

## **GROWING STUDENT DEBT IMPACTS LATINOS' FINANCIAL FUTURES**

Latinos'\* rising student loan debt and borrower default rates harm Latinos' financial security. Major factors contributing to an increased debt burden for Latinos include the rising costs of attending college and the declining financial assistance provided by grants. In 2016, the average student loan for Latinos was about \$15,800, a 60% increase from 2004.<sup>1</sup> Yet the Pell Grant, a crucial form of financial assistance for low-income students, now only covers 28% of tuition at four-year public colleges and 13% of tuition at four-year nonprofit colleges.<sup>23</sup> Unfortunately, Latinos are also at a disadvantage when it comes to offsetting the higher costs of education. In 2017, the median household income for Latinos was about \$50,500, or almost \$18,000 less than the average White household. This high cost of higher education and low income make student loans an increasingly untenable college financing option for struggling Latino students and their families concerned with their ability to repay their loans<sup>4</sup>

Latino student borrowers are also more likely to default on their student loans than their White peers, damaging their ability to build credit and achieve financial stability.<sup>5</sup> For borrowers who are in severe financial hardship, there is too often too little recourse, as student loans are not dischargeable in bankruptcy. And if federal student loans are in default, wages and tax refunds may be subject to garnishment.<sup>6</sup> To address our debt-funded higher education system, it is essential to advance reforms that address how student loans are repaid, serviced, and discharged.

### **Latinos' educational debt is rising with few borrower protections.**

In recent years, Latino households have experienced the largest increase in educational debt. While only 14% of Latino households held educational debt in 2007, close to 20% had acquired it by 2016.<sup>7</sup> The same year, Latino undergraduates enrolled at two-year public schools experienced the greatest increase in the number of students who borrowed, while Latino students enrolled in for-profit programs became more likely to borrow than any other racial and ethnic group.<sup>8</sup> Unfortunately, the types of loans that Latinos take out also leave them with limited financial safeguards. Although Latinos take out student loans at rates comparable to White borrowers, they take out a larger percentage of private loans (18% for Latinos, compared to 16% for Whites). Private loans often have less secure terms and fewer repayment and servicing protections than federal loans.<sup>9</sup>

### **Latinos are more likely to struggle to pay back their loans and default.**

Due to factors impacting graduation, earnings, and student loan servicing, Latinos face higher delinquency and default rates compared to their White peers. While 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.<sup>10</sup> Even if they do not default, Latino borrowers are more likely to be delinquent or behind on their payments compared to White borrowers, a downward spiral that is exacerbated when students are unable to complete their degree and gain the earnings boost needed to pay off their financial obligations. A 2015 study by the Financial Industry Regulatory Authority suggested 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.<sup>11</sup>

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\* 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.

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, compared to 38% of White students.<sup>12</sup> Even when Latinos graduate with a bachelor's degree, young Latino graduates working full-time year round have the lowest earnings among other racial and ethnic groups. And in addition to these hardships, the current loan repayment system is not serving Latinos well. A higher proportion of Latinos have their loans serviced by Navient,<sup>13</sup> a company who has ranked among the worst performers by the Department of Education.<sup>14</sup>

## Recommendations to Reform the Student Repayment System

To improve the student repayment system, a reauthorized HEA should include the following recommendations:

- **Strengthen and Streamline Income-Driven Repayment Plans.** Income-Driven Repayment Plans set different loan payments for students based on their income and family size. By streamlining the alternative plans, borrowers will have more access to a plan that is manageable.
- **Allow All Loans to be Dischargeable in Bankruptcy.** By allowing student borrowers to file for bankruptcy, their loan balances would be eliminated enabling them to improve their financial stability.
- **Maintain and Improve the Public Service Loan Forgiveness Program.** This program serving low wage earners eliminates the remaining student loan debt balance of borrowers working in the public sector after 10 years of repayment.
- **Require the Department of Education to work with State and Federal Entities to Protect Borrowers.** The Department of Education should collaborate and share information with government entities to enforce student borrower rights.
- **Require the Department of Education to Improve Performance Standards and Accountability Measures of Student Loan Servicers.** By increasing oversight and establishing clear customer service performance standards for student loan servicers, student borrowers' debts and financial distress will be reduced.
- **Require the Department of Education to Improve Student Loan Counseling.** Improving student loan counseling will provide first time student borrowers with more knowledge and understanding of the expectations and repayment options that come with taking out a loan.

