

# Widening the Gap: College Loans Entrap a Generation of Black Americans in Debt

James Curiel, Qaamel Baynard, Djomeni Djonkam, Marquis Hall,  
Tonya Long-Perkins, Ryan Southall  
Norfolk State University, USA

## Abstract

*W.E.B. DuBois advocated for Black Americans to use education to raise their income and their race, but today student debt accrued during college becomes the yoke of human bondage where the debt often increases after leaving college because Black borrowers do not have the means to pay down the principal. Alabama was arguably the last state in the Union to have slavery well into the 20th Century where debt was used as the pretext for perpetuating government sanctioned human servitude in the land of the free. Today, it can be argued college debt on Black Americans acts in a similar fashion where financing higher education lowers credit scores, disposable income, and home purchasing, an economic yolk around the necks of Black Americans restricting their ability to participate in the so-called American dream. Current college financing widens the racial wealth gap in the U.S.A.*

## 1. Introduction

Suppose W.E.B. DuBois, civil rights advocate and founder of the NAACP, were alive today to witness the effects of student loan debt on minorities, specifically Black Americans. Would he retract his statement, "Education and work are the levers to uplift a people"[1]. DuBois' statement is rooted in education as a means of changing the trajectory of Black Americans. For Black Americans, obtaining a college education has been encouraged to achieve middle-class status and advance in life. Unfortunately, the disproportionate amount of student loan debt has contributed to the wealth disparities experienced by Black Americans [2].

Higher education is often financed by student loan debt for Black Americans. Sandy Baum, a Senior Fellow at the Urban Institute, states, "When Black Americans are compared to other racial and ethnic groups, they borrow significantly more student loans and are more likely to default on the loans" [3]. Excessive student debt has negative financial ramifications on Black Americans. It leads to the consideration of whether the return on the investment (financing) of a college education outweighs the reward.

The burden of student loan debt is far-reaching and can be measured by Black Americans' credit scores, disposable income, and homeownership. Collectively, these factors influence wealth accumulation and financial stability. "Inequality is widening because the economic growth of recent decades has been unevenly shared, with the vast majority of gains going to those already at the top" [4]. This research examines student loan debt's impact on credit scores, disposable income, and homeownership in contributing to financial fragility of Black Americans in the widening wealth gap between races in the United States of America.

## 2. Literature Review

"A college degree is the key to realizing the American dream, well worth the financial sacrifice because it is supposed to open the door to a world of opportunity" [5]. This statement may be true for some Americans, yet minorities have experienced the financial sacrifice of a college education becoming an American nightmare. Researchers have found inequitable policies and systemic racism in the educational system where student loan debt increase the wealth gap. The increase in student loan debt contributes to the financial fragility of Black Americans in the United States.

Scott-Clayton and Li provided "evidence that racial gaps in total debt are far larger than even recent reports have recognized, far larger now than in the past, and correlated with troubling trends in the economy and the for-profit sector" [6]. Data showed the situation is trending the wrong direction. Scott-Clayton and Li assert minority students experience credit impairment due to missed payments and student loan defaults. Substantial evidence was cited to conclude inequality in pay contributes to financial hardship. This situation creates a "chain reaction" as it further prohibits accumulating assets that can establish wealth [6].

Canchola and Frotman documented disparities in the impact of student loan debt on African-Americans and Latinos [7]. They stated "Federal government data shows that over 90 percent of African-American and 72 percent of Latino students leave college with

student loan debt, compared to 66 percent of white students and 51 percent of Asian-American students” [7]. The authors explained, “how student loans can have spillover effects on the lives of young consumers” [7].

Mishory et al. wrote about the spillover effects. For example, “Crisis-level student debt hinders economic progress in many ways, including reinforcing racial wealth inequality” [2]. Mishory et al. point directly at discriminatory public policies of inequality in funding Historically Black Colleges and Universities and the lending practices of “predatory for-profit colleges” on minorities [2]. The authors argued that systematic racism is a factor in the wealth gap. Moreover, the authors contradicted William Elliott’s support of “wealth transfer programs” as solutions [8]. Mishory et al. stated systemic racism “prevented eligible Black GIs from accessing the full range of education benefits” [2].

