Center for Social Development

GEORGE WARREN BROWN SCHOOL OF SOCIAL WORK

| MAY 2013 | CSD FACT SHEET NO. 13-10 |

Education Debt and Racial Disparity in College Success

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Background

There are racial/ethnic disparities in college graduation rates. In 2008, 49% of White 25- to 34-year-olds had an associate's degree or higher versus 29.4% of Blacks and 19% of Hispanics in that age group.[1]

These college completion disparities have important consequences. Lack of college completion has implications for the financial success and health of individuals. It affects society through racial/ethnic inequality and by limiting skills in the workforce.[2]

College costs have risen sharply. The cost of attending a public 4-year university has more than tripled since 1983 (in inflation-adjusted dollars).[3]

Cost is a key barrier to college access and success, especially among low-income and minority families. Students often must meet costs by incurring substantial debt.[4,5]

Current Policy Issues

Financial aid policies have shifted from need-based aid to merit-based aid. The proportion of students receiving merit-based aid—most often scholarships—more than doubled from 6% in 1995 to 14% in 2007. Merit-based aid is awarded disproportionately to students from high income families.[6]

The number and size of federal and private loans have increased. In the 10 years between 2001 and 2011, the number of Stafford loan borrowers almost doubled and the average amount that students (undergraduate and graduate) borrowed increased by 55% (in inflation-adjusted dollars).[7]

Deregulation of financial markets has increased young adults' use of credit cards. College students increasingly rely on credit cards. In 2008, 92% of students reported using credit cards to pay for direct educational expenses such as textbooks, school supplies, and tuition.[8,9]

Education loans and credit cards may be the only funds available to low-income and low-asset students. Household income and wealth can shelter students from the effects of debt. Disparities in household assets account for a substantial portion of the Black-White gap in college graduation.[10]

Consequences of Debt

Are there benefits to borrowing? Access to credit may provide resources necessary for a youth to attend college. Credit-card debt is positively associated with self-esteem and a sense of mastery, especially for low- and middle-income families.[11] Borrowing may also reduce the need to work while attending college.

Heavy debt may have negative and long-term effects. Debt interferes with the ability to save, acquire additional loans, and invest in the future. Young people inexperienced in managing finances may disproportionately face stress, anxiety, or feelings of loss of control from heavy debt.[12]

Background and culture may influence loan decisions. The threat of debt deters some people from enrolling, and those who do enroll are more likely to attend part time versus full time. Compared with other groups, Hispanic and Asian students may be more averse to taking on education loans, even when the need exists. Black and Hispanic nonborrowers are more likely than White students to work full time.[13]

[a]This Fact Sheet is based on Zhan, M. (2013), *Debt and college graduation: Differences by race/ethnicity* (CSD Working Paper No. 13-08). St. Louis, MO: Washington University, Center for Social Development.

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Small loans may increase graduation rates, but large loans can increase dropout rates. Having an education loan of up to $10,000 has a positive effect on college completion. For students from households in the bottom 75% of the income distribution, debt above $10,000 decreases college completion rates.[14]

The effects of debt vary by race/ethnicity. Black and Hispanic students with large loans ($10,000) are less likely to graduate than those with small loans ($5,000–$10,000).

Conclusions and Policy Implications

- **A large proportion of students rely on education loans and credit cards to pay for college.**
- **Increasing student loan disbursements and access to credit cards does not help reduce racial/ethnic disparities in college graduation rates.**
- **Large loans may have a more negative impact on chances of college graduation among minority students.**
- **Policies incentivizing savings and asset accumulation may be effective tools to reduce racial/ethnic disparity in college success.**

Endnotes

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Acknowledgments

Support for this Fact Sheet comes from the Lumina Foundation for Education. Other funders of research on college savings include the Ford Foundation, the Charles Stewart Mott Foundation, and Citi Foundation.

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