

The Debt Divide:

The Racial and Class Bias Behind the
“New Normal” of Student Borrowing

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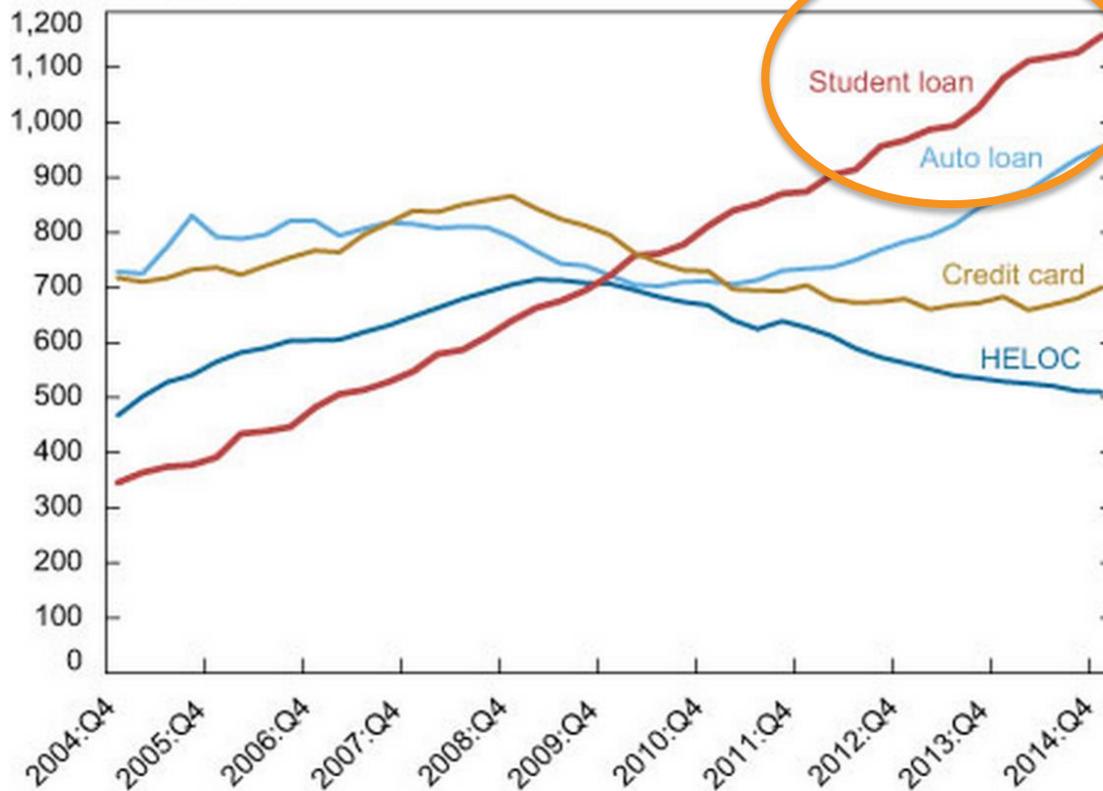
AN EQUAL SAY AND AN
EQUAL CHANCE FOR ALL