Baradaran wrote about systemic racism and the history of economic restrictions placed on slaves and free Blacks in the United States. Monetization of Black lives under government institutionalization of slavery became crucial capital, 1.3 billion dollars by Baradaran’s estimate, almost equal to the young nation’s entire gross national product [9]. Economic restrictions on free Blacks, Baradaran notes economic restrictions and Jim Crow started in Northern and Western states, included not being able to buy property, testify in court, or being able to practice professions and trades. Baradaran writes about Blacks developing capital networks outside mainstream financial institutions, a phenomenon Curiel and Curiel wrote about as still existing in response to existent discriminatory lending practices [9], [10]. Does the current structure of college student financing represent a continuation of past discriminatory financial practices enforcing a new Jim Crow segregating educated Black Americans from living the American dream?

### 3. Methods

This paper was created by soliciting topics from the UAF-690 Policy and Analysis class in the Masters of Urban Affairs program at Norfolk State University in Fall 2022. Each student put forward a topic, and then a topic was selected through a majority vote of class members. The class unanimously selected student loan debt because every member was flinching under the burden of loans upon graduation.

We practiced democracy and consensus as much as possible because group decisions are usually better than those reached by a committee of one. The instructor adjudicated our consensus process of soliciting each class members opinion and positioning, and then facilitated seeking common ground among points of view. We followed this process through selection of our thesis and selection

of drafts that would serve as the core for each section of our classically formatted of introduction, literature review, results, discussion, and conclusion, the exception being the methods section which was written by the instructor.

We started with the hypothesis where each student wrote a draft. The instructor then broke the class into teams of two where each week a team would write a component of the introduction, literature review, results and discussion. We utilized discussion boards online to present drafts so they could be read drafts prior to class onsite meetings, and then we would discuss what draft should be the core and which ones could work as additional information.

Teams used archival research to examine secondary and tertiary data and analysis comparing loan rates, average student debt across races and their impact on credit scores, disposable income, and homeownership. We utilized class time at the start of the semester to review using Norfolk State University library electronic databases, such as JSTOR and Academic Search Complete, to find relevant, scholastic articles and data. Perusing our footnotes one will find the majority of sources were electronic from the web.

The instructor served as facilitator, coordinator, overall editor, and writer of the methods section. The class practiced consensus decisions and team work throughout the process. The instructor commends the class for their diligence and amicability during a semester when all were working, in most cases full-time, in addition to the stress of being full-time students in academically vigorous graduate program.

### 4. Results

Student loan debt spreads across all races and ethnicities. However, statistics define a distinct parallel between race and student loan debt. Currently, 43.6 million Americans owe a student loan aggregate of 1.774 trillion U.S. dollars. Among bachelor’s degree holders, African- American students are the most likely to borrow federal loans at 76.1 percent [11]. Although, many demographics add to the total amount of student loan debt, the total amount of Black borrowers is stifling compared to that of White borrowers.

Statistics on total loan debt and loan debt increasing after students leave or graduate from college exemplify racial inequality yet again. Average total loans borrowed, whether undergraduate or graduate, for black borrowers is \$39,500. In turn, the median amount borrower by white students is \$29,900 [12]. In terms of loans increasing or decreasing because of an ability to pay interest and pay down the principal “48% of Black students owe an average of 12.5% more than they initially borrowed, while 83% of white students owe 12% less [13]”. Each area of debt, whether average amount borrowed, monthly

payment amount, and rate of loan interest is significantly higher between the two races [13].

