

LATINOS IN HIGHER EDUCATION: Student Loan Repayment

As more Latinos* gain access to higher education[†] it is crucial that they are able to complete their degree and utilize it to improve the economic stability of their families and communities. However, a significant share of Latino students find themselves taking on the financial burden of a postsecondary program without an increase in wealth-building capability and financial security.[‡]

Latino students have made impressive gains in college enrollment rates over the past decade and a half. Yet these successes have been tempered by the multiple barriers to college completion that have emerged for Latino students including the ever-rising costs of higher education. Due to the rising costs of attending college and the declining amount covered by grants, Latino students and their families must increasingly pay out-of-pocket and/or take out student loans to finance higher education. Worse, though Latinos enter college with lower incomes and less familial wealth than their White peers, Latinos' college costs are higher, on average, than for White families.[§]

Taking out student loans has serious implications for the financial security of Latino students and their families. Although loan balances for Latinos are often smaller than those of Whites, evidence shows that students with loan balances of less than \$10,000 are more likely to default.¹ Even if they do not default, Latino borrowers are more likely to struggle to repay their

* The terms "Hispanic" and "Latino" are used interchangeably by the U.S. Census Bureau and throughout this document to refer to persons of Mexican, Puerto Rican, Cuban, Central and South American, Dominican, Spanish, and other Hispanic descent; they may be of any race.

† The terms college, postsecondary, and higher education are used interchangeably. They include a range of institution types, including two-year colleges that lead to a certificate or an associate degree (community colleges, vocational-technical colleges and career colleges), and four-year programs that lead to a bachelor's degree.

‡ Research has shown that White high school dropouts hold more wealth than college-educated Latinos. See Matt Bruenig, "Why White High School Drop Outs Have More Wealth Than Black College Graduates," Demos, October 24, 2014, <http://www.demos.org/blog/10/24/14/why-white-high-school-drop-outs-have-more-wealth-black-college-graduates>.

§ See Figure 2 above; after accounting for expected family contribution and grant aid.

student loans than their White peers, and repayment is particularly difficult if students did not complete their degree or are not seeing returns through wages from attaining a credential. Even when Latinos do graduate with a Bachelor's degree, young Latino graduates working full-time, year round have the lowest earnings among other racial and ethnic groups.²

Delinquency or default on student loans can have profound effects on opportunities for wealth building, including damaging credit scores and limiting opportunities to access home mortgages and other credit-building assets. These impacts are compounded for Latinos, who already face barriers to building a credit profile and securing affordable, safe credit. For example, 15% of Latinos do not have a credit file and an additional 12% do not have a substantial enough file to produce a credit score.³ For borrowers who are in severe financial hardship, there is little recourse: student loans are not dischargeable in bankruptcy and if federal student loans are in default, wages and tax refunds may be subject to garnishment.

This brief outlines how Latino student loan borrowers are faring in the current repayment system. It also notes potential factors impacting Latino students' ability to repay their loans, including noncompletion of a degree, inadequacies in the current loan servicing system, and lower earnings post-college.

Latino student loan borrowers and repayment

As college costs have increased, the number of Latinos with student loans has grown. Latino students take out similar amounts in loans as White students (according to one analysis, 58% compared to 57%),⁴ yet Latino student loan borrowers are having more difficulty repaying their loans. For those who entered college in 2003-2004, after 12 years Latino borrowers still owed 83% of their original loan balance, while White borrowers owed 65%.⁵ When it comes to monthly student loan payments, the average monthly payment for Latinos is \$256, \$65 lower than White borrowers' monthly payments.⁶

Latino borrowers default at rates higher than their White peers.