Aggregate Student Debt has Exploded

\$1.2 trillion

Nonmortgage Balances

Billions of dollars



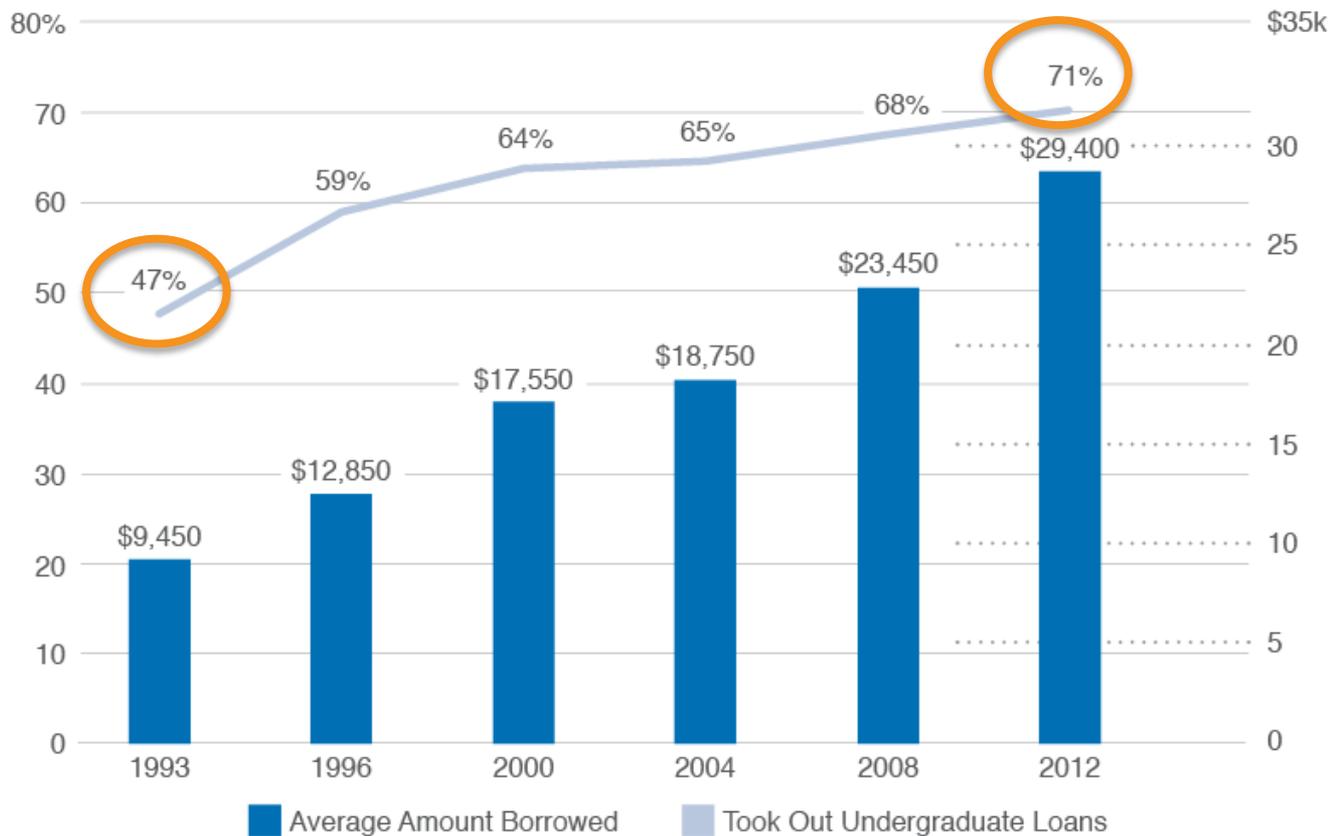
\$360 billion

Source: Federal Reserve Bank of New York Consumer Credit Panel / Equifax.

Note: HELOC is home equity line of credit.

Average student debt has exploded

Figure 13. Percent of Bachelor's Recipients with Loan Debt, and Average Amount Borrowed (1993-2012)



Source: TICAS, Author's Calculations from the U.S. Department of Education, 2011-12 National Postsecondary Student Aid Study (NPSAS:12)

But, Why?

Three decades of rising tuition:

- 225% Increase at Public 4-years
- 145% Increase at Private 4-years
- 150% Increase at Community Colleges

(College Board 2014)

Increased Attendance: Total college enrollment has nearly doubled in 30 years. Near-quadrupling in for-profit enrollment in the 2000s.

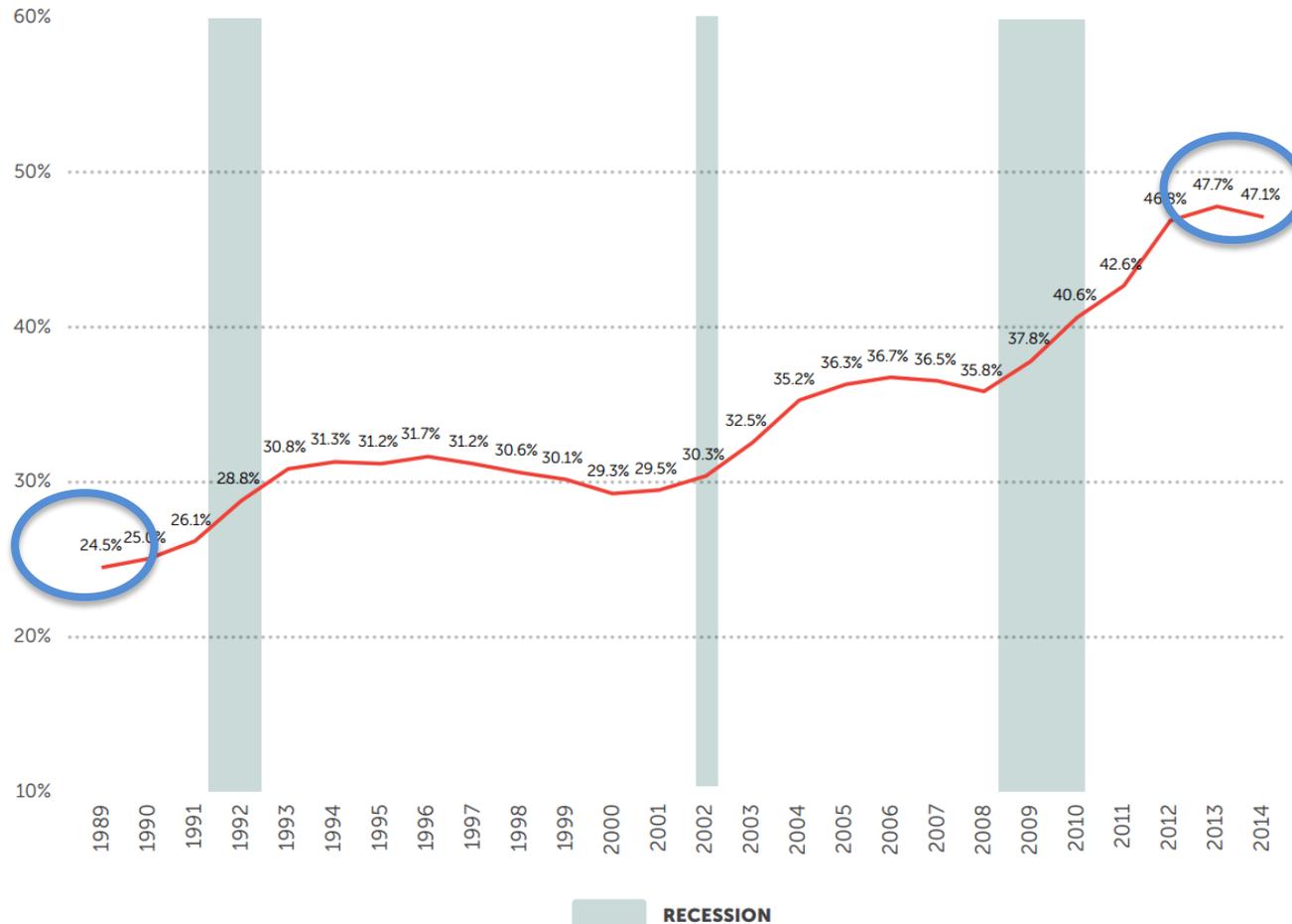
(NCES 2014)

Stagnant incomes: Four decades of stagnant, or decreasing income for the bottom 80 percent

(U.S. Census Bureau)

The Privatization of Public Higher Ed

NET TUITION AS A PERCENT OF PUBLIC HIGHER EDUCATION TOTAL EDUCATIONAL REVENUE, U.S., FISCAL 1989-2014



NOTE: Net tuition revenue used for capital debt service is included in net tuition revenue, but excluded from total educational revenue in calculating the above figures.