There is a racial homeownership gap between Black and White student loan borrowers. Evidence shows debt affects mortgage eligibility and credit scores. As stated by Katherine Fallon, "Among people ages 24 to 32, the homeownership rate fell nine percentage points between 2005 and 2014- nearly doubled the drop as that for the overall population" [14]. This is a tremendous drop related to home ownership and the ages at which this drop occurred. Students of color are less likely to obtain wealth to pay for school or support a home purchase. However, wealth is more likely to help white students finance a home or use that wealth for financial support and stability. "4 years after graduation, almost half of the black student borrowers owe more than they initially borrowed, compared with fewer than a quarter of white borrowers" [14].

Homeownership is vital as it relates to black and white homeowners. Homeownership goes hand and hand with student loan debt. "Black and white homeownership gap stand at a 30-percentage point spread" [15]. This percentage difference is a problem. "Homeownership rate for white individuals is 73.3% while the black homeownership rate is 42.1%" [15]. Student loan debt plays a complicated but essential role in this difference. According to the national center for education statistics, "Black students are the most likely to receive college loans at 71% compared to white students at 56%" [15]. Receiving loans can put individuals into more debt when graduating if they graduate. "For all borrowers, 46% were delayed moving from a family member's home after obtaining student debt. By race, this rises to 65% of Hispanic borrowers and 52% of Black borrowers who were delayed moving from a family member's home" [15].

President Biden stated that many people could not qualify for a mortgage because of student loan debt, and the burden of student debt is cumbersome on black and Hispanic borrowers. "On average black college graduates owe \$25,000 more than white graduates in student loan debt" [16]. Is college helping or continuing a cycle that is putting minorities in debt? "In the U.S., homeownership for white, non-Hispanic Americans is 73.3%, compared with 42.1% for Black" [15]. Black Americans have a higher student loan debt balance than white Americans, which affects their ability to qualify for a mortgage, said Dorothy Brown, a law professor at Georgetown University. Black borrowers must find a way to get out of debt and stay out of debt as it relates to student loans and homeownership [16].

Income and savings are crucial to the economic success of black students after they exit higher education. The data provided by The Baccalaureate and Beyond (B&B:16/20): A First Look at the 2020 Employment and Education Experiences of 2015–16 College Graduates report looks at the education and

work outcomes of a national sample of bachelor's degree recipients four years after they earned their degrees [12]. The study shows a difference between how much income black students have compared to how much income white students have. Based on a review by University Business of the NCES Baccalaureate and Several factors that impact the net worth of black student loan borrowers. For Black loan borrowers these factors include a disparity in average pay, working in full-time jobs that do not require a degree or considered a "career" position [17].

Disparities in loan enrollment rates, full-time employment rates, and average annualized earned income between Black and White student loan borrowers reinforce the negative impact of student loans. For example, 88.1 % of Black, students worked full-time and earned an average of \$50,600 a year compared to 88.4% of White students who worked full-time and earned an average of \$60,300. As a result, there was a 17.49% difference in average annual income between black and white students. These statistics show black students are already facing an almost \$10,000 lower income deficit compared to white students [12]. Black college graduates also have less financial support from their parents, such as down payment assistance or savings to assist with home buying. "The growing gap in Black homeownership threatens to exacerbate racial inequality for decades to come" [18]. Credit ratings are also a factor when looking at wealth inequality and homeownership. "According to data from Freddie Mac, the median FICO scores of Black households with a bachelor's degree and a graduate degree were 623 and 636, respectively, lower than the median credit score of 680 for white households without a high school diploma" [18].

Income disparities between Black and White students are likewise reflected in home ownership, retirement accounts, reported negative net worth, and meeting essential expenses. 21.3% of Black college graduates owned a home, and 64.1% had a retirement account, while 35.5 % of White college graduates owned a home, and 77.6% had a retirement account. Similarly, 56% of black students reported a negative net worth, with 19% not meeting essential expenses. Only 30.4% of white students reported negative net worth, and just 9.1% not meeting basic living expenses. Not meeting expenses refers to being "unable to meet essential living expenses such as mortgage or rent payments, utility bills, or important medical care for reasons other than the COVID-19 pandemic." Respondents are considered to have negative net worth if they would still be in debt after selling all their major possessions, turning all their investments and other assets into cash, and paying off as many debts as possible [12]. Negative net worth is an important measurement that points to the financial instability of black students. In each statistical comparison, Black college graduates are significantly

behind their white counterparts, and financially more vulnerable to the negative effects of student loans on purchasing power and wealth accumulation.

