STUDENT LOANS IN CALIFORNIA

A Narrative of Racial Inequality

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ABOUT THE STUDENT LOAN LAW INITIATIVE

The Student Loan Law Initiative is a partnership between the Student Borrower Protection Center, the University of California, Irvine School of Law and the University of California, Berkeley School of Law to develop a body of rigorous research around how to address the student loan crisis.

ABOUT THE STUDENT BORROWER PROTECTION CENTER

The Student Borrower Protection Center is a nonprofit organization focused on eliminating the burden of student debt for millions of Americans. We engage in advocacy, policymaking, and litigation strategy to rein in industry abuses, protect borrowers' rights, and advance racial and economic justice.

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Introduction

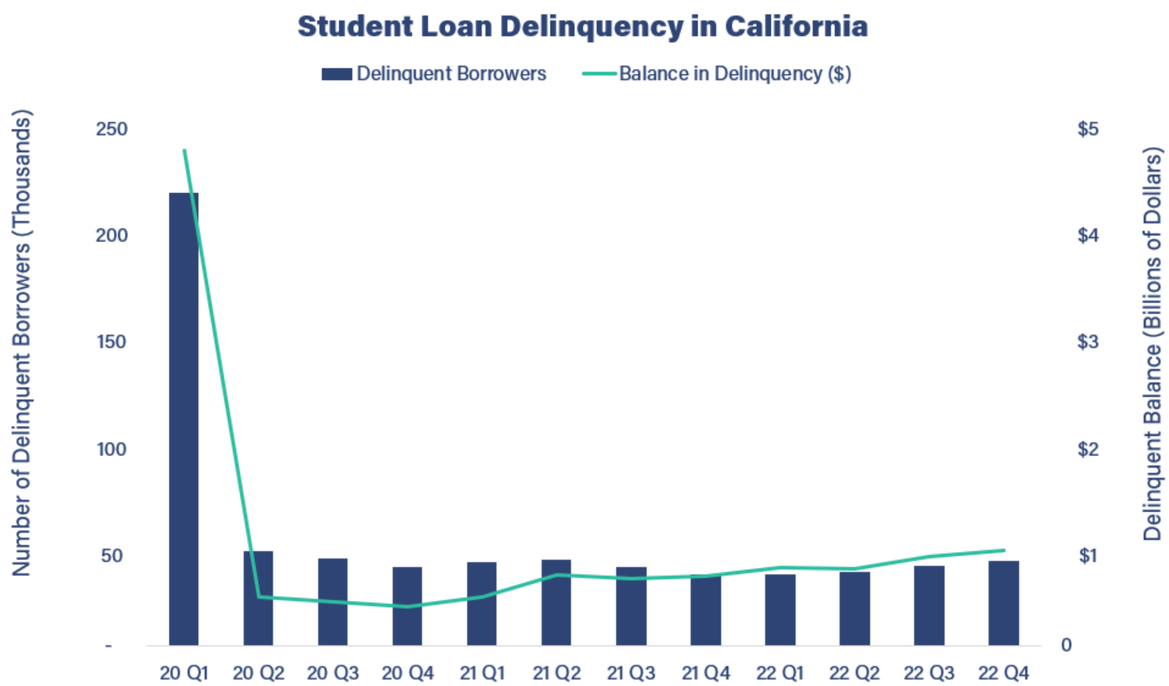
The burden of student debt affects individuals differently depending on their personal and household circumstances such as household income, family wealth, educational attainment, employment prospects, and race and ethnicity.[1] The diverse demographics of California, which in 2022 accounted for approximately 9 percent of all U.S. student loan borrowers and outstanding balances, offers a compelling case study of the disparate effects of student debt across racial groups over the course of the COVID-19 pandemic.[2] Many studies have suggested that the burden of educational loans is borne disproportionately by students of color and this report contributes to that literature.[3]

In March of 2020, the federal government (overwhelmingly the largest student loan creditor) instituted an unprecedented repayment pause as a response to the COVID-19 pandemic. The pause has halted federal student loan payments and forbade the assessment of interest during its pendency. As a result of a compromise bill to raise the debt ceiling, student loan accounts began accruing interest beginning on August 29, 2023, and bills were sent out this month.