SOURCE: State Higher Education Executive Officers

But, Why?

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What's the Impact?

Access: High net prices and the prospect of debt could impact where students go, or whether they go.

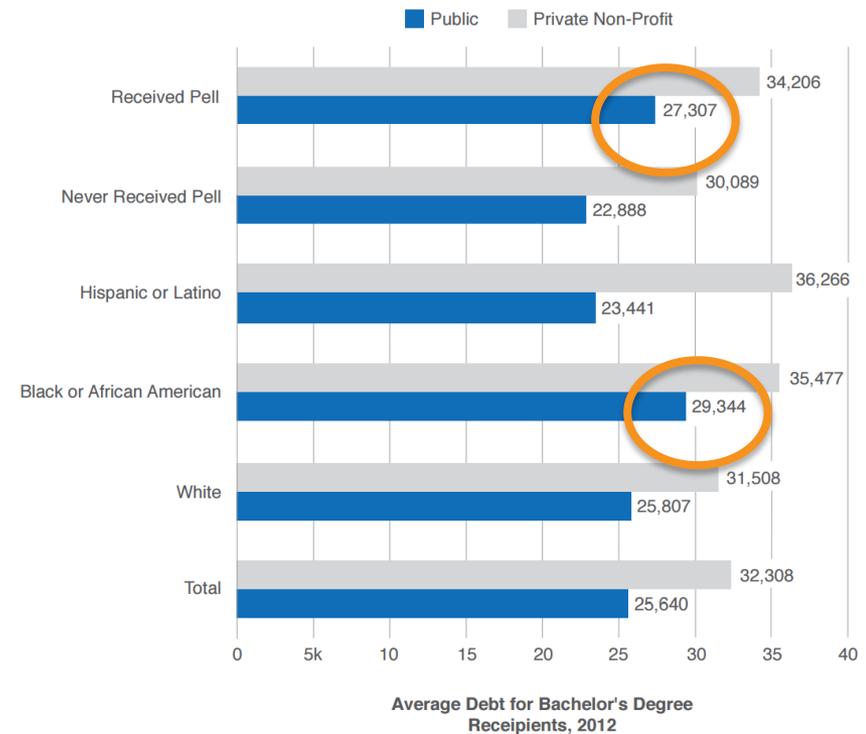
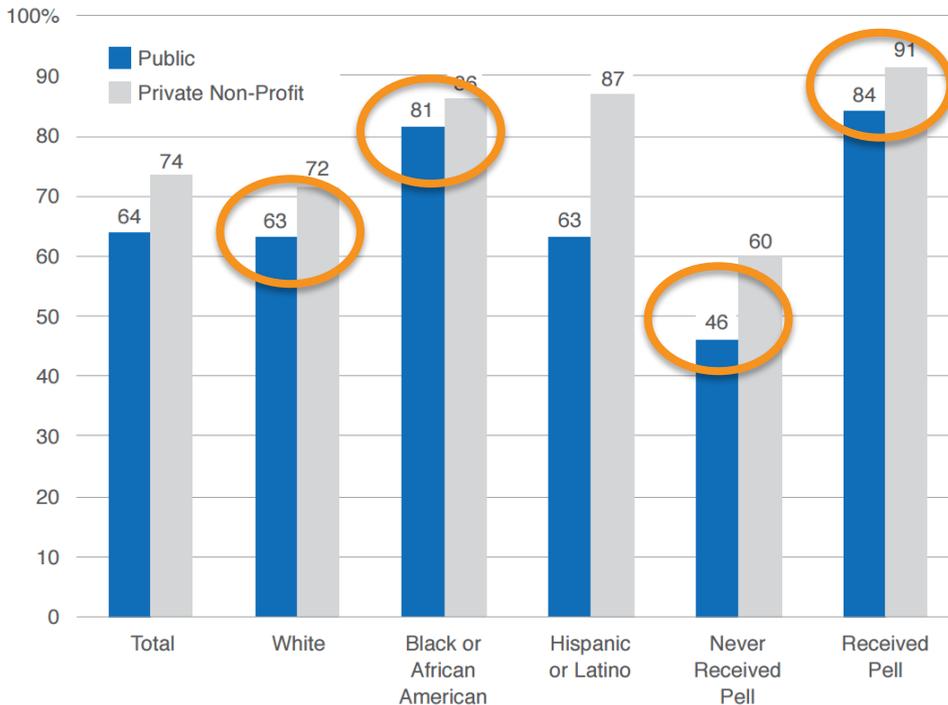
Completion: Who is taking on debt but not completing? Why are students dropping out with debt?

Post-college: Who is struggling with debt? What is it crowding out?