## 5. Discussion

Exploring the effects of student debt is vital to increasing equitable resources for Black American students and their families. This insight could be used to help policymakers and colleges and universities identify gaps and barriers in the pursuit of higher education. The wealth gap will increase as long as Black Americans finance their education with student loans under current financing regimes. Under current financing practices student loan debt has a major dilatory effect on credit scores, disposable income, and homeownership in contributing to financial fragility of Black Americans in the widening wealth gap between races in the United States.

Lower income and higher student loan debt leads to a major obstacle for African-American intellectuals accumulating wealth after college. Ratios for the amount owed to the amount borrowed for black students reached 104.9% [12]. As black students repay student loans, the interest portion of the payments can exceed the principal portion, which causes student loan debt to increase instead of being reduced after graduation. If black students are facing higher loan interest, it is evident that more money is being spent on paying down student loan debt rather than saving money or spending money on accumulating wealth-building assets such as a home. Many black students pay back federal student loans through an income-driven repayment plan, which caps the payments required based on income [19]. Therefore, low incomes for black students mean lower monthly payments on their student loans. As student payments fall below covering the interest, interest will continue to accumulate, and more money will be owed than what was originally borrowed [6].

## 6. Conclusion

Increasing student loan debt after leaving college damages African-American credit ratings and becomes an impediment to purchasing a home in the United States. Student loan downward spiral also impacts Latinos and to a lesser extent Native Americans and lower income European-Americans. Education and college used to be a vehicle for upward mobility in the U.S., but today student loan downward spiral is entrapping millions of minorities, women and lower income Whites into years of debtor servitude without a prayer for home ownership and the "American dream." This downward spiral has hit the African-American community the hardest, and reforms are needed to amend a situation that is dragging the economy down a rabbit hole adversely

impacting disposable income, home sales, auto sales, and the entire national economy.

