

Racial Disparities in Student Loan Burdens and Debt Cancellation
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Racial wealth disparities have remained consistent throughout US history. Federal Reserve Survey of Consumer Finance (SCF) data from 2019 found that median Black household wealth in the US is less than 15 percent of median White household wealth (Bhutta et al., 2020). Higher education can play a role in helping households build wealth by generally leading to higher wages, but also provides barriers to wealth when households take on debt to finance their education (Carnevale et al., 2021). While a college degree is often a good investment, not all education is created equal, especially when substantial amounts of debt are necessary to fund it. Given the significant media attention dedicated to student debt cancellation in recent years, it is worth examining inequities present in debt burdens needed to finance higher education.

This research report examines disparities in student loan debt burden between Black and White households. It validates past findings that Black households are more likely to have student loans than White households and that the median level of student debt held by Black households is greater than that held by White households. The report also examines how different levels of student loan forgiveness may affect differences in debt burdens between White and Black borrowers. Student debt disparities stem both from the fact that Black students and their families are more likely to borrow to fund their educations as well as the fact that they struggle more to pay off that debt. As a result, student loan debt presents a significant barrier to Black households and young adults making early investments to begin developing wealth, perpetuating the overall racial wealth gap.

Data Sources:

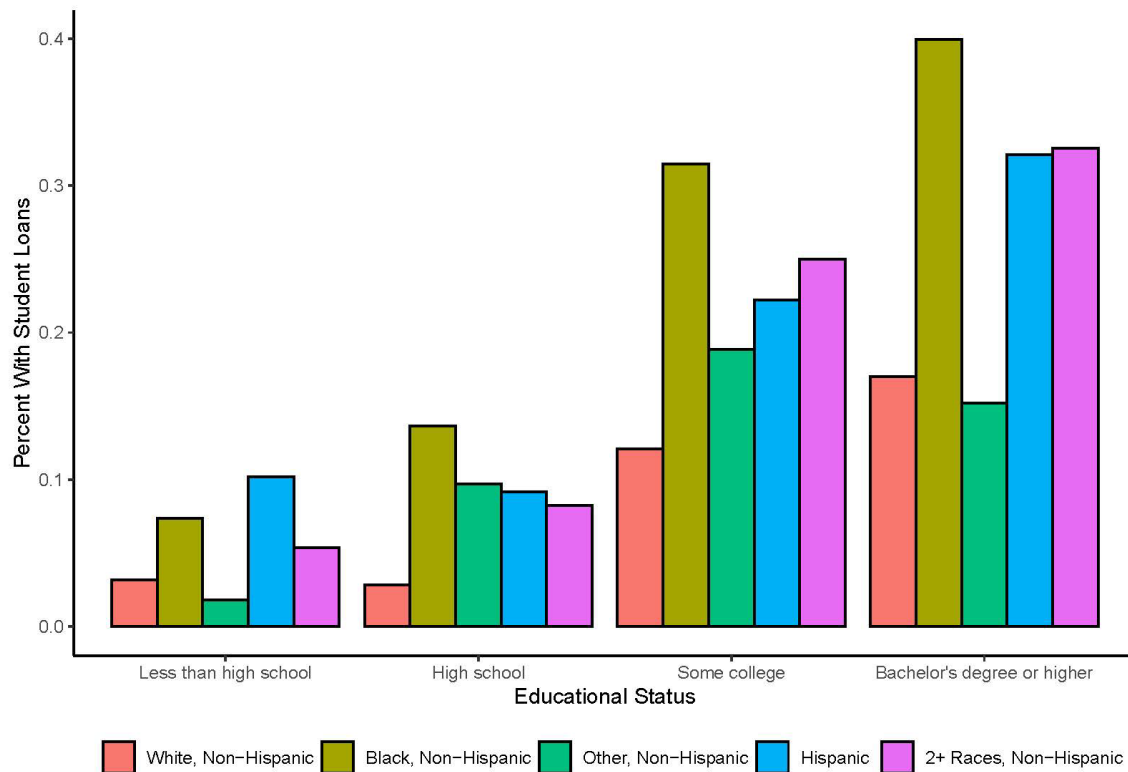
This report relies on two main data sets to examine disparities in student debt burdens. First, it uses consolidated Federal Research Survey of Household Economics and Decisionmaking (SHED) data for the years from 2015 to 2019 to estimate the proportion of households who held student debt by race and educational status. The National Endowment for Financial Education and Knology who have created a dataset and accompanying R package that includes standardized responses to questions for all years in which the SHED was conducted (de la Torre Dwyer et al., 2021).