> It is reasonable to assume that once the temporary relief ends, a significant number of California student loan borrowers will struggle to pay their dues off and fall into delinquency.

As of Q4 2022, the latest data in this brief, 13 percent of adults in California (4 million individuals) carried a cumulative student loan balance of $160 billion. Around 40,000 borrowers were delinquent at that time, owing a cumulative balance of approximately $1 billion.[4] This is far less than in Q1 2020— just before the federal government instituted the payment pause— when the total balance in delinquent student loan accounts in California was $5.5 billion owed by 213,000 borrowers (Figure 1). It is reasonable to assume that with the end of this temporary relief, a significant number of student loan borrowers will struggle to pay their debts off and fall into delinquency. By the end of the Q4 2022, the average student loan borrower in California owed a balance of $39,000; delinquent borrowers owed an average of $27,000 each. This overall picture is quite worrying, but of particular concern is the distribution of debt burdens as current studies find that the debt burden disproportionally falls on borrowers of color.

Figure 1: During payment pause, there was an 80 percent drop in the number of delinquent student loan borrowers and the balance of delinquent student loan debt in the state of California.

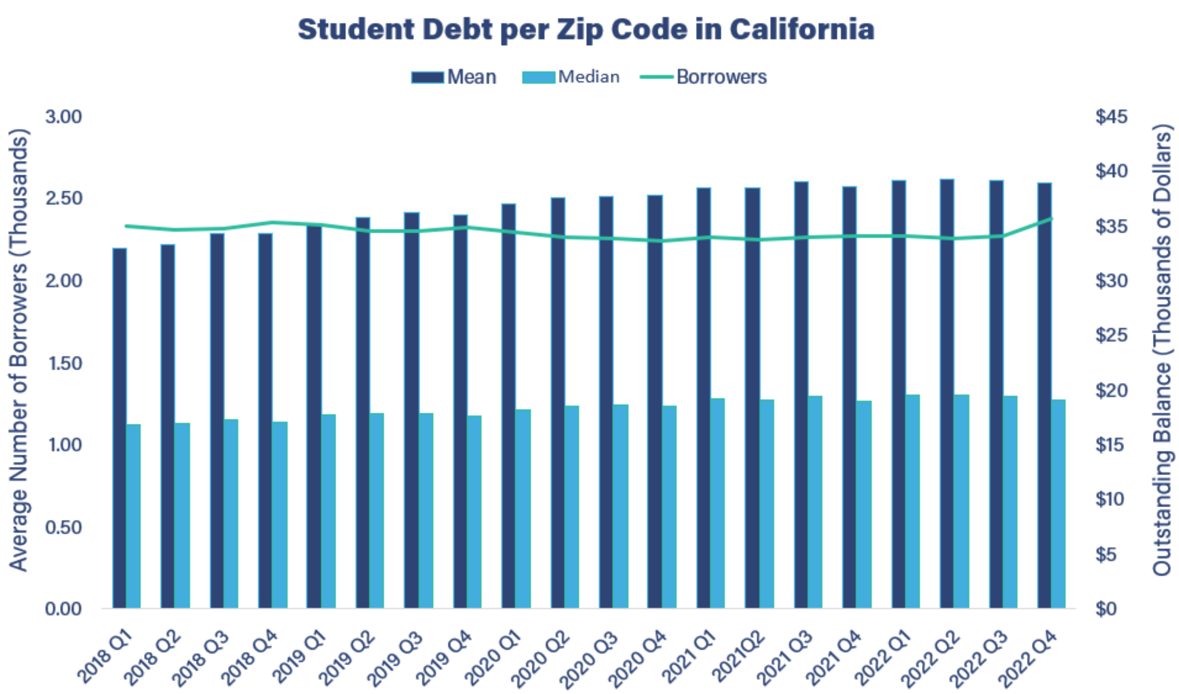


Using the University of California Consumer Credit Panel (UC-CCP) data covering a five-year period from 2018 through 2022, this analysis focuses on student loan borrowers in California and explores the effects of the pandemic on neighborhoods with different racial compositions. In the absence of demographic information about individual borrowers, we rely on the American Community Survey (ACS) data on the racial composition of borrowers' residence at the reporting time and identify the outcomes in Zip Code Tabulation Areas (ZCTAs) that have a "supermajority" (67 percent or more) representation of Latino/a or white populations.[5]

