



Will Impending Reforms in Federal College Loan Programs Hurt Black Students and Families?

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Borrowing from federal government loan programs to finance college is now commonplace for American undergraduates. Half of all college students had such loans in 2011-12. The typical senior has accumulated about \$20,000 in debt – and total college loan indebtedness had grown to more than \$1 trillion by 2011-12. Repayments for more than one in ten loans are currently at least ninety days overdue, and the delinquency rate has doubled over the last decade.

Faced with these facts about skyrocketing student debt, U.S. policymakers are voicing strong concerns – about the size of loans, repayment prospects, and the impact of burgeoning student loan debts on the economy and prospects for young adults. A number of changes are under discussion for the upcoming reauthorization of the Higher Education Act of 1965 – including measures to hold colleges and universities responsible for lowering costs and reducing student borrowing, enhanced loan counseling, and stricter loan criteria. As such measures are considered, however, educators and legislators should take care not to take steps that make it harder for black students and their families to afford college.

With lower incomes and less wealth overall, black families have a greater need to borrow to send their sons and daughters to college – and black students are twice as likely as whites to have student debt. The average size of loans is the same for black and white students, around \$8,000, but that amount equals a much larger share of the current family incomes and projected future earnings of black college students. What is more, historically black colleges have disproportionately large numbers of student borrowers.

Racial Disparities in Student Debt are Linked to Gaps in Family Wealth

Research indicates that family wealth influences college attainment even more than family income – and family wealth disparities are greater than income gaps. The wealth of white families exceeds black family wealth by eight to twenty times. Compared to white college students, black students more often come from families that do not own homes or retirement accounts, so they have fewer sources of private credit and rely more often on federal subsidized and unsubsidized loans, including “Parent PLUS loans” taken out by parents of students. Our research indicates that almost one third of the gap in student loan debt between black and white young adults is due to differences in parental net worth and home ownership.

Institutions with High Proportions of Minority Students Who Need Loans

For-profit colleges and historically black colleges and universities are types of institutions with disproportionately large numbers of student borrowers – and both kinds of institutions enroll high

proportions of minority students. But when it comes to imposing extra debt on young adults, for-profit and historically black colleges are quite different. Young adults who have attended for-profit institutions end up with far more debt than those who attended nonprofit colleges and universities, and for-profit institutions are drivers of the racial gap in student debt. But historically black colleges and universities do not play the same role as for-profit institutions. Students who have attended such historically black institutions do not have unusual debt burdens. Although students at historically black institutions are overrepresented among borrowers, they are just a tiny fraction of all student borrowers (and are only four percent of those in the Parent PLUS program). Critics often focus on historically black colleges and universities as places with a lot of student borrowers – failing to note that these students tend to come from families without much wealth. The federal money spent on students in historically black institutions is but a tiny fraction of all federal loan spending.

Recommendations for Reforms to the Higher Education Act

Policymakers need to proceed cautiously when it comes to reforming federal college grants and loan programs, so as to avoid harming the college prospects of black students. The overall aim should be to make college more affordable for all families and their children, with appropriate mixes of grants and loans geared for those at different levels of income and wealth. The alternative approach of just tightening access to loans could easily have the unintended effect of denying college access to many minorities.

The following reforms should be considered to improve federal aid without hurting minorities:

- The Free Application for Federal Student Aid includes calculations of family wealth to allow for fair estimates of student needs for grants and subsidized loans. But this tool at present does not allow the estimated family contribution to student expenses to fall below zero, even when family wealth is nonexistent and debt is very great. Fixing this problem would help to ensure that students from the poorest families receive more Pell grant aid, reducing their need for federal loans that have to be repaid.
- Instead of trying to reduce student defaults by cutting back on access to loans, federal policymakers should build greater transparency and consumer protections into the system – so that students and their families still have access, but at reduced risk. Bankruptcy protections should also be extended to all student loans.

To help young people repay loans after they leave college, all income-based repayment plans should be available for all loans, whether taken out by students or their parents. Such programs make defaults less likely, because payments rise and fall with the wages earned by former students in the years after they leave college. All families should be supported when they choose to support their children into adulthood, and current federal rules for PLUS loans fall short of that goal, because only the least desirable income-based repayment option – that requires larger payments for more years than other options – is available. It makes very little sense to continue to apply separate rules to loans made to students versus those made to parents, because everyone in family units are pursuing the same goal – a college education for the child.

Read more in Sara Goldrick-Rab, Robert Kelchen, and Jason Houle, "**The Color of Student Debt: Implications of Federal Loan Program Reforms for Black Students and Historically Black Colleges and Universities**," Wisconsin HOPE Lab, September 2014.