- One in five Latino first-time college entrants in 2004 defaulted on their student loans within 12 years, nearly twice the rate of their White peers (12%).⁷
- Absent intervention, projections show that 20 years after entering college nearly half of Latinos in the 2003-2004 entering cohort will default on their loans, compared to less than 20% of Whites.⁸

Latino students attending for-profit institutions as well as those borrowing small amounts struggle the most to repay

- Latinos in the 2003-2004 entering cohort attending for-profit institutions are nearly four times as likely to default within 12 years compared to Latinos who did not attend a for-profit institution.⁹
- Overall, those with the smallest loan balances seem to struggle most to repay: the highest default rates, at nearly 34%, are among the borrowers who owe less than \$5,000.* Nearly 30% of borrowers with \$5,000-10,000 in debt default compared to borrowers with more than \$100,000 in debt, who default at a rate under 18%.¹⁰

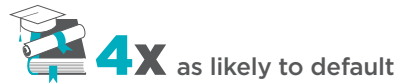
Latino borrowers are seriously delinquent or behind on their payments at rates higher than their White peers.

- A study by the Financial Industry Regulatory Authority suggests that 41% of Latino student loan holders with payments due had been late on their student loan payment at least once over the past year, compared to 32% of Whites.¹¹
- The Federal Reserve Board found that of those surveyed in 2016, 23% of Latinos who had student loans were behind on their payments, compared to 6% of Whites.¹²
- Almost one third of Latinos (31.0%) are not currently making payments on their student loans.
- Among Latinos not making payments, almost half (46.43%) are not making payments because they are in forbearance or are in a grace period.

Image 1: Latino Student Loan Default¹³



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- Projections show that 20 years after entering college nearly half of Latinos in the 2003-2004 entering cohort will default on their loans.

* This includes Federal Direct, Graduate PLUS, Perkins, and private loans.

Even when comparing those who graduate, Latino borrowers are more than twice as likely to default.

- For those who graduated in 2007-2008, 5.7% of Latino borrowers defaulted compared to 2.4% of White borrowers.¹⁴
- In the same group, over 20% of Latino borrowers owed more than they originally borrowed four years after graduation, compared to 17% of White borrowers.¹⁵

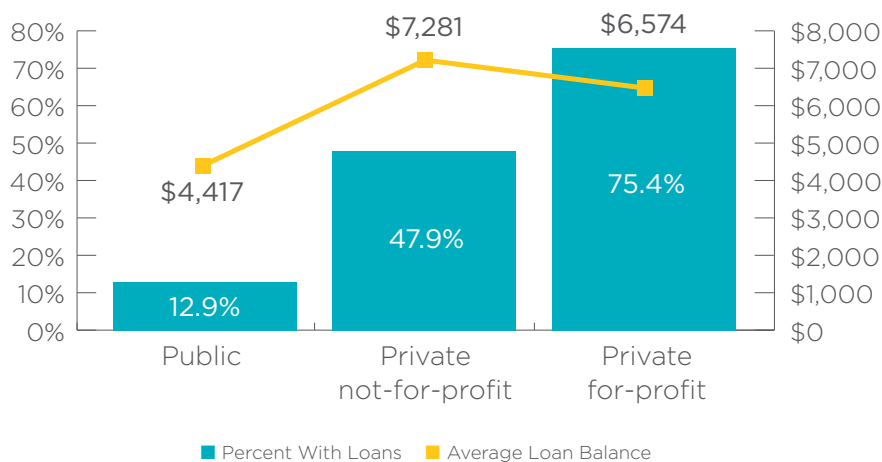
Factors impacting repayment and default rates

For students who do not complete their degree, repayment can be even more difficult. One analysis showed that 48% of Latino undergraduates who did not finish their program had defaulted on their student loans within 12 years of initial entry into school. This is compared to 38% of White students who did not complete.¹⁶

Nearly one-third of Latinos enrolled in 2011 dropped out without a degree. Of those who dropped out, over one-quarter had student loan debt.

- Overall, 26.2% of Latinos who dropped out had student debt, with an average loan balance of \$5,800. This is compared to 40.4% of Whites who dropped out with debt, with an average balance of \$5,492. Rates of dropping out and loan amounts varied by institution type, with 75% of Latinos who drop out of a for-profit holding debt, compared to 48% of those dropping out of private nonprofits, and 13% of public institutions (Figure 1).