Student Debt Has A Class and Color for Bachelor's Degrees

The Debt Divide

The Racial and Class Bias Behind the "New Normal" of Student Borrowing



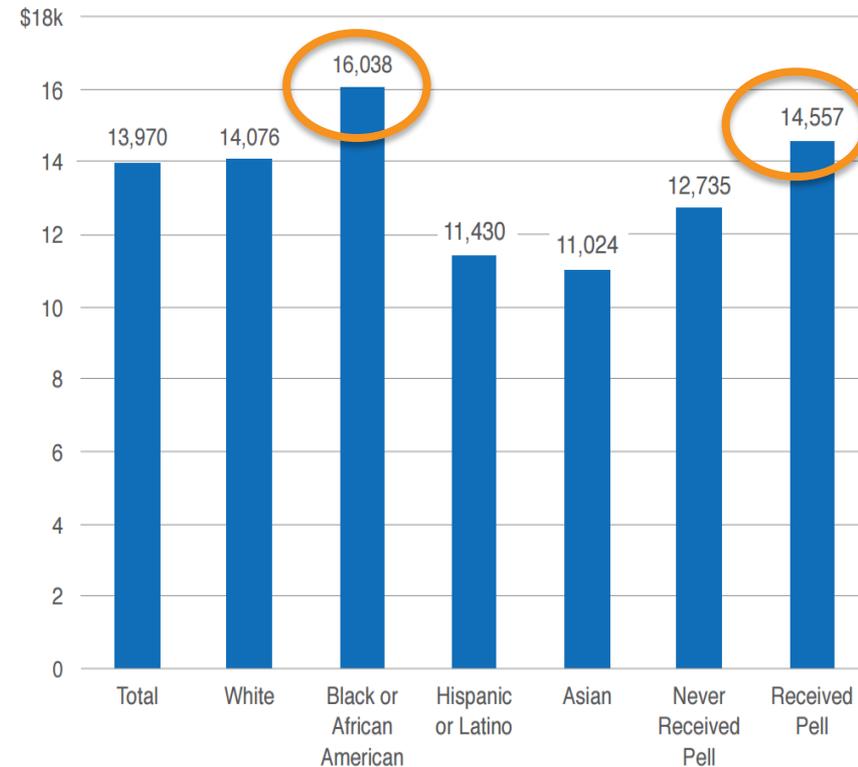
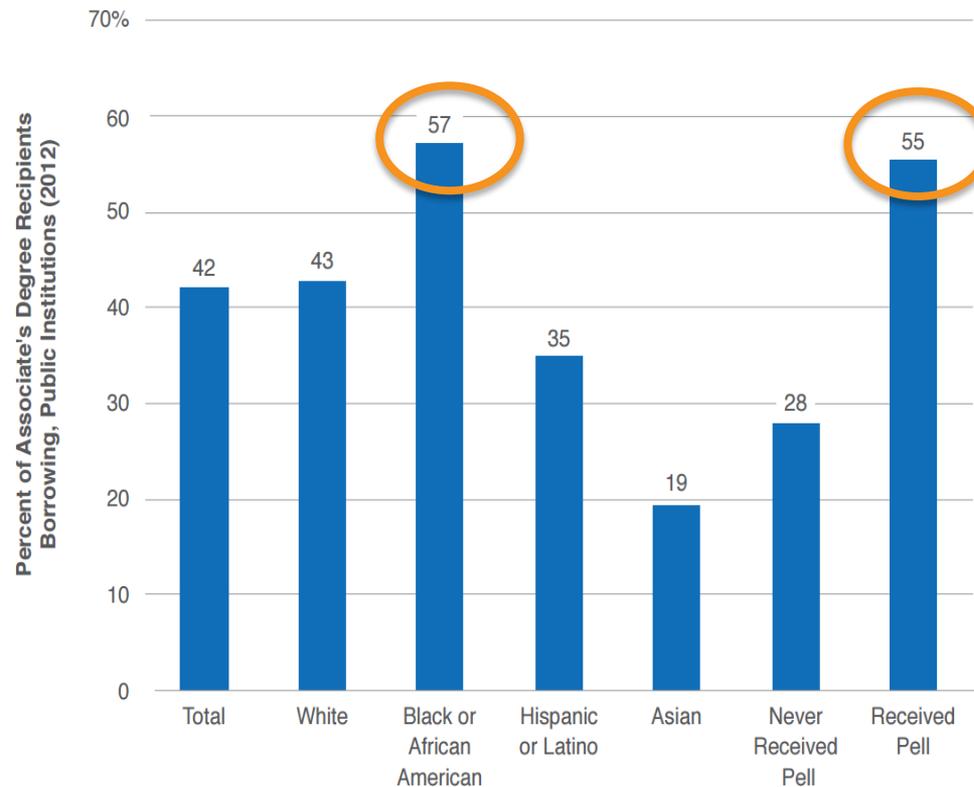
Source: Author's Calculations from the U.S. Department of Education, 2011-12 National Postsecondary Student Aid Study (NPSAS:12).

