STUDENT BORROWER PROTECTION CENTER

DISPARATE DEBTS

How Student Loans Drive Racial Inequality Across American Cities

June 2020

PROTECTBORROWERS.ORG

About this Report

Background

This report was prepared as part of the Student Borrower Protection Center's ongoing partnership with city governments across the country.

Between 2017 and 2020, city financial empowerment and consumer protection officials in New York City, San Francisco, and Washington, D.C. worked with economists and researchers at regional banks of the Federal Reserve System to publish new research examining the prevalence and performance of student debt in city neighborhoods. Economists at the Federal Reserve Bank of Philadelphia also published original research examining similar issues. Each of the resulting papers found that the student debt crisis acutely affects communities of color and exposed stark racial disparities in student loan borrower distress. Building on this foundational research and citing findings by New York City's Department of Consumer Affairs and the Federal Reserve Bank of New York (FRBNY), U.S. Senator Cory Booker requested that economists at FRBNY produce a new analysis examining racial disparities in student loan borrowing and performance across the ten most-segregated metropolitan areas in the United States — research that was released to the public in June 2019.

This report offers further analysis and commentary on the findings presented in each of these prior publications, providing a nationwide view of the effects of student loan debt on America's cities. Taken together, this research confirms that the cost of America's runaway student debt crisis falls disproportionately on Black and Latinx communities. It also offers policymakers new evidence that any effort to end the student debt crisis must include addressing the disparate effects of student debt on these communities.

About Cities for Student Borrower Protection

In 2018, the Student Borrower Protection Center launched a partnership with officials in the cities of New York, San Francisco, and Washington, D.C. to spur new research into the effects of student debt on city neighborhoods and to advance public policies at the local level to protect student loan borrowers. Learn more at protectborrowers.org/cities.

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Introduction

Over the past decade, student debt in America has grown into a crisis. Today, 45 million Americans collectively owe $1.7 trillion in student loans. Failures by policymakers, regulators, and industry at every stage of the student loan lifecycle have driven nine million student loan borrowers into default, while another two million borrowers are behind on payments.[1] Moreover, an entire generation of borrowers have been left behind as student debt has crowded out retirement savings and pushed many of the markers of middle-class American life — owning a home, forming a family, or starting a business — beyond reach.

Borrowers in different areas of the same city may live only blocks apart, but they may face wholly inequitable outcomes on their loans. Those divergent outcomes are impossible to separate from the racial makeup of the places where borrowers live.

Research has shown that the fallout of the student debt crisis is disproportionately borne by individual student loan borrowers of color, especially Black and Latinx borrowers.

Building on top of these findings, an emerging body of research conducted by cities has exposed the role this debt plays in exacerbating racial and economic disparities between majority-white and non-white communities, particularly as rates of segregation climb.[2]

Washington, D.C., San Francisco, New York City, and Philadelphia have actively been leading this research. Taken together, the data presented in these cities' new reports show how borrowers residing in different areas of the same city may live only blocks apart but face drastically different outcomes on their loans. These divergent outcomes are impossible to separate from communities' racial makeup. City-level analyses make clear the role of student debt in reinforcing social stratification and segregation across neighborhoods.

This report offers the first analysis of this new body of research, synthesizing these new city-level findings and offering important context as governments at every level struggle to address the student debt crisis. The data paint a picture of a student loan system that is both reflective of and exacerbating the nation’s systemic racial inequality and racial wealth gap. Further, this research makes clear that the student loan system remains a key structural barrier for any effort to address racial and economic injustices in America.

Student Debt Perpetuates the Vicious Cycle of Racial and Economic Inequality

Research has noted that Black borrowers face significant hurdles in repayment because student debt is "both a cause and consequence of racial inequality."[3] Racial disparities throughout the student loan lifecycle begin long before a promissory note is signed or even before the financial aid award letter arrives. From the start of borrowers' lives, these disparities are spurred by the racial wealth gap. The median white household has 13 times the wealth of the median Black household and 10 times the wealth of the median Latinx household.[4] As a result, students of color are less likely than their white counterparts to receive familial contributions that can offset the need for loans to pay for college.[5] For example, one analysis found that during the course of their college careers, 58 percent of Black students receive an average parental contribution of $4,200, whereas 72 percent of white students receive an average of $12,000 from their parents.[6] In other words, not only are Black students less likely to receive financial support from their parents, but when they do, it is for a smaller amount than their white peers.

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After taking on more debt than their white peers, Black and Latinx students then enter a workforce where discrimination and disparities affect their ability to repay their loans. Systemic racial discrimination when seeking employment and wage discrimination once hired leave Black and Latinx borrowers shortchanged by a system that delivers fewer financial returns from their education than it does for their white peers.[7] Black and Latinx families headed by two adults with a college degree earn 80 percent and 70 percent, respectively, of what white families earn with the same education level.[8] This number is even more distressing for Black women, who make 63 cents on every dollar paid to white men with the same degree.[9] For Black and Latinx borrowers, the dual effects of being forced to borrow at greater amounts and of systemic discrimination that cause these borrowers to earn less throughout their careers compound to exacerbate an already-crippling student debt burden.

By piling hundreds of billions of dollars in new debt on the communities least able to shoulder this burden, the student debt crisis has become a key structural feature of the sharply unequal 21st century American economy.

Labor market disparities are only one well-documented example of the effects of systemic racism on Black and Latinx communities across the country. Given these systematic disparities and the persistent racial wealth gap, the system of debt-financed higher education undermines higher education's historic function as a pathway for upward mobility.[10] By piling hundreds of billions of dollars in new debt on the communities least able to shoulder this burden, the student debt crisis has become a key structural feature of the sharply unequal 21st century American economy.

A breadth of research demonstrates how Black and Latinx borrowers are the hardest hit by the student debt crisis.

