THE PEW CHARITABLE TRUSTS

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February 12, 2019

The Honorable Doug Jones
326 Russell Senate Office Building
Washington, D.C. 20510

The Honorable Elizabeth Warren
317 Hart Senate Office Building
Washington, D.C. 20510

The Honorable Kamala D. Harris
112 Hart Senate Office Building
Washington, D.C. 20510

The Honorable Catherine Cortez Masto
204 Russell Senate Office Building
Washington, D.C. 20510

Dear Senators Jones, Warren, Harris, and Cortez Masto:

We appreciate the opportunity to respond to your January 3 request for stakeholder input on addressing racial disparities in student debt and the broader challenges faced by students of color. As you undertake work on this critical issue, we hope that you and your colleagues will rely on nonpartisan, evidence-based research and analysis from the Project on Student Borrower Success at The Pew Charitable Trusts, and we are happy to be a resource for you.[1]

Since the Great Recession, Americans' financial security has gained increasing attention in the media and among policymakers. But these macroeconomic trends don't reflect the challenges facing many families and often leave out an important perspective: that of Americans themselves. To begin filling that gap, Pew conducted a nationally representative survey of more than 7,000 households to collect data on family balance sheets, Americans' perceptions of their financial security, and how their views differ according to income, wealth, and other demographic factors.[2]

Pew's survey data show that Americans are conflicted about their financial well-being, and their descriptions of their financial lives suggest that they have reason for worry: More than half (55 percent) said that they broke even or spent more than they made each month and that their income or expenses also fluctuated, making it difficult to plan and save. A full third of Americans reported having no savings. And importantly, nearly half (49 percent) of those who worried about their finances in the year before the survey and had student debt reported concerns about repaying those loans.[3]

One of the most important findings from this survey is that African-American and Hispanic households have fewer assets than their white peers. The typical white household had slightly more than one month's income in liquid savings, compared with just 12 days for the typical Hispanic household and only five days for the typical African-American household. In fact, a quarter of black households would have had less than $5 if they liquidated all of their financial assets.[4]

These differences in wealth likely play a role in higher education: A larger percentage of African-American and Hispanic households reported having student debt than their white peers, even when examining these groups at similar levels of education.

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Among those with some college or an associate degree:[5]

- 37 percent of black households reported holding student debt, compared with 30 and 23 percent of Hispanic and white households, respectively.[6]
- Borrowers reported holding similar amounts of debt at the median across racial groups—$18,000 for a typical white or Hispanic household and $16,000 for a typical black household—but black households had less income with which to make payments: The typical black respondent with student debt and some college or an associate degree had an annual household income of $40,000, compared with $55,000 for similar white and Hispanic respondents.[7]

The story is similar—and black households held more debt at the median—for those with bachelor's degrees and higher:

- 54 percent of black and 42 percent of Hispanic households owed student debt, compared with just 28 percent of white households.
- Among these borrowers, the typical black household had 33 percent more debt than a typical Hispanic household and 45 percent more debt than a typical white household.
- Complicating their higher levels of debt, at the median, these black families made 73 cents for every dollar earned by white or Hispanic families with similar levels of education.[8]

As you consider options for future borrowers and look for ways to bolster families' economic security, you will understandably receive significant recommendations focused on "front-end" solutions that seek to prevent problems before they occur, including those addressing the college access, completion, and earnings disparities between white households and households of color, and on ways to reduce the amount of debt that students take on. Considering the data outlined above, and Americans' own words about their balance sheets, we also encourage you to focus on the significant challenges facing current borrowers and the need for "back-end" improvements to the student loan repayment system.

Today, 43 million borrowers hold federal student loans, and approximately 1 in 5—9 million Americans—is in default.[9] Millions more are struggling to make payments, including, especially, African-American households: Recent research indicates, as you reference in your letter, that black college graduates with bachelor's degrees are more likely to default than white dropouts.[10]

The federal student loan repayment system should be improved to ensure that more borrowers are able to sustainably repay their loans and avoid delinquency and default. For example, the system allows borrowers facing short-term setbacks to pause their payments using deferments and forbearances, and it provides flexibility for those facing more long-term financial hardship, including the ability to make income-based payments. But administrative hurdles can keep borrowers from enrolling and remaining in income-driven plans: These plans involve an onerous annual application process, and if the paperwork is not submitted accurately or processed on time, payments can skyrocket, potentially leading to delinquency, default, or the use of deferments and forbearances for longer periods of time.