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Student Debt Has A Class and Color for Associate's Degrees

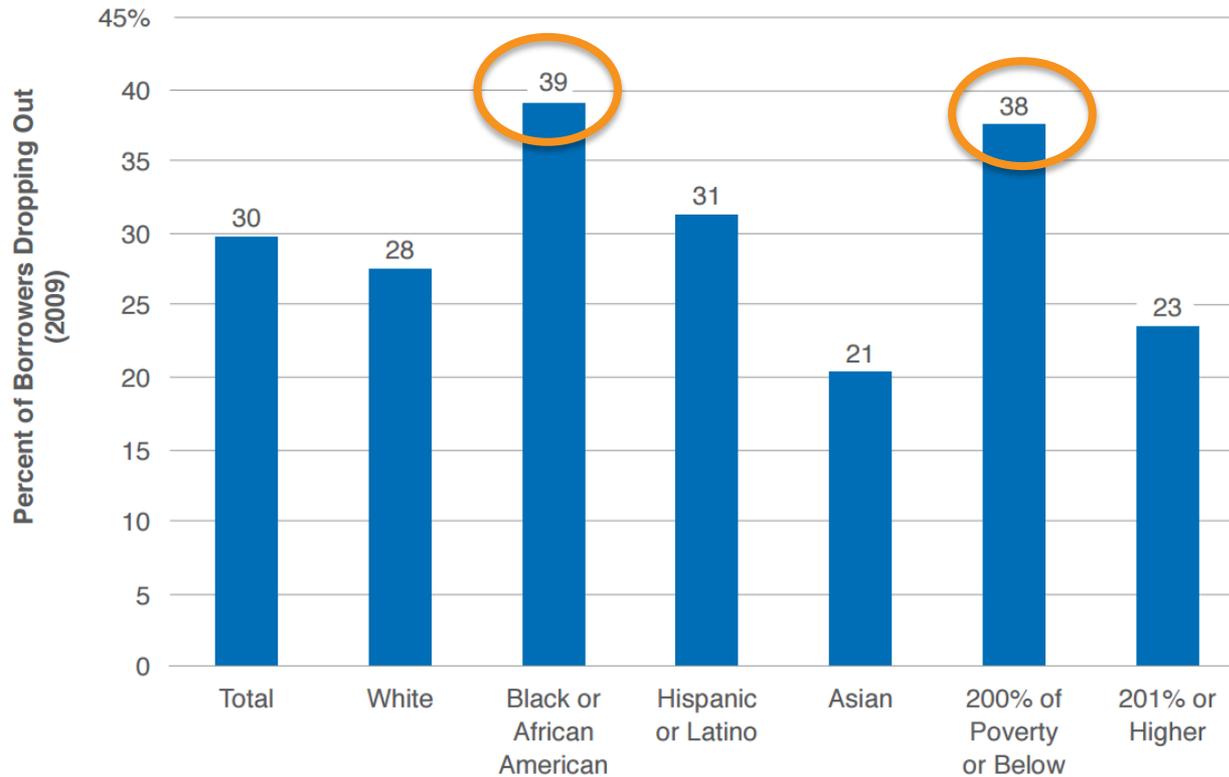
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Who is dropping out with debt?

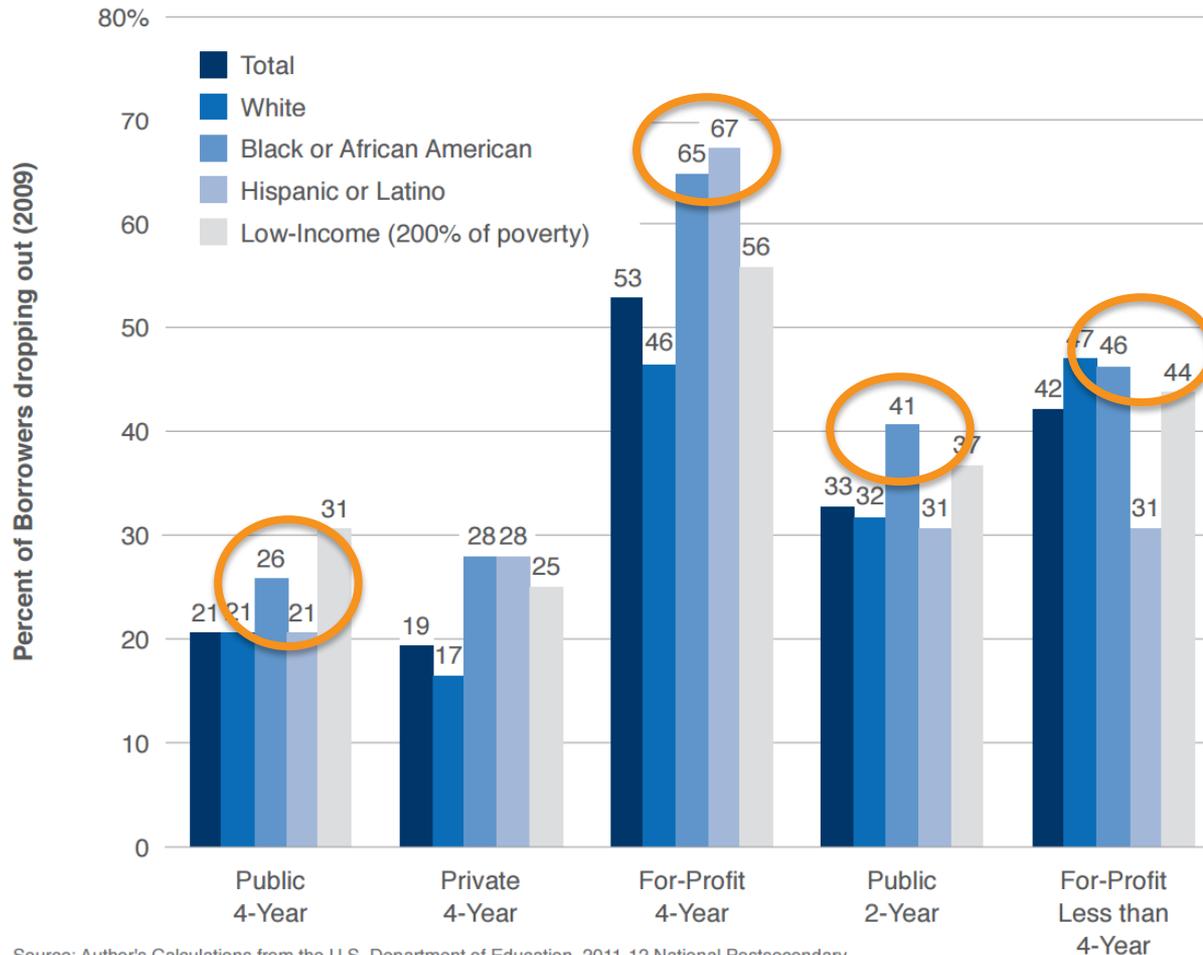
Figure 7. Black and Low-Income Borrowers Are More Likely to Drop Out



Source: Author's Calculations from the U.S. Department of Education 2003-04 Beginning Postsecondary Students Longitudinal Study, Second Follow-up (BPS:04/09).