- **Black and Latinx students are more likely to take on student debt.** Ninety percent of Black and 72 percent of Latinx students take out loans to attend college in comparison to 66 percent of white students, and on average, Black borrowers take on nearly 50 percent more debt for a Bachelor's degree than white peers.[11]

- **Black and Latinx borrowers disproportionately struggle with this already unequal debt burden.** On average, 20 years after starting college, the median Black borrower still owes 95 percent of their original student debt balance, while the median white borrower has paid down almost 95 percent of their original balance.[12] Twelve years after starting college, the median Latinx borrower still owes 83 percent of their initial student loan balance while the median white borrower owes only 65 percent of their original balance.[13]

- **Differences in borrower outcomes by race cannot be explained away by disparities in levels of education and income.** While economic differences between borrowers of color and white borrowers may seemingly explain default disparities, existing data suggest that is not the full story — controlling for income accounts for only about half of the default gap between Black and white borrowers.[14] Research additionally notes that even when accounting for differences in degree attainment, college GPA, and post-college income and employment, the Black-white student loan default gap is still 11 percent.[15]

The effects of these disparities in borrower outcomes are far-reaching and play out in communities all across the country. In 2016, researchers at the Washington Center for Equitable Growth analyzed the geography of student debt trends by mapping the information about student debt that appears on consumers' credit reports by zip code.[16] In doing so, they found that the racial composition of borrowers' neighborhoods is closely correlated with whether borrowers will struggle when repaying their student debt. Notably, these researchers found that residents of predominantly Black and Latinx zip codes have higher rates of delinquency and default than residents of predominantly white zip codes *even when those zip codes have comparable median income levels.*[17]

Building on that work, during the past three years, four major U.S. cities that are cumulatively home to more than 11.5 million people and roughly 1.6 million borrowers partnered with their respective regional Federal Reserve Banks to analyze the impact of student loan debt within specific neighborhoods across their municipalities. These reports collectively offer a comprehensive look into the systematic disparities that exist within our student loan system, and in particular, within Black and Latinx communities.

Findings: Across Cities, Student Debt Disparities are Stark

Common across all of these municipalities is a toxic mix: (1) Black and Latinx communities shoulder increased borrowing and debt burdens; (2) borrowers from these communities struggle to make student loan payments at disproportionately high rates; and (3) as the share of the Black and Latinx population increases in a given community — the legacy of continued segregation — the incidence of student loan default climbs in tandem.

Black and Latinx borrowers take on more debt to finance higher education

The increasing burden of student debt is disproportionately shouldered by Black and Latinx borrowers. Nationwide, the student loan borrowing rate in Black-majority and Latinx-majority zip codes is 23 percent and 17 percent, respectively.[18] For white-majority zip codes, it is only 14 percent.[19] In fact, the highest and fastest-growing student loan balances nationwide are found in majority-Black communities. The average student loan balance is highest in Black-majority areas, at more than $37,000 — roughly $3,000 higher than the national average.[20]

The regional Federal Reserve data show that within individual municipalities, the existing disparities in student debt burden raise an even greater cause for alarm.

- **Washington, D.C:**[21] Over the last decade, the highest rates of growth in student debt in the District of Columbia were concentrated in majority-Black communities. During that time, median student debt balances in the District increased in majority-Black neighborhoods such as Brookland and Deanwood by as much as 217 percent, while median debt balances

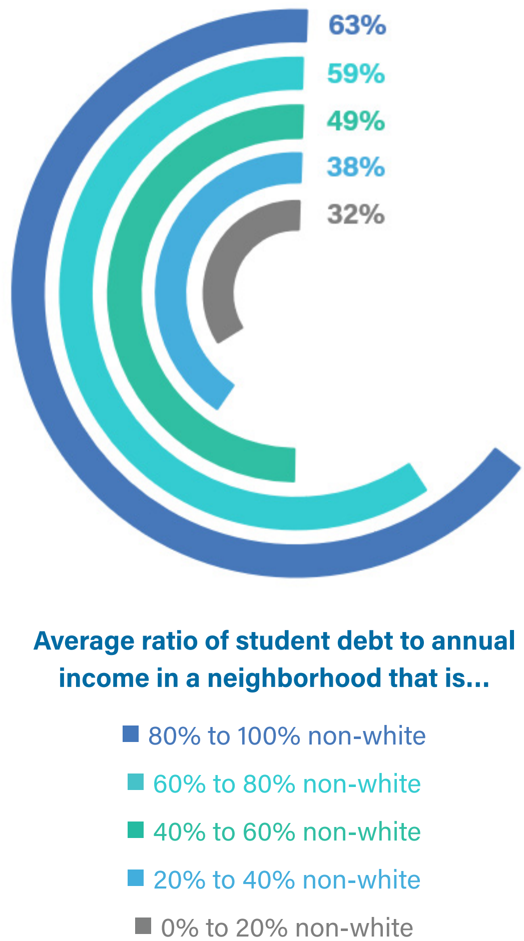
Six of the eight D.C. neighborhoods where student debt is growing the fastest are majority non-white.

decreased by up to 30 percent in neighborhoods such as Adams Morgan, Dupont Circle, and Foggy Bottom — none of which are less than two-thirds white. Overall, while student loan borrowing is prevalent throughout the District, six of the eight neighborhoods with the fastest growing rates of student debt are majority-minority. In fact, five of those eight neighborhoods are at least 72 percent non-white.

- **Philadelphia:**[22] Borrowers of color in Philadelphia are acutely burdened by their student loans. The ratio of median household student loan debt to median annual household income is 1.4 times greater across majority-minority neighborhoods than across majority-white ones (58 percent v. 41 percent). This divide presents itself in specific, striking examples across neighborhoods. For instance, the zip code including the Fairmount, Francisville, and Spring Garden neighborhoods has a population that is roughly two-thirds white and a 32 percent ratio of median student loan debt to median income. Adjacent sits an 86 percent non-white zip code that includes the Brewerytown and Strawberry Mansion neighborhoods. There, the ratio of student loan debt to median income is 104 percent.

  Similar disparities extend throughout Philadelphia. The ratio of median student loan debt to median annual income is roughly *two times as high* across neighborhoods that are at least 80 percent non-white when compared to neighborhoods that are at least 80 percent white (63 percent v. 32 percent).

Figure 1: Student debt burden across Philadelphia neighborhoods[23]



Student Borrower Protection Center visualization of data published by the Federal Reserve Bank of Philadelphia. Average debt-to-income ratio refers to the ratio of in-neighborhood median student debt balance to median annual income averaged across neighborhoods grouped by demographics.