## Endnotes

- 1 UnidosUS, *Latinos In Higher Education: Financing and Student Loans*, (Washington, DC: UnidosUS, 2019), [http://publications.unidosus.org/bitstream/handle/123456789/1937/financingstudent\\_loans\\_brief\\_32519.pdf?sequence=1&isAllowed=y](http://publications.unidosus.org/bitstream/handle/123456789/1937/financingstudent_loans_brief_32519.pdf?sequence=1&isAllowed=y) (accessed May 2019).
- 2 The Institute for College Access & Success, *How to Secure and Strengthen Pell Grants to Increase College Access and Success* (Washington, DC: The Institute for College Access & Success, 2018) [https://ticas.org/sites/default/files/pub\\_files/pell\\_rec\\_s\\_one\\_pager.pdf](https://ticas.org/sites/default/files/pub_files/pell_rec_s_one_pager.pdf), (accessed May 2019)
- 3 UnidosUS calculation using College Board, "Trends in College Pricing 2018," College Board. New York, NY, 2018, <https://bit.ly/2is8e4j>, (accessed May 24, 2019), Table 2 and U.S. Department of Education, "Pell Grant Maximum for 2019-20 Announced," <https://studentaid.ed.gov/sa/about/announcements/pell-2019-20> (accessed May 2019).
- 4 U.S. Census Bureau, "Income and Poverty in the United States: 2017," *Current Population Survey*, Washington, DC, 2018.
- 5 UnidosUS, *Latinos In Higher Education: Student Loan Repayment*, (Washington, DC: UnidosUS, 2019), [http://publications.unidosus.org/bitstream/handle/123456789/1937/studentloanrepayment\\_brief\\_32519.pdf?sequence=2&isAllowed=y](http://publications.unidosus.org/bitstream/handle/123456789/1937/studentloanrepayment_brief_32519.pdf?sequence=2&isAllowed=y) (accessed May 2019).
- 6 Ibid.
- 7 UnidosUS calculation using Federal Reserve Board, 2016 Survey of Consumer Finances.
- 8 Ibid.
- 9 UnidosUS calculation using Federal Reserve Board, 2016 Survey of Consumer Finances.
- 10 UnidosUS, *Latinos In Higher Education: Student Loan Repayment*, (Washington, DC: UnidosUS, 2019), [http://publications.unidosus.org/bitstream/handle/123456789/1937/studentloanrepayment\\_brief\\_32519.pdf?sequence=2&isAllowed=y](http://publications.unidosus.org/bitstream/handle/123456789/1937/studentloanrepayment_brief_32519.pdf?sequence=2&isAllowed=y) (accessed May 2019).
- 11 Judy T. Lin, et al., *Financial Capability in the United States 2016* (Washington, DC: FINRA Investor Education Foundation, 2016), [https://www.usfinancialcapability.org/downloads/NFCS\\_2015\\_Report\\_Natl\\_Findings.pdf](https://www.usfinancialcapability.org/downloads/NFCS_2015_Report_Natl_Findings.pdf) (accessed January 2019).
- 12 Ben Miller, *New Federal Data Show a Student Loan Crisis for African American Borrowers*, (Washington, DC: Center for American Progress, 2017), <https://www.americanprogress.org/issues/education-postsecondary/news/2017/10/16/440711/new-federal-data-show-student-loan-crisis-african-americanborrowers/> (accessed January 2019).
- 13 UnidosUS calculation using Federal Reserve Board, 2016 Survey of Consumer Finances.
- 14 Consumer Financial Protection Bureau, *CFPB Sues Nation's Largest Student Loan Company Navient for Failing Borrowers at Every Stage of Repayment*, (Washington, DC, 2017), <https://www.consumerfinance.gov/about-us/newsroom/cfpb-sues-nations-largest-student-loan-company-navient-failing-borrowers-every-stage-repayment/> (accessed September 2019).