increase as a result of the larger balances, increasing the difficulty of repaying student loans even before the forbearance period begins. With no regard to the negative impact of forbearance on students, colleges encourage the practice because it lowers schools' CDR (Kelchen and Li 2017). Institutions need to do a better job of providing the most helpful recommendations for students and not for the institution.

Institutions should also consider the support they provide to students who do not graduate. While students who do not finish their schooling are technically no longer the institution's responsibility, institutions should treat them as such, at least with regard to the students' loan management. The default rate of black students who do not earn a bachelor's degree is 24 percentage points more than that of their white counterparts (Jackson and Reynolds 2013). As a result of their lack of financial knowledge and familial financial capital, black students still need the support of institutions after they withdraw. Institutions can implement early alert outreach, as the consortium of HBCUs does (Dillon and Smiles 2010), and continue to follow up with students about their loan repayment plans. State or federal governments can set additional accountability measures—similar to CDR rates—that specifically track rates for students who withdraw prior to completing a degree.

The government needs to take a more prominent role in limiting for-profit colleges' impact. Sponsored by Senator Sherrod Brown, a Senate bill entitled "Students Not Profits Act of 2019" would ban the U.S. Department of Education from allocating federal grants and loans to for-profit colleges (Nova 2019). Given how extreme this policy would be, other policies could be considered that would limit the predatory impact of for-profit colleges. First, the Department of Education needs to ensure enforcement of the prohibition of incentive compensation for higher education recruitment (Shireman 2019). Second, the Department of Education should revise the Higher Education Authorization Act to include limitations for contractors that for-profit schools may use for recruitment. Revision and enforcement of the act would help crack down on for-profit colleges and their exploitative practices.

Conclusion

As part of the Higher Education Act, the government began offering student loans to provide financial assistance so that students could access postsecondary and higher education. Institutions fail to realize, however, that college access through these loans alone will not change students' lives. Because institutions fail to retain African American students, they remain in low-income situations and have difficulty repaying loans they took out for their education. The government also fails African American students through its minimal regulation of for-profit colleges that exploit them. Many students who do graduate find that government fails them again through its negligence in administering the Public Service Loan Forgiveness Program. Despite the intent that student loans would increase access by under-resourced students, student loans instead reinforce the historical gaps that Title IV was designed to eliminate.

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About the Author

Tyler Portis

Tyler Portis is a student enrolled in the M.Ed Higher Education and Student Affairs Administration program at the University of Vermont. He graduated with his B.S. in Business Management from the University of Illinois at Chicago. Portis held an internship with Chicago Public Schools where he worked with efforts to increase partnerships with colleges and universities in Illinois. Portis has a research interest in college access.