Findings

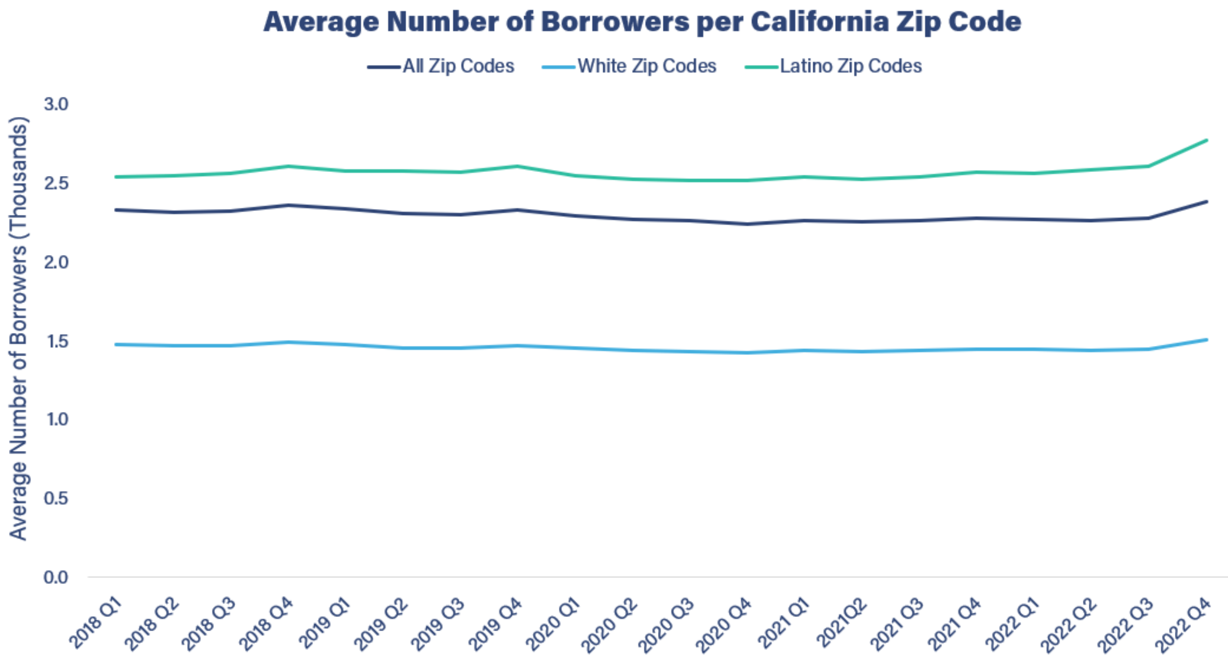
In 2022, the mean and median outstanding balances owed by a student loan borrower in California were $38,890 and $19,072 respectively (Figure 2). Over a period of five years, there was an 18 percent increase in the mean outstanding balance. The average outstanding balance rose by 12 percent from 2018 Q1 to 2020 Q1 and by 5 percent from 2020 Q1 to 2022 Q4. The payment pause policy instituted in response to the COVID-19 pandemic ceased the interest accumulation on the existing loans, and that helped to slow growth in the mean balance.

Figure 2: Over a period of five years, there was an 18 percent increase in the mean outstanding student loan balance among borrowers in California.



The average number of borrowers per ZCTA is fairly constant over the period. In 2022 Q4, there was a 4.6 percent increase from the previous period (Figure 3). This trend is found in both Latino/a and white neighborhoods. However, the number of borrowers in Latino/a neighborhoods was always higher (1.8 times) than the number in white neighborhoods during the period of study. Still, a striking—if not entirely surprising—effect of the payment pause was the temporary near-elimination of disparities in student loan payment distress along lines of race, as monthly payment obligations for most borrowers dropped to zero. This dramatic shift is shown in Figures 4, 5, and 6. We expect that resumption of payment obligations will result in the return of comparable, if not more severe, disparities.