- **San Francisco:**[24] Black and Latinx borrowers in San Francisco face disproportionate strain when repaying their student loans. For example, in the majority-white area encompassing the neighborhoods of South of Market and Rincon Hill, the ratio of median student loan balance to median annual household income is 12 percent. Meanwhile, in the nearby majority-minority zip code containing the neighborhoods of the Tenderloin, Hayes Valley, and Mid-Market, that same ratio is almost five times larger, at 57 percent. A similar dynamic plays out across the city, with communities that are home to a greater proportion of people of color dealing with a relatively higher burden of student loan debt. Among all majority-minority neighborhoods in San Francisco, the ratio of median student debt to median income is, on average, almost twice as high as it is in majority-white neighborhoods (32 percent v. 17 percent).

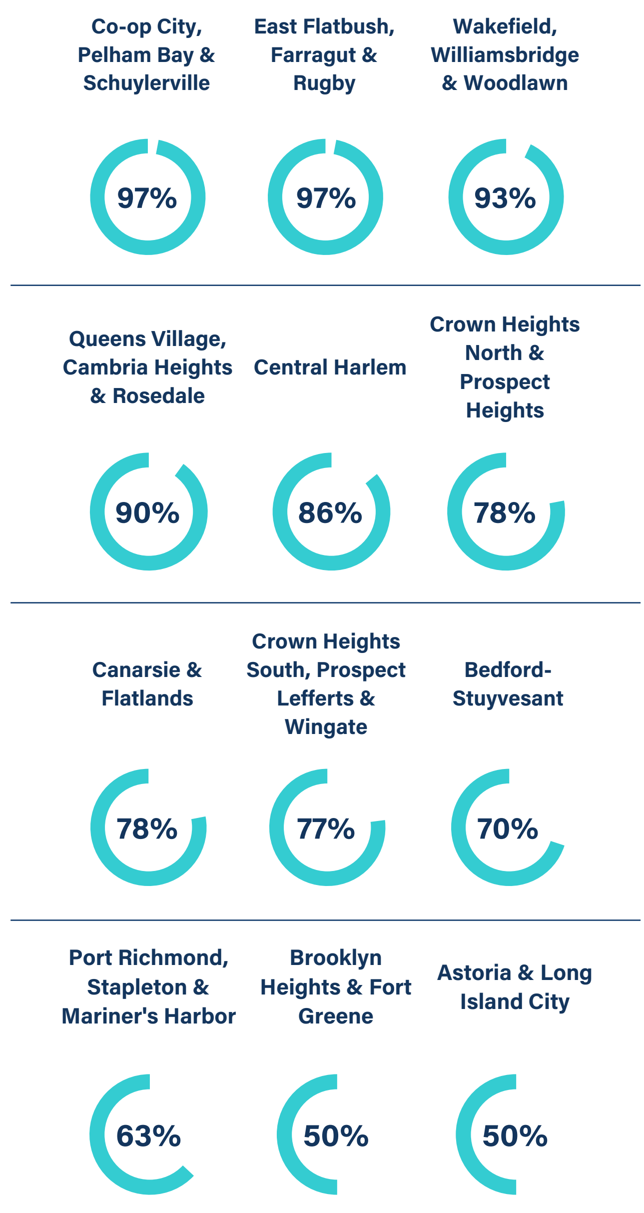
In San Francisco, the ratio of student loan debt to income is almost twice as high in majority-minority neighborhoods as it is in majority-white ones.

- **New York City:**[25] In New York City, the burden of student debt is heaviest among Black and Latinx communities. For example, the ratio of median student loan debt to median income is more than twice as high in the majority-minority Bronx as it is in 75 percent-white Staten Island (43 percent v. 21 percent). Further, Black and Latinx communities are also the areas where student loan borrowing is most prevalent. Among the twelve New York City neighborhoods with the most student loan borrowers, ten are at least 63 percent non-white, and eight have populations that are at least 75 percent non-white. Simply put, student loans impose the heaviest weight on borrowers in predominantly Black and Latinx neighborhoods, all while borrowers in those neighborhoods are the most likely to take on student loans.

The ramifications of student loan debt reach across borrowers' entire financial lives. As student loan borrowers struggle to repay their loans, they forgo retirement savings, emergency savings, and wealth accumulation.[27] Research shows that borrowers with higher student burdens pay more for other consumer financial products,[28] further hampering wealth accumulation and driving income inequality.[29] The impact of student debt also extends to entrepreneurship and family formation as borrowers put off starting businesses and families.[30] Research is even beginning to show that student debt has

Figure 2: Demographics of the NYC neighborhoods where student loans are used most frequently[26]

(% of each community district that is non-white)



Student Borrower Protection Center visualization of data published by the Federal Reserve Bank of New York and the U.S. Census Bureau. Neighborhoods included here reflect those in the top tier of student loan usage in Figure 2 of the Federal Reserve Bank of New York's report "Student Loan Borrowing Across NYC Neighborhoods."

negative effects on borrowers' physical and mental health.[31] Collectively, research indicates that the impact of student debt can linger well after a loan is paid off.

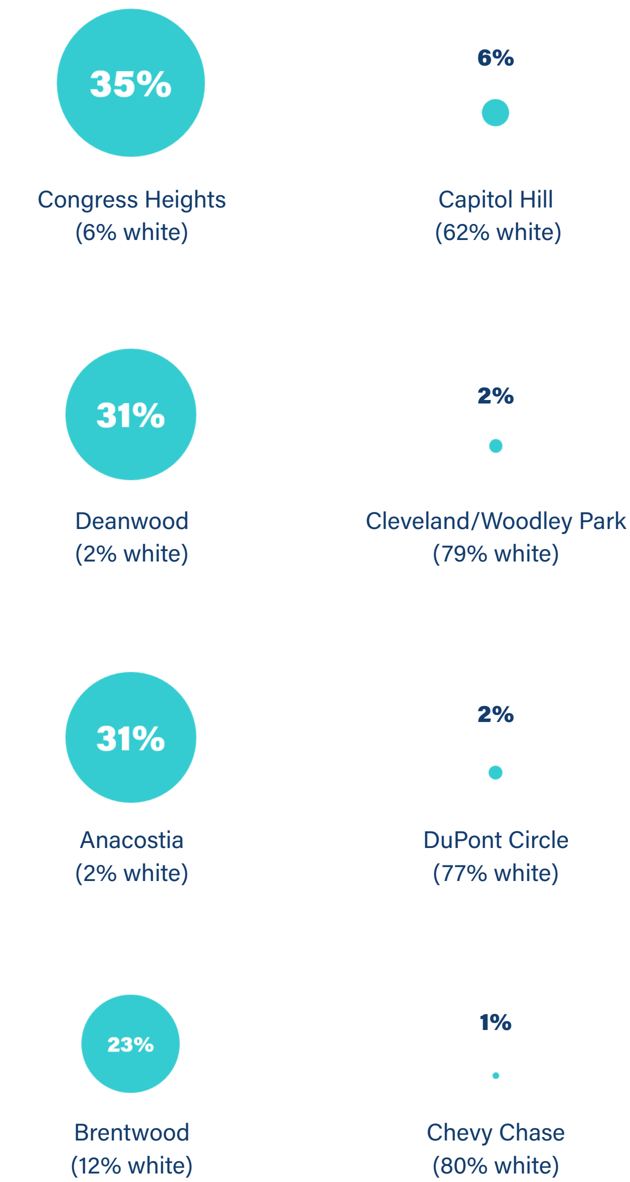
Disparities in delinquency rates are severe