Where are students dropping out with debt?

Figure 8. Borrowers of Color, Low-Income Borrowers More Likely to Drop Out

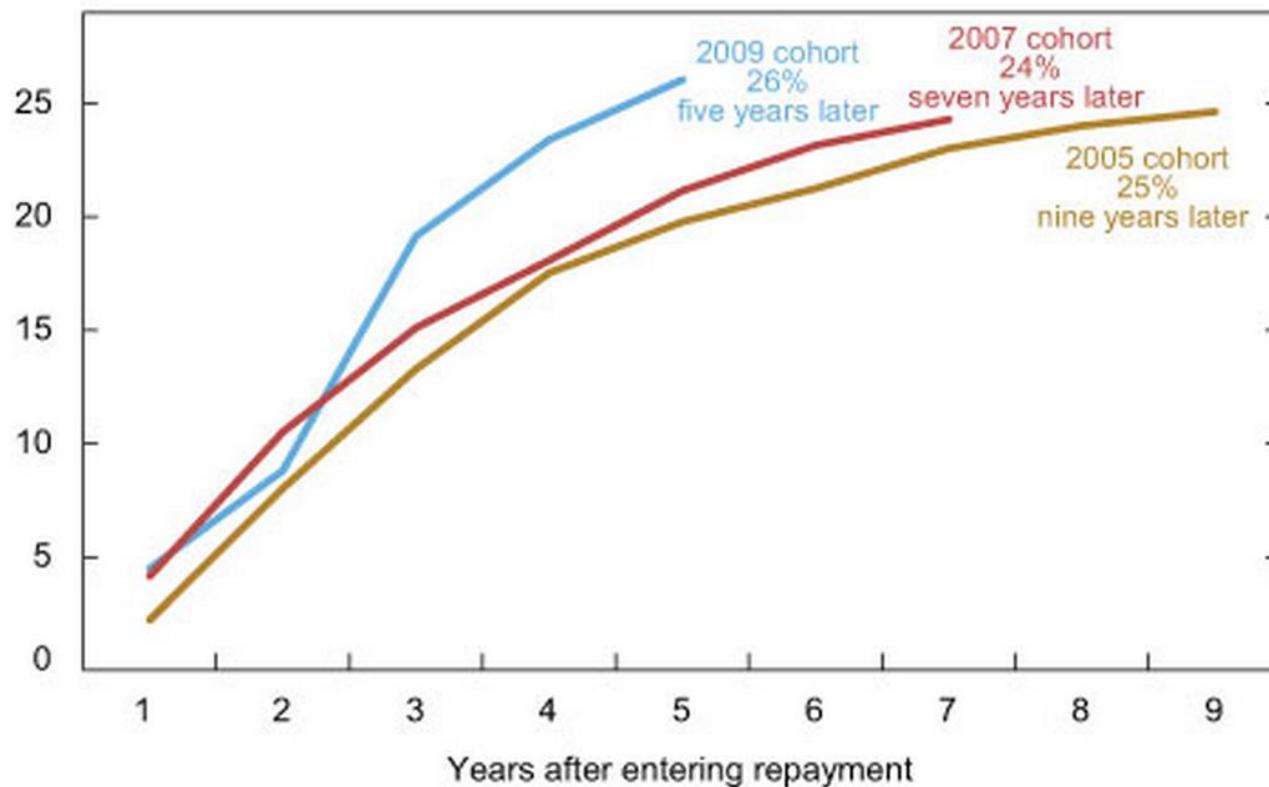


Source: Author's Calculations from the U.S. Department of Education, 2011-12 National Postsecondary Student Aid Study (NPSAS:12).

Who Has Trouble Repaying Debt?