In fact, when the U.S. Department of Education examined data from the six largest student loan servicers, it found that, between 2013 and 2014, more than half of borrowers in income-driven plans did not recertify on time.[11] And recent studies of community college students found that, in Iowa, 35 percent of those enrolled in the standard repayment plan defaulted compared with just 3 percent of those enrolled in income-driven repayment programs; more than 85 percent of defaulters across three states were enrolled in the standard repayment plan.[12]

While income-driven repayment might not be the right path for everyone, the financial shocks that can come with default or large jumps in monthly payments are felt hardest by borrowers with few monthly resources to spare: Among African-American borrowers with some college or an associate degree, as described above, only one-third (32 percent) reported having savings versus nearly two-thirds (63 percent) of comparable white households.[13] Inefficient administrative processes can also prove costly for taxpayers.

In the coming months, the Higher Education Act and the U.S. Department of Education's regulations, guidance, programs, and initiatives should aim to produce a repayment system that protects families' financial security, fosters economic mobility, and is:

- ***Flexible and accessible:* Borrowers must be able to access, without administrative barriers, flexible repayment options when they experience short- and long-term financial hardship.**
- ***Affordable:* All borrowers should be able to quickly and seamlessly enroll and remain in a repayment plan that gives them the best pathway to successfully repay their loans.**

The mission of Pew's Project on Student Borrower Success is twofold: We seek to ensure that the student loan repayment system works well for those borrowers most at risk of delinquency and default while protecting taxpayer investments in higher education. To that end, we are analyzing the benefits, limitations, and fiscal impacts of student loan repayment programs, as well as proposals for reform of the student loan repayment and servicing systems, examining issues such as the need for:

- *Targeted, timely support*: Although there is a growing body of knowledge about which borrowers struggle the most with delinquency, default, and growing balances, experts and policymakers don't have much information about how to identify these borrowers early and assist them through repayment.
- *Reductions in administrative barriers*: There is also a need for more data about which points in the repayment process—in addition to those related to income-driven repayment described above—create administrative barriers that can prevent borrowers from selecting and then enrolling, remaining, and succeeding in repayment plans that facilitate long-term success.

We look forward to being a resource for you as we talk to loan servicers, educational institutions, lending experts, and others to identify effective strategies that can help borrowers achieve long-term repayment success and help policymakers and stakeholders craft solutions to ensure that the student loan repayment system identifies and provides support for those struggling the most.