As more borrowers have taken on more debt, delinquency rates have soared. However, this phenomenon has not appeared evenly. Across the country, zip codes with higher proportions of Black and Latinx residents have higher delinquency rates.[32] When viewing delinquencies by neighborhood across multiple cities, the disparities are especially pronounced. In Washington, D.C., Philadelphia, San Francisco, and New York City, borrower delinquencies are most prevalent in communities of color.[33]

- **Washington, D.C.:** The District of Columbia has significant stratification in student debt distress, with severe delinquency concentrated in majority-minority neighborhoods. For example, in Deanwood and Anacostia, neighborhoods where roughly 98 percent of the population is non-white, 31 percent of student loan borrowers are delinquent on their debt. In Congress Heights, where 94 percent of residents are non-white, 35 percent of student loan borrowers are delinquent. By comparison, in Chevy Chase, Dupont Circle, Cleveland Park, and Woodley Park — neighborhoods that are each roughly 80 percent white — delinquency rates on student loans range only from one to two percent.

Figure 3: Severe student loan delinquency rates across D.C. neighborhoods

(size = relative rate of severe student loan delinquency)[34]



Student Borrower Protection Center visualization of data published by the Federal Reserve Bank of Richmond and at DCHealthMatters.org. Reflecting the definition in the Federal Reserve Bank of Richmond's report "Student Loan Debt Trends in the District of Columbia, 2008-2018" borrowers are defined as severely delinquent if aged 25 or older and 90+ days delinquent on at least one student loan.

Disparities like these are apparent throughout the city, with majority-minority neighborhoods having average delinquency rates more than four times greater than those of neighborhoods that are majority-white. The disparities get worse as the neighborhoods grow more segregated. Among D.C. neighborhoods where 20 percent of residents or less are white, the average delinquency rate is eight times higher than in neighborhoods where 20 percent of residents or less are people of color (30.0 percent v. 3.75 percent).

Student loan delinquency rates increased up to 8.3 percent between 2008 and 2018 in communities of color such as Anacostia, Brookland, and Congress Heights. Over that same period, delinquency rates *decreased up to 3 percent* in majority-white neighborhoods such as Chevy Chase and DuPont Circle. The neighborhoods that saw the largest increase in delinquency rates have populations that are, on average, made up 88 percent by people of color.[35]

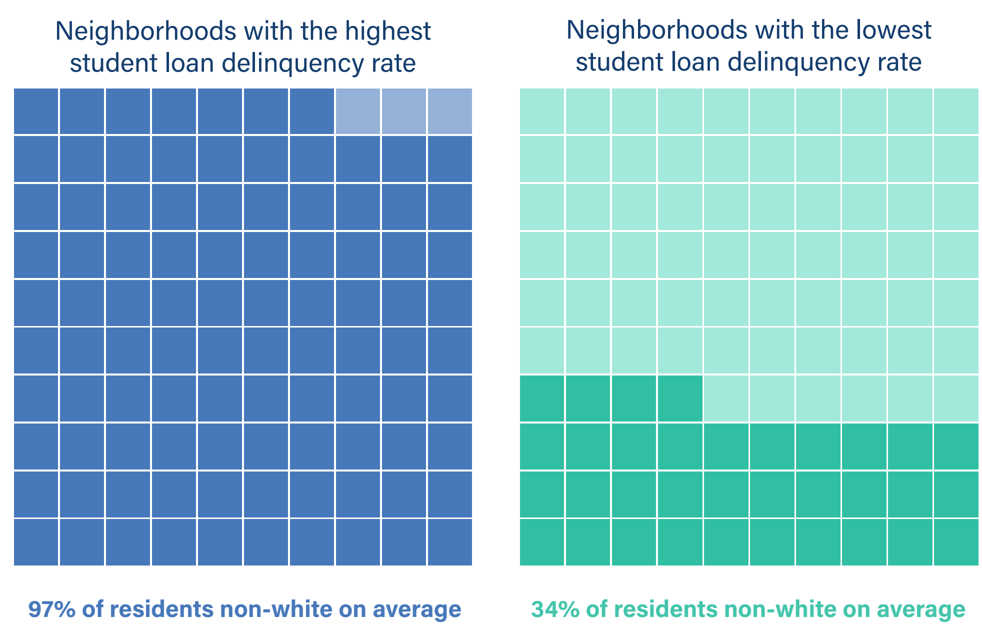
- **San Francisco:** Rates of student loan delinquency are highly correlated with race in San Francisco. The three neighborhoods with delinquency rates less than five percent have populations that are all at least 75 percent white (the Marina, the Presidio, and the Castro). Meanwhile, in the 87-percent-minority neighborhood of Bayview, roughly one-in-four student loan borrowers are delinquent on their loans. This staggering disparity is not an anomaly. Across San Francisco neighborhoods that are majority-minority, the average rate of student loan delinquency is almost twice as high as it is in majority-white neighborhoods (12.9 percent v. 7.3 percent). This disparity rises as segregation becomes more extreme, with neighborhoods that are 20 percent white or less having a student loan delinquency rate 7.5 times that of neighborhoods that are 20 percent people of color or less (19.2 percent v. 2.6 percent).

In San Francisco, the rate of student loan delinquency is over 7.5 times higher in neighborhoods with the largest minority populations.