Default Rate by Student Loan Cohort

Percent of borrowers who have ever defaulted as of 2014:Q4

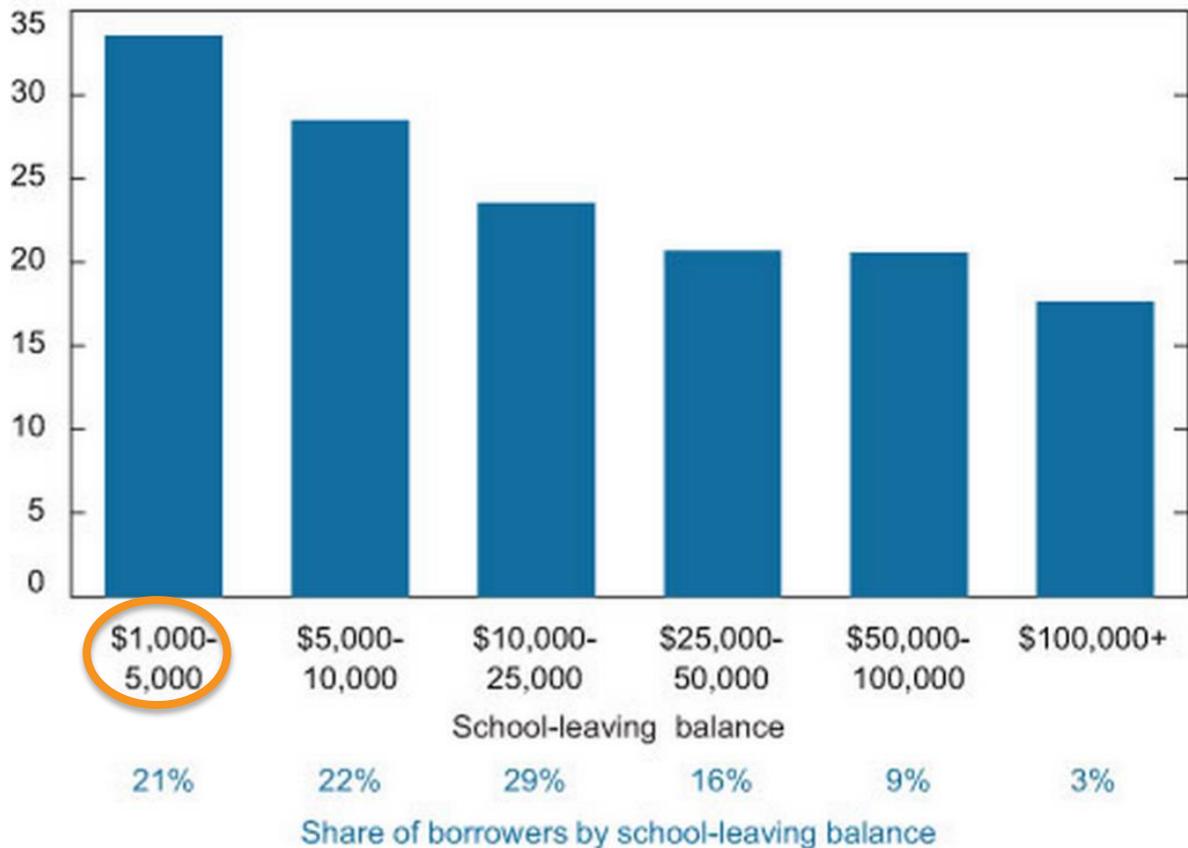


Source: New York Fed Consumer Credit Panel/Equifax.

Who is in Trouble on their Debt?

2009 Cohort: Default Rates by School-Leaving Balance

Percent of borrowers who have ever defaulted as of 2014:Q4

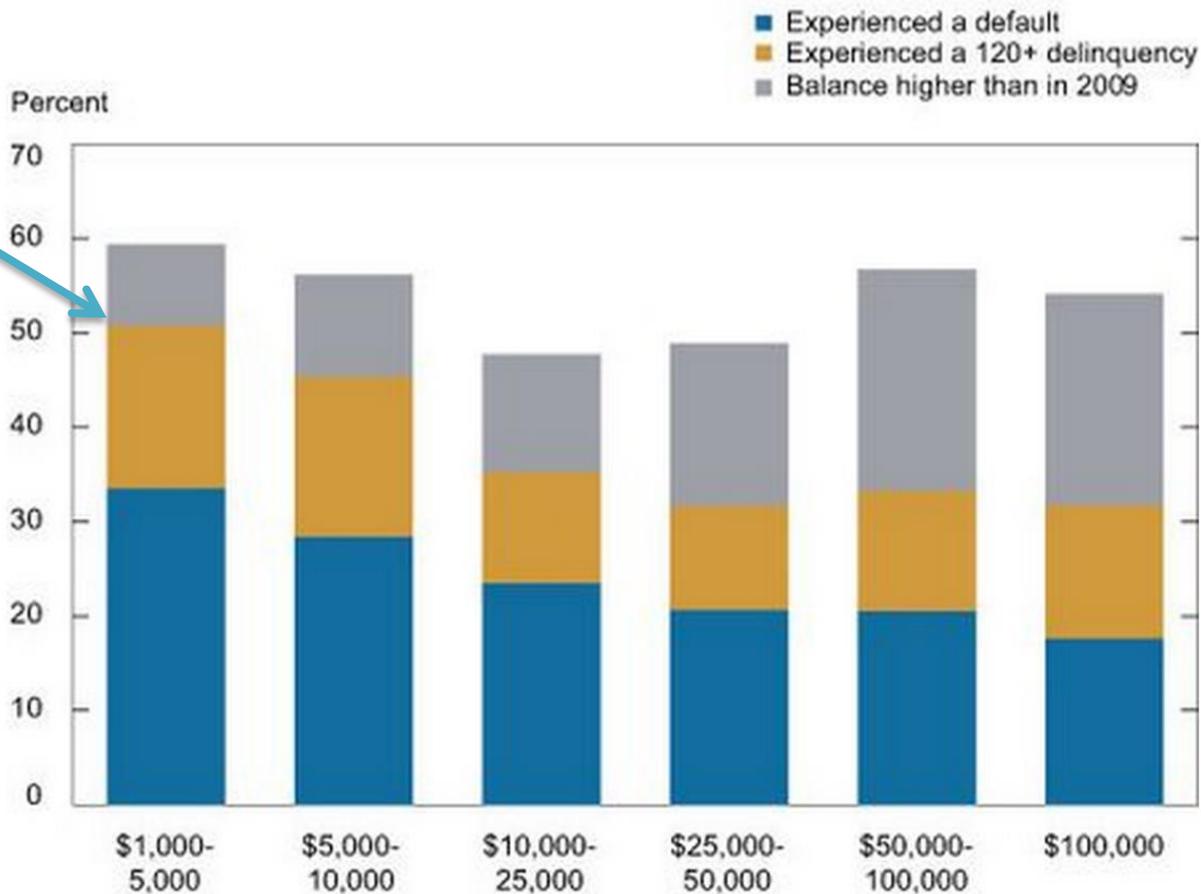


Source: New York Fed Consumer Credit Panel/Equifax.