## 7. References

- [1] Du Bois, W.E.B. (1903). *The Talented Tenth*. Yale MacMillan Center. <https://glc.yale.edu/talented-tenth-excerpts> (Access Date: 5 September 2023).
- [2] Mishory, J., Huelsman, M. and Kahn, S. (2019). *How Student Debt and the Racial Wealth Gap Reinforce Each Other*. The Century Foundation. <http://https://tcf.org/content/report/bridging-progressive-policy-debates-student-debt-racial-wealth-gap-reinforce/?agreed=1> (Access Date: 5 September 2023).
- [3] Baum, S. (2016). *Student Debt: The Unique Circumstances of African American Students* American Council on Education. <https://www.equityinhighered.org/resources/ideas-and-insights/student-debt-the-unique-circumstances-of-african-american-students/> (Access Date: 5 September 2023).
- [4] American Atlas Compass. (2021). *A Guide to Economic Inequality*. [https://americancompass.org/wp-content/uploads/2021/04/AC-Atlas-Inequality\\_Final.pdf](https://americancompass.org/wp-content/uploads/2021/04/AC-Atlas-Inequality_Final.pdf) (Access Date: 5 September 2023).
- [5] Rather, D. (2022). *Dan Rather Quotes* BrainyQuote.com. [https://www.brainyquote.com/quotes/dan\\_rather\\_466489/](https://www.brainyquote.com/quotes/dan_rather_466489/) (Access Date: 23 September 2023).
- [6] Scott-Clayton, J., and Li, J. (2016). *Black-white Disparity in Student Loan Debt more than Triples after Graduation*. Economic Studies. <https://vtechworks.lib.vt.edu/bitstream/handle/10919/83265/BlackWhiteDisparity.pdf?sequence=1&isAllowed=y> (Access Date: 23 September 2023).
- [7] Canchola, A. and Frotman, S. (2016). *The Significant Impact of Student Debt on Communities of Color*. Consumer Finance. <https://www.consumerfinance.gov/about-us/blog/significant-impact-student-debt-communities-color/> (Access Date: 23 September 2023).
- [8] Elliott, W. (2018). *Why Children's Savings Accounts Should Be America's Next Wealth Transfer Program*. The Conversation. <https://theconversation.com/why-childrens-savings-accounts-should-be-americas-next-wealth-transfer-program-87916> (Access Date: 23 September 2023).
- [9] Baradaran, M. (2019). *The Color of Money: Black Banks and the Racial Wealth Gap*. Belknap Press. Cambridge, Massachusetts.
- [10] Curiel, J. and Curiel, A. (2023). *Comparing Black Business Owners in 1896 Philadelphia to Black Business Owners in 2022 Hampton Roads*. International Journal of Technology and Inclusive Education 12(1), pp.1783-1789.
- [11] Hanson, M. (2022). *Student Loan Debt Statistics*. Education Data Initiative. [https://educationdata.org/student-loan-debt-statistics#:~:text=42.8%20million%20borrowers%20have%20federal,financial%20quarter%20\(2021%20Q4](https://educationdata.org/student-loan-debt-statistics#:~:text=42.8%20million%20borrowers%20have%20federal,financial%20quarter%20(2021%20Q4) (Access Date: 14 November 2023).

[12] Henderson, M. et al. (2022). Baccalaureate and Beyond: A First Look at the 2020 Employment and Education Experiences of 2015–16 College Graduates. U.S. Department of Education; <https://nces.ed.gov/pubs2022/2022241.pdf> (Access Date: 13 November 2023).

[13] Sauer, M. (2022). Student Debt Experts Say \$10,000 Isn't Enough Specifically for Black Borrowers-Here's Why. CNBC. <https://www.cnbc.com/2022/08/29/experts-biden-student-loan-forgiveness-not-enough-for-black-borrowers.html> (Access Date: 14 November 2023).

[14] Fallon, K., and Young, C. (2022). How Student Loan Debt Affects the Racial Homeownership Gap. Housing Matters. <https://housingmatters.urban.org/articles/how-student-loan-debt-affects-racial-homeownership-gap> (Access Date: 14 November 2023).

[15] Lautz, J. (2021). Race, homeownership, and Student Loan Debt. <https://www.nar.realtor/blogs/economists-outlook/race-homeownership-and-student-loan-debt> (Access Date: 23 November 2023).

[16] Settles, G. (2022). Is homeownership harder for Black Americans to achieve? Politifact. <https://www.politifact.com/article/2022/aug/31/ask-politifact-homeownership-harder-black-american/> (Access Date: 23 November 2023).

[17] Burt, C. (2022). Report: Black College Graduates Saddled with More Debt, Earning Less than Whites. University Business; <https://universitybusiness.com/report-black-graduates-face-saddled-with-more-debt-earning-less-than-whites/> (Access Date: 25 November 2023).

[18] Choi, J. and Goodman, L. (2020). Why Do Black College Graduates Have a Lower Homeownership Rate Than White People Who Dropped Out of High School? Urban Wire; <https://www.urban.org/urban-wire/why-do-black-college-graduates-have-lower-homeownership-rate-white-people-who-dropped-out-high-school> (Access Date: 25 November 2023).

[19] Kolodner, M. (2021). Do Income-based Repayment Plans Drive Young Borrowers of Color Deeper into Debt? The Hechinger Report; <https://hechingerreport.org/do-income-based-repayment-plans-drive-young-borrowers-of-color-deeper-into-debt/> (Access Date: 25 November 2023).