- **New York City:** One-in-seven student loan borrowers in New York is delinquent on their loans. Delinquency rates are highest in areas with the largest minority populations. For example, the largely Black and Latinx borough of the Bronx has the highest 90-day delinquency rate of any area of the city (19 percent), while the largely white borough of Staten Island has the smallest (11 percent).[36] These delinquency rates persist in spite of the fact that borrowers in the Bronx have smaller median loan balances ($14,784) than borrowers city-wide ($16,957).[37]

Six neighborhoods in New York City have student loan delinquency rates of 20 percent or greater (the highest tier for this measure), while nine neighborhoods have delinquency rates of zero to eight percent (the lowest tier for this measure).[38] Among the highest tier of student loan delinquency, all six neighborhoods are majority-minority, with people of color comprising 97 percent, on average, of the collective neighborhoods' population.[39] Meanwhile, among the nine neighborhoods that make up the lowest tier of student loan delinquency, all but one are majority-white neighborhoods, and white people make up an average of 66 percent of the collective populations.[40]

Figure 4: Delinquency and race across New York City neighborhoods[41]



Student Borrower Protection Center visualization of calculations based on data from the Federal Reserve Bank of New York and the U.S. Census Bureau. Rates of student loan delinquency presented here reflect the top and bottom tiers of student loan delinquency rates in Figure 8 of the Federal Reserve Bank of New York's report "Student Loan Borrowing Across NYC Neighborhoods." Demographic figures are averages across neighborhoods.

- **Philadelphia:** In Philadelphia, student loan delinquency rates fall sharply across racial lines. Across majority non-white neighborhoods, the average rate of student loan delinquency was more than twice as high (26 percent) as in majority-white neighborhoods (11 percent). Meanwhile, the proportion of student loan borrowers making progress paying down their loans was roughly half as high in majority non-white neighborhoods (23 percent) as it was in majority-white neighborhoods (45 percent).

Table 1: Student loan delinquency and race in Philadelphia[42]

Across Philadelphia neighborhoods		
	Majority-minority neighborhoods	**Majority-white neighborhoods**
Proportion of borrowers delinquent on a student loan	26%	11%
Proportion of borrowers not making progress paying down a student loan	77%	55%

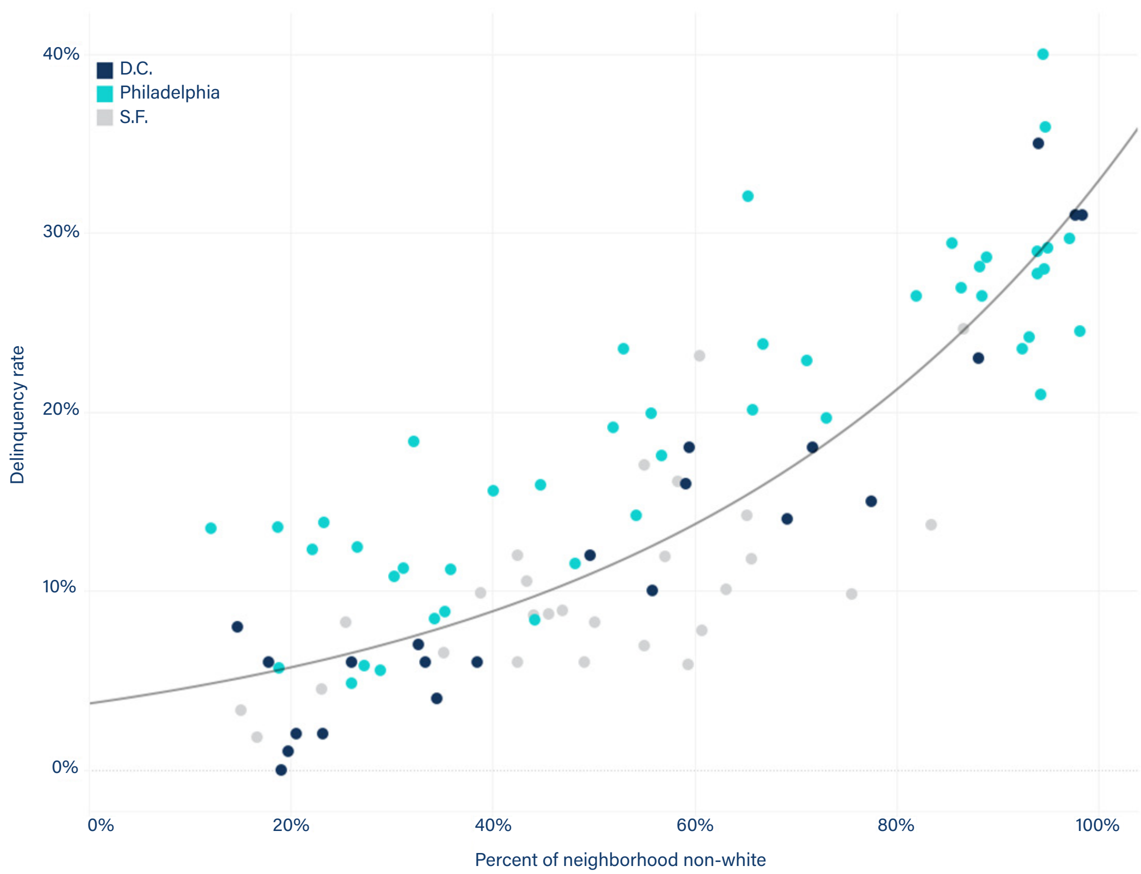
Student Borrower Protection Center visualization of data published by the Federal Reserve Bank of Philadelphia. Proportion of borrowers not making progress paying down a student loan refers to the proportion of borrowers not reported as being in repayment with a decreasing balance.

The tie between segregation and disparities extends across cities

Prior to the publication of *Disparate Debts*, the data published by researchers in San Francisco, Philadelphia, New York, and Washington, D.C. each stood in isolation, depicting the relationship between racial segregation and racial disparities in specific neighborhoods in four of the nation's largest cities. Building on the foundational research presented in these four reports, the following section leverages these data to offer new insight into the relationship between segregation, racial disparities, and student loan borrower distress across the country.