Who is in Trouble on their Debt?

2009 Cohort: Troubled Borrowers by School-Leaving Balance
(as of 2014:Q4)

50%

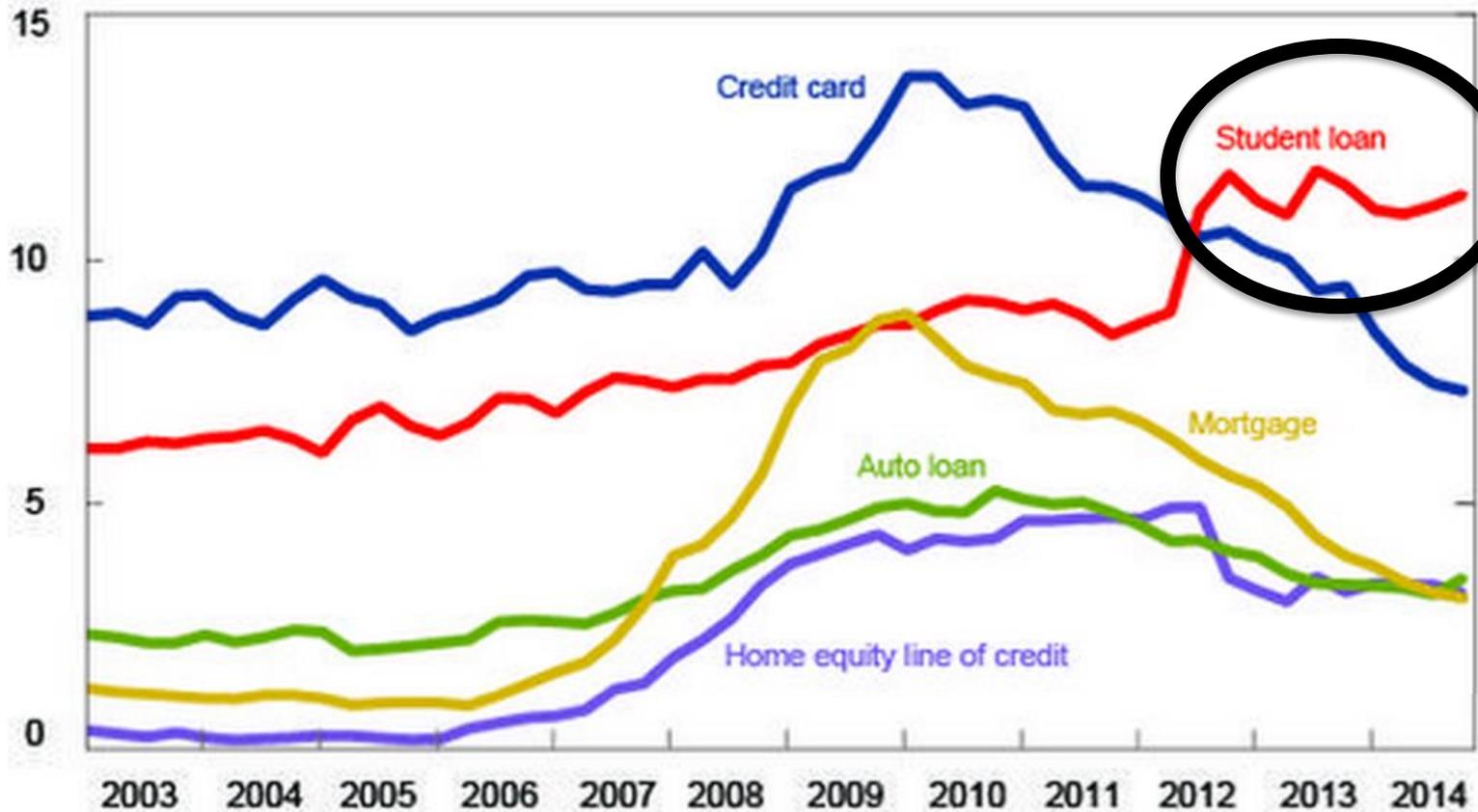


Source: New York Fed Consumer Credit Panel / Equifax.

Who is in Trouble on their Debt?

Percent of Balance 90+Days Delinquent by Loan Type

Percent



Source: FRBNY Consumer Credit Panel/Equifax.

What else could be impacted?

Retirement Savings: Average levels of student debt may lead to wealth loss of \$200,000 (Demos, 2013)

Homeownership: Student debt is now a *negative* predictor of homeownership (New York Federal Reserve)

Credit: Credit scores are now lower for student debtors (Brookings, 2014)

Employment choices and innovation: Debtors shy away from public interest professions, and debt negatively impacts small business formation (Federal Reserve Bank of Philadelphia)

What else could be impacted?

Longer Repayment Terms: Borrowers are taking *7 additional* years to pay off student loans (Brookings 2014)

Intergenerational Wealth: Generation X makes higher incomes, but has *less* wealth than their parents (Pew 2014)

Wealth Inequality: Student debt went from 26 percent of average yearly income **for the lower half of households** to 58 percent of income in 2013. (Federal Reserve 2014)

Fiscal Impact: Massive loan forgiveness, inability to recoup loans, provision of greater public services for those without the chance to build assets.

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