Additionally, it uses 2019 SCF data to assess disparities in the amount of student loan debt held by Black and White households. The survey collected data from 5,777 households in 2019 and includes data on household networth and their level of educational installment loans. This analysis restricts the survey to a subset of Black and White households and creates distributions based on a weighted sample of 851 households who have nonzero amounts of educational installment loans. Separate variables are then calculated to assess the remaining debt burdens following different levels of indiscriminate student loan cancellation between ten and fifty thousand dollars.

Inequities in Student Loan Debt Burden:

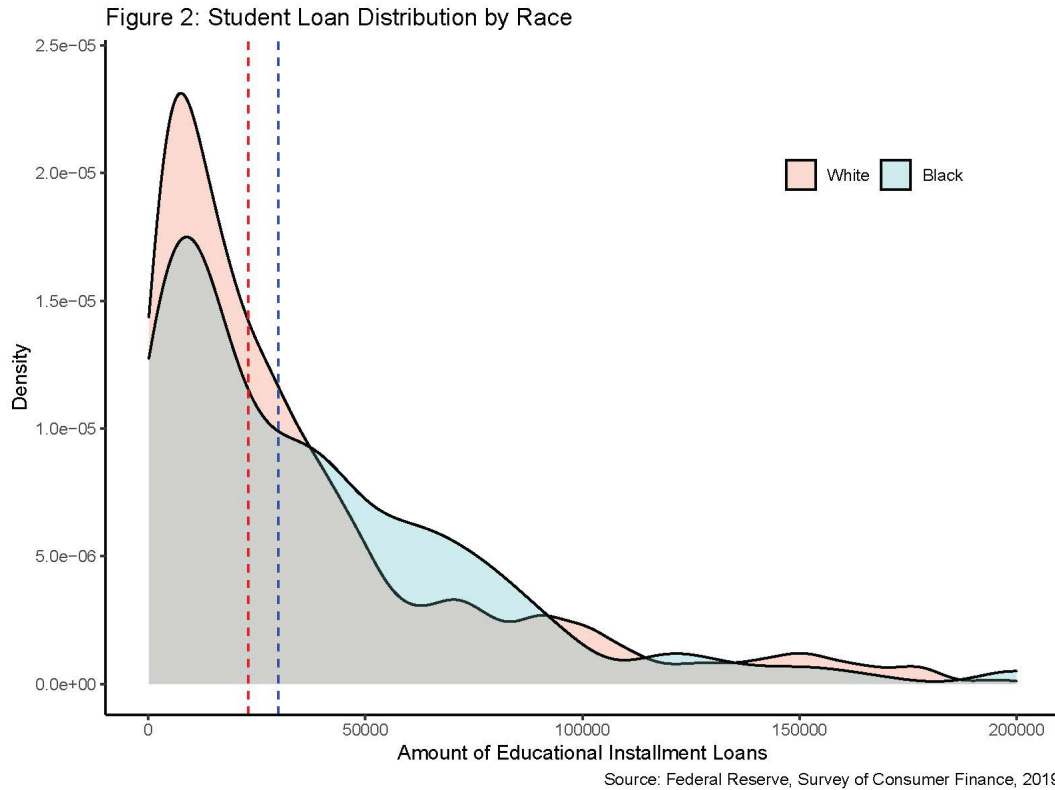
Past research has shown that Black Americans disproportionately finance their education with debt, hindering their ability to generate wealth later in life (Perry et al., 2021). This pattern is reflected in the SHED data displayed in Figure 1 that breaks out the proportion of respondents who report having student loans by race and educational status. Black households are much more likely to report having student loan debt than White households across each educational status. For those with a bachelor's degree, 40% of Black households report having student loan debt compared to 17% of White households. For Black households with some college but no degree, 31.5% report having student loans. These households may struggle the most to pay off their student loan debt, even if it is a smaller amount, given that they do not receive the additional income that a college degree offers on average.

Figure 1: Percent of Population With Student Loans by Ed Status and Race (2015–2019)



Source: Federal Reserve, Survey of Household Economics and Decisionmaking, 2015–2019

Not only are Black households more likely to have student loan debt, they also have a greater amount of student loan debt than White households on average. Figure 2 shows the weighted distributions of student loan debt for Black and White households from the 2019 SCF. The vertical lines represent the estimated median student loan amounts. While White households who held student loans had an estimated median level of student loan debt of \$23,000, Black households had a median of \$30,000. Looking at the whole sample, the median level of student loan debt for all White households is estimated to be \$8,021.42, while it is \$13,559.53 for Black households. The distribution also clearly demonstrates that a larger number of White households hold lower amounts of student debt, with their distribution having a higher peak on the left side of the distribution and generally being more right skewed.