In San Francisco, Philadelphia, and Washington, D.C. (excluding New York due to data limitations), roughly 21.2 percent of student loan borrowers in a majority-minority neighborhood are delinquent on a student loan, while only 8.2 percent of student loan borrowers in majority-white neighborhoods have fallen similarly behind.[43]

Figure 5: Student loan delinquency and race in American neighborhoods[44]



Student Borrower Protection Center visualization of calculations based on data from the Federal Reserve Bank of Philadelphia, the Federal Reserve Bank of San Francisco, the Federal Reserve Bank of Richmond, the U.S. Census Bureau, and DCHealthMatters.org.

In fact, across these cities, student loan borrowers in a majority-minority neighborhood are 2.6 times more likely to fall behind on their loans than borrowers in a majority-white neighborhood. When comparing neighborhoods that are at least three-quarters white to those that are at least three-quarters non-white, the disparity in delinquency rates jumps to 420 percent. And when comparing neighborhoods that are 90 to 100 percent minority to those that are 80 to 90 percent white (given that none in the sample were 90 to 100 percent white), the gap increases to nearly 500 percent.

Figure 6: Race and student bebt outcomes across American cities[45]

2.6x	**A borrower in a majority-minority neighborhood is 2.6 times more likely to fall behind**
4.2x	**A borrower in a 75 percent-minority neighborhood is 4.2 times more likely to fall behind**
5.0x	**A borrower in a 90 percent-minority neighborhood is 5.0 times more likely to fall behind**

Student Borrower Protection Center visualization of calculations based on data from the Federal Reserve Bank of Philadelphia, the Federal Reserve Bank of San Francisco, the Federal Reserve Bank of Richmond, the U.S. Census Bureau, and DCHealthMatters.org.

Racial disparities as stark as those seen in the student loan market were at the heart of one of the most prominent redlining cases in recent history. In the 2015 lawsuit Oakland v. Wells Fargo, an investigation by the city of Oakland demonstrated that "a Wells Fargo loan in an African-American or Hispanic neighborhood is 4.752 times more likely to result in foreclosure as a Wells Fargo loan in a non-minority neighborhood."[46] It should be cause for alarm among cities, regulators, lawmakers, and proponents of economic and racial justice that every day in neighborhoods across the country, Black and Latinx student loan borrowers face similarly disparate outcomes in the student loan market.

Racial disparities as stark as those seen in the student loan market were at the heart of one of the most prominent redlining cases in recent history. And yet, every day in neighborhoods across the country, Black and Latinx student loan borrowers face similarly disparate outcomes.

Student loan default rates fall sharply along racial lines

The incidence of student loan default is closely aligned with the share of the Black and Latinx population in a given neighborhood. At both the national and city level, communities with higher proportions of Black and Latinx borrowers have higher incidences of delinquency and default.[47] Default rates in majority-minority communities nationwide are significantly higher than default rates in predominantly white communities. The default rate, measured as the share of defaulted borrowers among all borrowers, is nearly twice as high in majority-Black neighborhoods across the contry as it is in majority-white neighborhoods (17.7 percent v. 9.0).[48]

Figure 7: Default rates in black-majority zip codes are double those in white-majority zip codes[49]

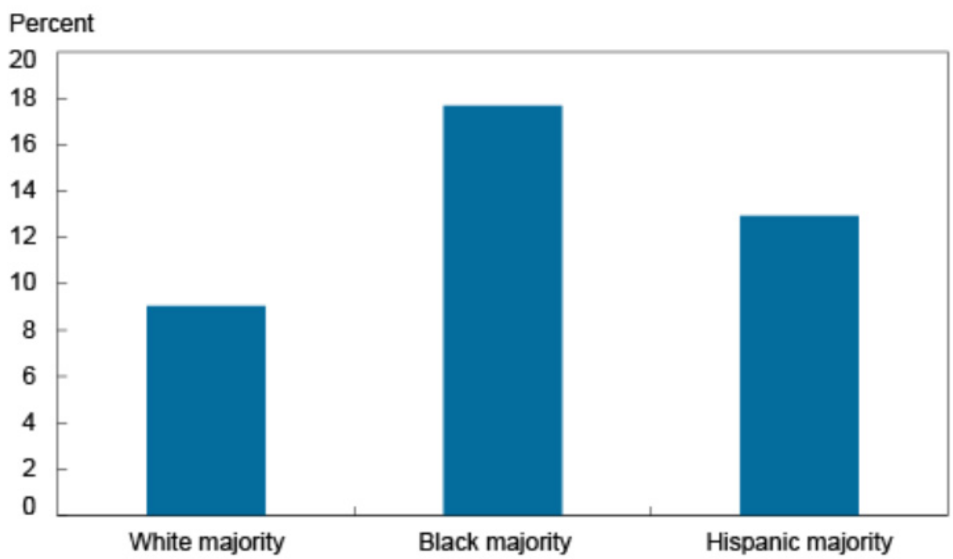
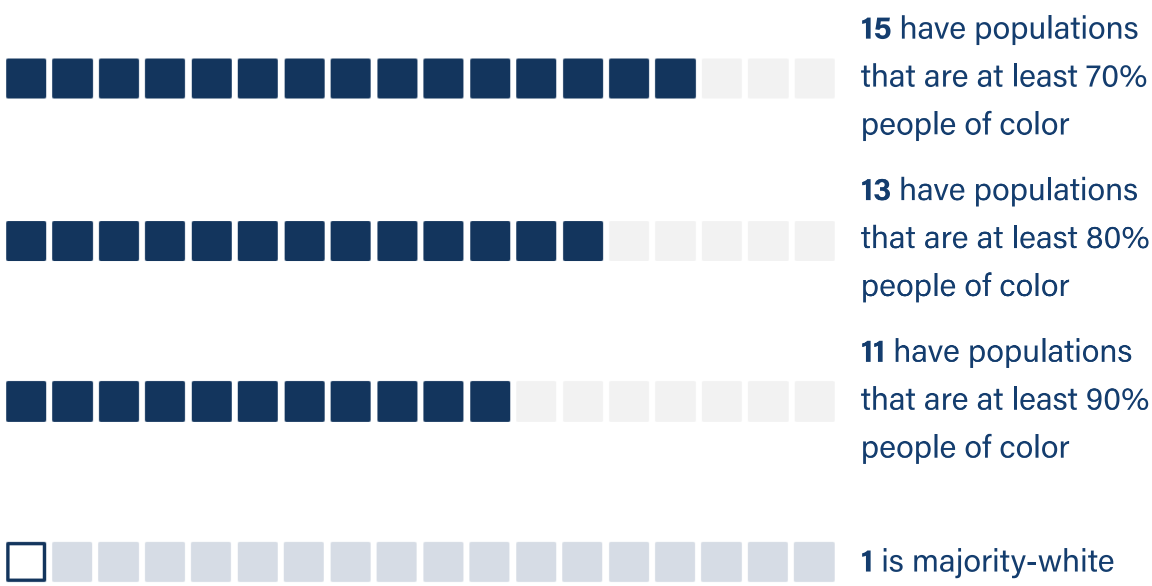


Chart published by the Federal Reserve Bank of New York. Borrowers are grouped by the racial majority in their zip code and represent area composition because individual information is not available (for example, in majority-white zip codes, 50 percent or more of the residents are white).