Figure 1: Percentage of Latinos Who Dropped Out with Debt and Average Loan Balance, by Institution Type, 2012



Source: UnidosUS calculation using U.S. Department of Education, National Center for Education Statistics, "Beginning Postsecondary Students Longitudinal Study, First Follow-up, BPS:12/14." Washington, DC, 2014.

Inspector General Finds Concerning Patterns of Failure by Student Loan Servicers

The U.S. Department of Education originates and backs federal student loans, most of the nation's 43 million student loan borrowers' student loans—and oversees student loan servicers. An audit of student loan servicers by the U.S. Department of Education's Office of Inspector General found serious issues with the Department's lack of accountability and oversight over student loan servicers. Concerns cited in the Inspector General's report include improper actions taken by servicers in over 60 percent of the agency's oversight reports. The Inspector General found that the servicers' patterns of failure to comply with Federal loan servicing standards could have resulted in increased interest or repayment costs, missed opportunities to enroll in income-based repayment plans, adverse effects on borrowers' credit ratings, and the increased likelihood of delinquency or default.¹⁷ The report found that Federal Student Aid's failure to effectively regulate student loan services' continued and ongoing noncompliance could give servicers the impression that it is not "concerned with servicer noncompliance with Federal loan servicing requirements, including protecting borrowers' rights."

Factors like inadequate student loan servicing may contribute to higher rates of default and delinquency for borrowers.

- Eighty-seven percent of Latinos have their loans serviced by the top-10 most complained about loan servicers.¹⁸ Among these student loan servicers, Navient is the largest servicer to Latino student loan borrowers.
- The Consumer Financial Protection Bureau (CFPB) has identified student loan servicing as an area in need of stronger regulation and their latest review found over 11,000 complaints from consumers on the servicing of both federal and private loans.¹⁹ Complaints included issues enrolling in income-driven repayment plans, issues with payment processing, and problems with communication from loan servicers.
- The Treasury Department estimated that in 2012, half of student loan borrowers were eligible for Income-Based Repayment, yet only 13% of those in repayment were enrolled, with an additional 6% enrolled in a different income-driven repayment plan.²⁰
- If borrowers are unable to afford their loan payments and then have trouble switching to an income-based repayment plan because of deficient loan servicing, they may fall into unnecessary forbearance or delinquency. The Government Accountability Office found that borrowers in the income-based repayment plan have a default rate of 0.5% compared to 14% for those enrolled in the standard, 10-year plan.²¹

Lower post-education earnings may also play a role in high instances of Latinos being behind on their loan payments.

- Even when Latinos do graduate with a Bachelor's degree, young Latino graduates have the lowest earnings among other racial and ethnic groups.²²
- Department of Education data show that even when students complete their four-year degree, job market outcomes differ by race and ethnicity: the median annual earnings for full-time, year-round 25-34-year-olds with bachelor's degree holders was \$49,300 for Latinos and \$54,700 for Whites.²³
- When controlling for educational attainment, lifetime earnings for Latinos still lag behind Whites: Latinos with bachelor's degrees earn 21% less over their lifetime than their White peers.²⁴
- There are also ethnic disparities in wealth accumulation: among those who attended college, Whites have a median wealth 3.9 times the wealth of their Latino peers.²⁵

Conclusion

Latino students are entering college with less familial wealth and lower median incomes than White students, necessitating student loans. While Latinos take out about the same amount of loans as their White peers, they are much more likely to default on their loans. Additionally, Latinos are much more likely to drop out of their college program than Whites, meaning they do not gain the financial benefits of a degree while still having to pay off their loans. Even when they do graduate, Latinos earn significantly lower incomes than all other racial groups, making loan repayment even more difficult. Finally, the current loan repayment system is not serving Latino students well, leading them to higher rates of delinquency and default. Loan delinquency and default has serious impacts on financial stability and the ability to build wealth.

Endnotes

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