These differences are significant and may even underestimate the differences in student loan debt specifically for college graduates. Other sources cite differences in student loan amounts between Black and White college graduates as high as \$25,000 (Hanson, 2022). In addition to differences in initial borrowing, the disparities may also reflect difficulty paying off debts after graduation. Research has shown that the median debt payment to income ratio for Black households is higher than for White households, resulting in Black households struggling more to pay off their student loans (Margetta Morgan & Steinbaum, 2018). This can be seen in the fact that the 2019 share of student loans where the current balance exceeded the original balance was nearly 75% for Black borrowers, but just 51% for White borrowers (Perry et al., 2021). Overall, student debt disparities have been shown to increase in early adulthood, significantly contributing to black-white wealth gaps between young adults (Houle & Addo, 2018).

Although some may see access to higher education broadly as a positive, this disparity is a problem because it disproportionately impacts the ability of Black households to build wealth early in their adulthoods, contributing to and perpetuating the overall racial wealth gap (Meschede et al., 2017). One study has found that the mean 2016 wealth for households with no outstanding student loan debt was four times higher than households with student loan debt and that, overall, research suggests that student loan disparities can explain 3-7% of the Black-White wealth gap (Kaker et al., 2019).

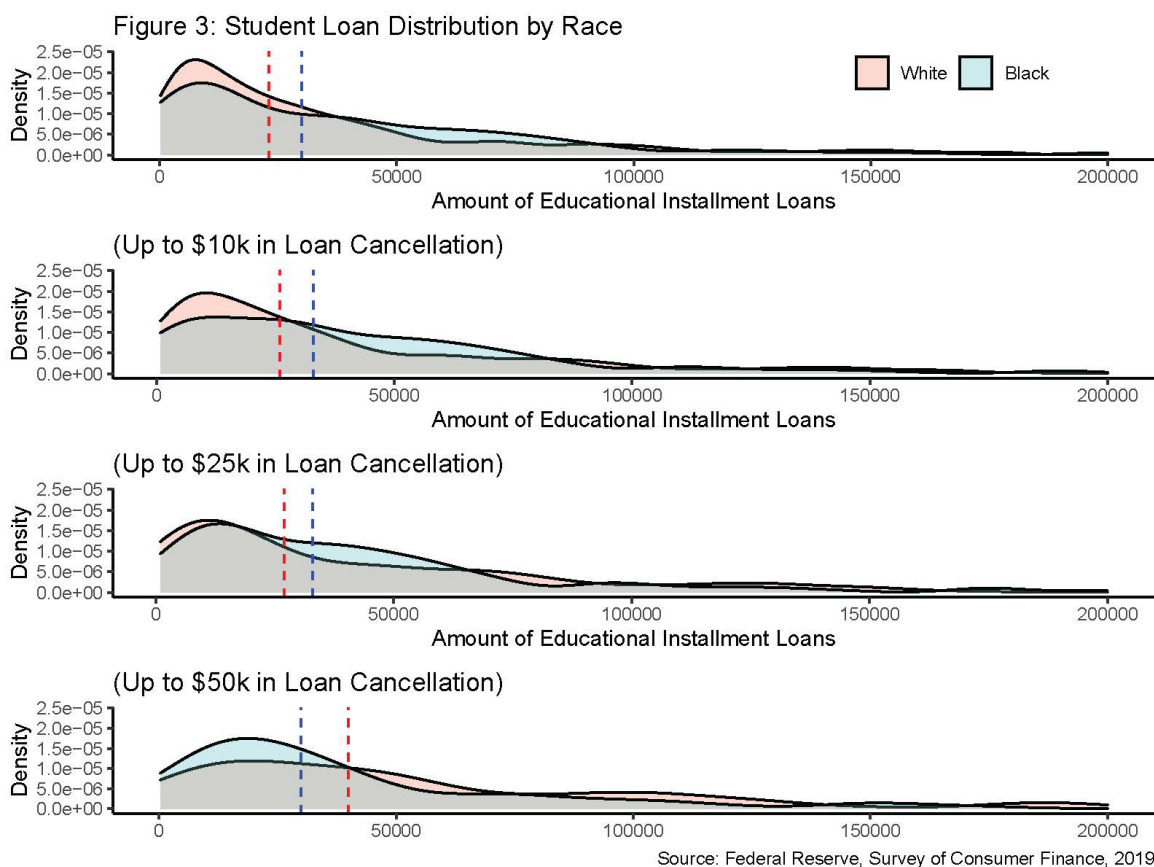
Policy Solutions:

Student Debt Cancellation

Calls for broad-based student loan debt cancellation have been persistent in recent years. The current proposals made by the Biden administration call for cancelling up to \$10 thousand for each borrower (Pager et al., 2022). However, others have argued that this amount is too small to make a significant

impact in the overall problem or in solving disparities in student loan debt burdens. Instead, the NAACP and other groups have consistently called for no less than \$50 thousand in student loan forgiveness (Nova, 2022).

To examine how different levels of student loan debt may influence the distribution of debt burden for households who still have student loan debt, this analysis recomputed weighted density plots by race for the remaining populations with outstanding educational installment loans after different levels of debt cancellation. These distributions are shown stacked above each other in Figure 3. The top-most plot shows the original distribution from Figure 2, and the following show how the distribution shifts as more debt is cancelled. The second distribution makes clear that \$10 thousand in debt relief will do little to alter current disparities in student loan debt burdens. Increasing forgiveness to \$25 thousand helps more, but only at \$50,000 do you see a reversal in the distribution for Black and White households who still hold student loans.



Additionally, the table below highlights how mean and median amounts of student loan debt among current borrowers shift as the amount of debt forgiveness increases. Unlike the medians calculated in the density plots above, these are calculated for the full sample of households who have student loans. Therefore, it tells a slightly more nuanced take and the mean burden for Black households never shrinks below that for White households. However, looking at both mean and median debt burden, it is clear that they converge for White and Black Households as more debt is forgiven, up to \$50,000. At \$30,000 of forgiveness and up, more households have had their student loans completely cancelled than still have remaining student loans.

Table 1: Mean and Median Debt Burdens Given Varying Levels of Debt Forgiveness				
Loan Forgiveness Amount	Mean White Debt Burden	Mean Black Debt Burden	Med White Debt Burden	Med Black Debt Burden
None	\$40,171.22	\$44,881.74	\$23,000	\$30,000
\$10,000	\$31,568.77	\$36,286.81	\$13,000	\$20,000
\$20,000	\$25,274.90	\$29,816.86	\$3,000	\$10,000
\$25,000	\$22,736.13	\$27,019.44	\$0	\$5,000
\$30,000	\$20,495.21	\$24,412.71	\$0	\$0
\$50,000	\$14,076.09	\$16,360.11	\$0	\$0

Other Potential Upstream Solutions

In addition to one-off debt jubilees, policymakers should also consider solutions that prevent student loan debt disparities from reemerging while addressing broader inequities in access to higher education. One possible solution would be to establish savings funds for children that help to fund their educations. Past Federal Reserve analysis has shown that there are also disparities in parental contributions to college costs. While 58% of Black students receive parental support averaging \$4,217, 72% of White students receive support of \$11,679 on average (Addo, 2018). Creating college savings funds at birth can help replace the deficit in parental support.

Another possible solution would be closer scrutiny and regulation of for-profit higher education institutions that disproportionately target Black students. As previously stated, not all education is created equally, and for-profit colleges generally require higher levels of debt and have a lower income premium. African Americans comprise 21% of for-profit college students relative to 13% of public college students. Students who attend for-profit colleges have been shown to be less likely to complete a program, take on more debt on average, earn less post-graduation, and are more likely to default on their student loans (CAPSEE, 2018). Student loans can be the most burdensome for those who take on debt but then do not finish their degrees. As shown in Figure 1, this is more likely to describe Black than White students. Policymakers should consider options to regulate how for-profit colleges and universities market themselves and finance their students.

Conclusion:

Student debt relief has received greater attention as issues with repayment for many Americans have become clearer over time. Hopefully demonstrating the current inequities in how student loan debt burdens fall on Black and White households can help to encourage action on the problem and promote solutions that result in a more equitable distribution of student loan debts for Black and White borrowers while also addressing the initial causes of that inequitable distribution. Otherwise, even with student debt forgiveness, these problems will likely re-emerge and continue to hinder progress in closing the overall racial wealth gap.

Sources:

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