Disparities in student loan default across demographic groups become acutely apparent in neighborhoods throughout America's major cities:[50]

- **New York:** Borrower repayment distress is concentrated in communities of color in New York City. Of the 18 New York City neighborhoods that ranked highest in student loan default rates, 13 neighborhoods also had the highest percentage of Black residents, and six neighborhoods had the highest percentage of Latinx residents in the city.[51] City-wide, the rate of student loan borrowers falling into collections is 13 percent, but it increases to 18 percent in the Bronx, a predominantly Black and Latinx borough. Overall, among the 18 neighborhoods with the highest rate of student loans entering collections, all but one are majority-minority.

Figure 8: The 18 NYC neighborhoods with the highest rate of student loan debt in collections[52]

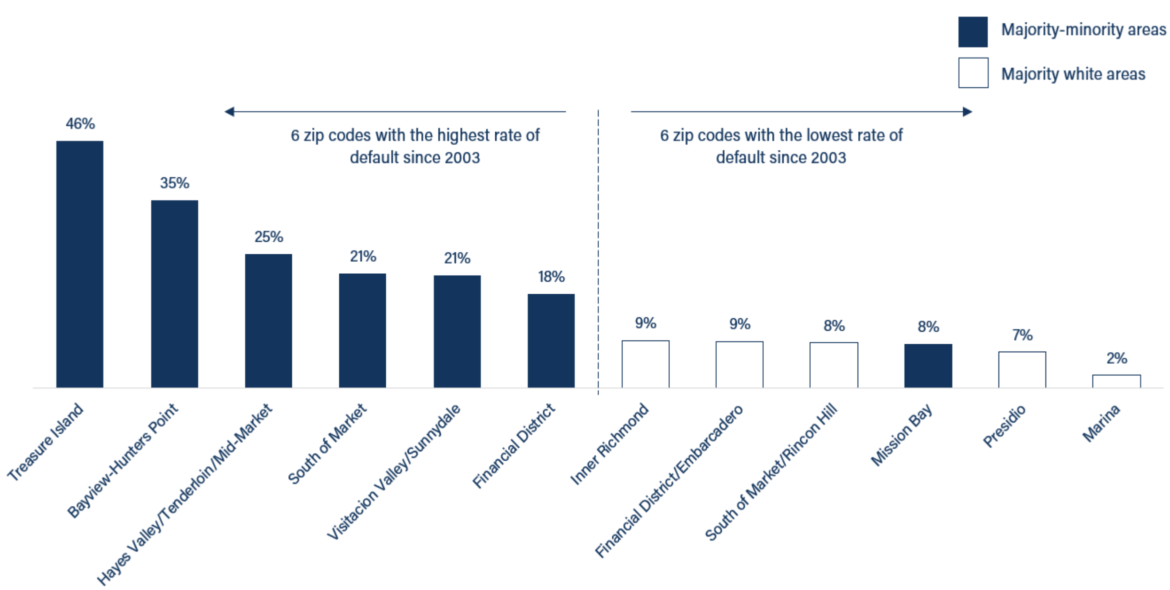


Student Borrower Protection Center visualization of data published by the Federal Reserve Bank of New York and the U.S. Census Bureau. Neighborhoods included here reflect those in Appendix B of the Federal Reserve Bank of New York's report "Student Loan Debt Distress Across NYC Neighborhoods."

- **San Francisco Bay Area:** Among Bay Area neighborhoods with the highest percentages of Black and Latinx residents, 15.3 percent of borrowers are currently in default — a rate more than three times the current default rate of neighborhoods with the lowest share of Black and Latinx residents (4.9 percent). This staggering default rate is seen in majority-minority neighborhoods such as Treasure Island, East Oakland, and Vallejo, where 23 percent of borrowers are currently in default.

  Since 2003, 27 percent of student loan borrowers living in the Bay Area neighborhoods with the highest percentages of Black and Latinx residents have defaulted. Meanwhile, neighborhoods with the lowest share of Black and Latinx residents have a default rate of 10 percent. In the majority-minority neighborhoods of Treasure Island, East Oakland, and Vallejo, an average of 45 percent of borrowers have defaulted since 2003.[53]

Figure 9: Percent of San Francisco borrowers who have ever defaulted since 2003[54]



Student Borrower Protection Center visualization of calculations based on data from the Federal Reserve Bank of San Francisco and the U.S. Census Bureau.

- **Philadelphia:** More than two-thirds (67.6 percent) of delinquent student loan borrowers in Philadelphia are in default, suggesting that borrowers across the city struggle to get back on track after falling behind on their loans.[55] However, available data show that this struggle is disproportionately concentrated in majority-minority communities. This result is consistent throughout the city's minority (or non-white) communities — across Philadelphia neighborhoods with the highest proportion of non-white residents, there are just as many borrowers in default as there are borrowers paying down their student loan balances. Meanwhile, in the city's whitest neighborhoods, only about 10 percent of borrowers are in default and roughly half are paying down their loan balances. Overall, the rate of student loan default is more than twice as high in majority-minority neighborhoods as it is in majority-white neighborhoods (17 percent v. 7 percent).

In Philadelphia, the rate of student loan default is more than twice as high in majority-minority neighborhoods as it is in majority-white neighborhoods.

The trend of racial disparities in student loan defaults carries far beyond these three cities. As recent research from the Federal Reserve Bank of New York indicates, majority-minority zip codes in ten of the nation's most segregated metro areas experience default rates as much as four times higher than majority-white zip codes in the same cities.