Sincerely,

Sarah Sattelmeyer
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Endnotes

1 The Pew Charitable Trusts, Project on Student Borrower Success, https://www.pewtrusts.org/en/projects/student-borrower-success.
2 For additional information about Pew's Survey of American Family Finances, see: http://www.pewtrusts.org/~/media/Assets/2015/03/FSM-Poll-Results-Methodology_ARTFINAL_v2.pdf. The Survey was conducted in late 2014. Twenty-one percent of respondents reported having student debt for themselves, a spouse or partner, a child, or others. Seventy-nine percent owed for their own or a spouse or partner's education, and 26 percent owed for a child's education. Respondents were not asked to differentiate between federal and private loans. Existing research suggests that borrowers might underestimate the amount of student debt they have. See, for example: Meta Brown, Andrew Haughwout, Donghoon Lee, and Wilbert van der Klaauw, "Do We Know What We Owe? A Comparison of Borrower- and Lender-Reported Consumer Debt," The Federal Reserve Bank of New York (2013), https://www.newyorkfed.org/research/staff_reports/sr523 and Beth Akers and Matthew M. Chingos, "Are College Students Borrowing Blindly?," The Brookings Institution (2014), https://www.brookings.edu/research/are-college-students-borrowing-blindly.
3 The Pew Charitable Trusts, "Americans' Financial Security: Perception and Reality" (2015), https://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2015/02/americans-financial-security-perceptions-and-reality.
4 The Pew Charitable Trusts, "What Resources Do Families Have For Financial Emergencies? The Role of Emergency Savings in Family Financial Security" (2015), https://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2015/11/emergency-savings-what-resources-do-families-have-for-financial-emergencies.
5 The Survey of American Family Finances is unique in that it contains borrower-level information about student debt, income, household size, and other important aspects of families' balance sheets. However, it does not contain information about how long borrowers have been separated from school: Although the survey provides a window into borrowers making decisions about repayment today, it is not representative of new repayers. Thus, the incomes of typical borrowers identified in this analysis are likely higher than those of new repayers and these borrowers have had time to pay down their student loan balances, or those balances may have negatively amortized since borrowers separated from school. At the time of the survey, the median ages of white, black, and Hispanic borrowers with some college or an associate degree were 38, 37, and 34, respectively. The median ages of white, black, and Hispanic borrowers with bachelor's degrees and higher were 35, 39, and 36, respectively. Median household size was three for black, white, and Hispanic borrowers with some college or an associate degree. Median household size was two for white and black borrowers with bachelor's degrees and higher and three for similar Hispanic households.
6 The respondent's highest level of education completed is reported. The "some college or an associate degree" category includes those who did not complete a degree. The sample size was not large enough to separate completers from non-completers. The sample size was also not large enough to separate those with bachelor's degrees from those with higher levels of education. It is possible that these statistics would look different if we were able to examine these four groups separately.
7 Notably, in this analysis, we are reporting median debt and income levels for groups of borrowers; borrowers at the tail ends of the distribution likely faced different circumstances.
8 These findings are consistent with other research. See, for example: Fenaba R. Addo, Jason N. Houle, and Daniel Simon, "Young, Black, and (Still) in the Red: Parental Wealth, Race, and Student Loan Debt," *Race and Social Problems* 8, no. 1 (2016), https://www.ncbi.nlm.nih.gov/pmc/articles/PMC6049093/ and Judith Scott-Clayton and Jing Li, "Black-White Disparity In Student Loan Debt More Than Triples After Graduation," The Brookings Institution (2016), https://www.brookings.edu/research/black-white-disparity-in-student-loan-debt-more-than-triples-after-graduation/.
9 U.S. Department of Education, Office of Federal Student Aid, "Federal Student Loan Portfolio," accessed January 2019, https://studentaid.ed.gov/sa/about/data-center/student/portfolio.
10 Judith Scott-Clayton, "The Looming Student Loan Default Crisis Is Worse Than We Thought," The Brookings Institution (2018), https://www.brookings.edu/research/the-looming-student-loan-default-crisis-is-worse-than-we-thought/.
11 U.S. Department of Education, "Sample Data on IDR Recertification Rates for ED-Held Loans" (2014), https://www2.ed.gov/policy/highered/reg/hearulemaking/2015/paye2-recertification.pdf. More than one-third of these borrowers had not recertified within six months of the deadline.
12 Colleen Campbell and Nick Hillman, "A Closer Look at the Trillion: Borrowing, Repayment, and Default at Iowa's Community Colleges," The Association of Community College Trustees (2015), https://www.acct.org/files/Publications/2015/ACCT_Borrowing-Repayment-Iowa_CCs_09-28-2015.pdf and Colleen Campbell and Ivy Love, "Lost in the Trillion: A Three-State Comparison of Community College Borrowing and Default," The Association of Community College Trustees (2017), https://www.acct.org/files/Publications/2017/ACCT_Louisiana_Kentucky_Report_05-04-2017.pdf. In addition, according to a Government Accountability Office report, in a one-time analysis, "Treasury matched September 2012 student loan data from Education's NSLDS on a random sample of borrowers who entered repayment in 2010 or earlier to 2010 and 2011 tax return data, depending on the most recent available for each borrower. … While defaulted loans are not eligible for IBR until they are rehabilitated, Treasury also found that an estimated 70 percent of borrowers with defaulted loans met the income requirements for IBR." See: U.S. Government Accountability Office, "Education Could Do More To Help Ensure Borrowers Are Aware Of Repayment And Forgiveness Options" (2015), https://www.gao.gov/assets/680/672136.pdf.
13 Our sample size was not large enough to calculate the percentage of similar Hispanic households with savings. A smaller percentage of black households with this level of education but without student debt have savings compared to their white peers.