Figure 10: Percent of student loan borrowers in default[56]

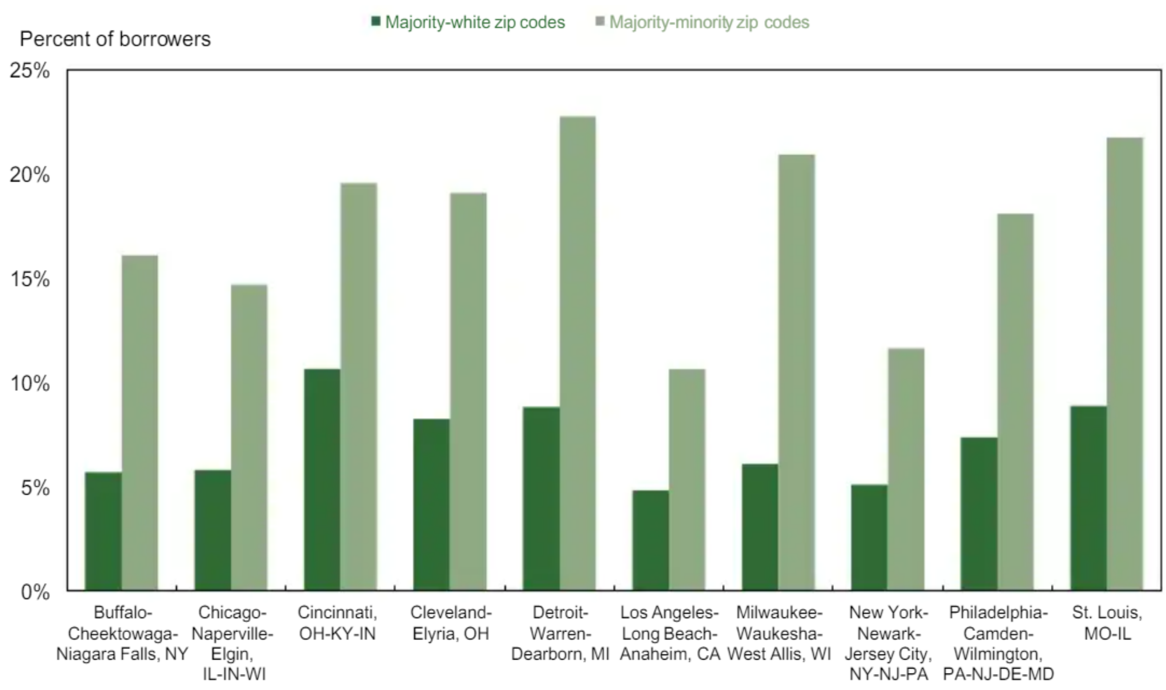


Chart published by the Federal Reserve Bank of New York.

Student loan defaults can be devastating for borrowers and their families. In addition to negative credit reporting, wage garnishment, tax refund withholding, and federal benefit offsets, borrowers in default may also struggle to secure employment, rent apartments, and access necessary credit.[57] Where the fallout from student loan defaults disproportionately hits Black and Latinx borrowers, student debt becomes a driving factor in perpetuating racial and economic disparity, further marginalizing these communities.

Conclusion

From coast to coast, cities have exposed how America's $1.7 trillion experiment in debt-fueled higher education has failed. Where higher education once stood as a promised gateway to the middle class, the reality is much bleaker. The disparities in the student loan market rival outcomes borne of the most predatory redlining tactics perpetrated by unscrupulous lenders. This cost is uniquely borne by borrowers of color, particularly Black and Latinx borrowers — all incurred simply because they chose to pursue the American Dream. For millions of borrowers of color, higher education does not unlock the door of economic mobility as a means to overcome systemic inequalities. All too often, it does exactly the opposite.

However, this is only part of the story.

Cities have provided unique insight into how borrower experiences ripple through and reinforce the larger systemic racial barriers within communities, and they have demonstrated the failings of debt-fueled higher education. This system further draws marginalized communities into a vicious cycle of economic inequality and wealth stripping through high balances, delinquencies, and defaults.

The disparities in the student loan market rival outcomes borne of the most predatory redlining tactics perpetrated by unscrupulous lenders. This cost is uniquely borne by borrowers of color, particularly Black and Latinx borrowers — all incurred simply because they chose to pursue the American Dream.

And in communities where borrowers disproportionately fall behind on their student loans, entire neighborhoods are left to deal with the macroeconomic fallout of a diminished ability to access housing, credit, and even employment, all exacerbated by student loan debt. These issues only compound the longstanding effects of discriminatory economic policy and predatory inclusion that many of these communities confront daily. Taken together, the cumulative effect of the crushing cycle of student debt on communities of color reinforces systemic racial inequities.

For too long, the perpetuation of these unconscionable racial disparities has persisted under the ill-conceived and dangerously naive notion that student debt is "good debt." It is time to break this cycle for the millions of borrowers disproportionately struggling with this debt now, and also for those poised to see their communities buried under it if the status quo remains.

America’s student debt crisis is a civil rights crisis.

Endnotes

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[43] Analysis conducted by matching neighborhood-level delinquency data from relevant regional Federal Reserve Banks to neighborhood-level demographic data (*see supra* notes 21-25). Note that the Federal Reserve Bank of Philadelphia provided its own neighborhood-level demographic data in its report. That data is used here and throughout. The trend line in Figure 5 represents an exponential model of best fit constructed using this data. Throughout subsequent analysis, delinquency rates described as reflecting delinquency rates as a whole among majority-minority, majority-white, and majority-Black neighborhoods reflect the average of delinquency rates reported across neighborhoods that meet those demographic criteria. The same methodology is followed to calculate delinquency rates among neighborhoods with other demographic distinctions, such as being 75 percent-minority or 90 percent-minority: neighborhoods that meet the relevant demographic characteristics are identified in the data, and an average is taken across the relevant neighborhoods. The resulting delinquency rate for that variety of neighborhood is then used directly to compare the relevant neighborhood to a comparably white or comparably minority-populated neighborhood to illustrate how much more likely a borrower of color is to fall delinquent on their loans (e.g., having found the average delinquency rate across neighborhoods that are at least 80 percent minority populated, we would compare that number to the delinquency rate among neighborhoods that are at least 80 percent white to express how much more likely a borrower in a 80 percent minority neighborhood would be to fall behind).

[44] *See supra* notes 21-24.

[45] *See supra* notes 21-24.

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