Figure 3: The average number of student loan borrowers in majority-Latino/a ZCTAs was consistently 1.8 times higher than the number in majority-white ZCTAs, even as the number in each grew.



In Latino/a neighborhoods, delinquent borrowers owe larger outstanding balances and delinquency rates are higher than in white neighborhoods (Figures 4 and 5). Not surprisingly, the share of delinquent balances and the size of the average delinquent balance dropped sharply as a result of the payment pause. Again, the pause effectively removed the disparities previously apparent in the numbers of delinquent borrowers among Latino/a-majority and white-majority ZCTAs, the amount of delinquent student loan debt, and the rate of deep delinquency—defined as a loan that is more than 90 days past due—across white and Latino/a neighborhoods (Figures 4, 5 and 6). In the following years, there is a slow rise in the outstanding balances in delinquent accounts, which is most likely due to increasing private loan activity. However, the data do not provide any readily available indicator to distinguish private and certain kinds of federal loans not subject to the payment pause, so we cannot be certain of that conclusion.

Figure 4: The pause on federal student loans during COVID effectively eliminated the disparity in the numbers of delinquent borrowers across white and Latino/a neighborhoods.

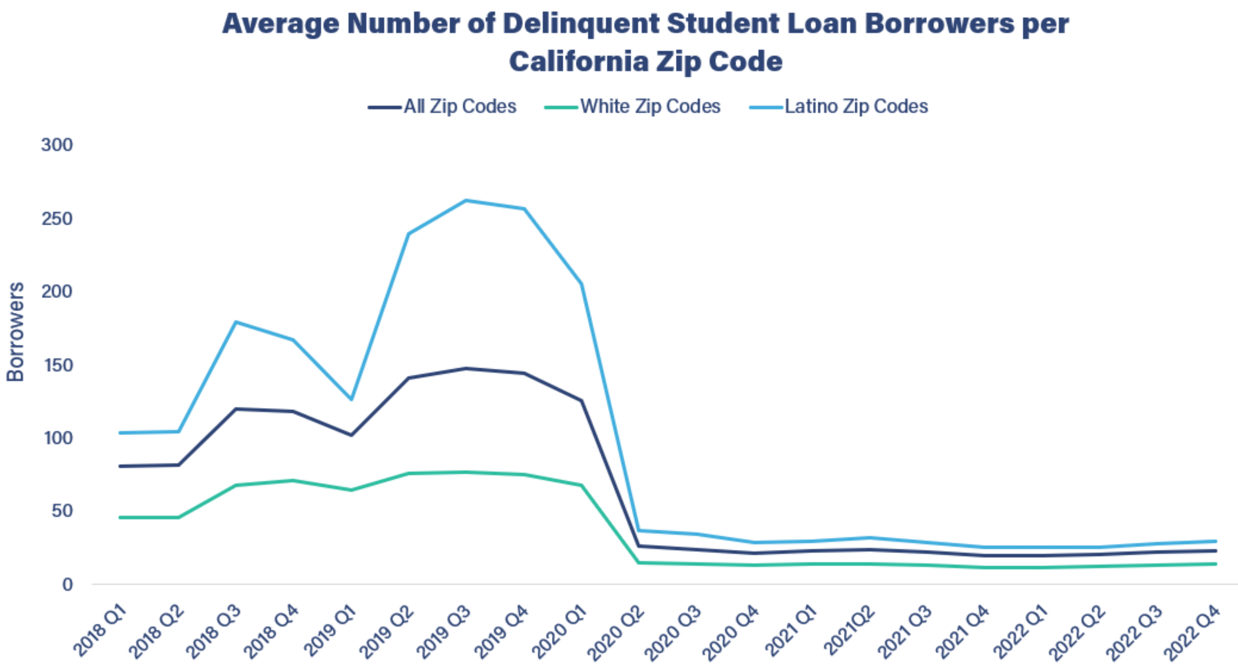


Figure 5: The pause on federal student loans during COVID effectively eliminated the disparity in the amount of delinquent student loan debt across white and Latino/a neighborhoods.

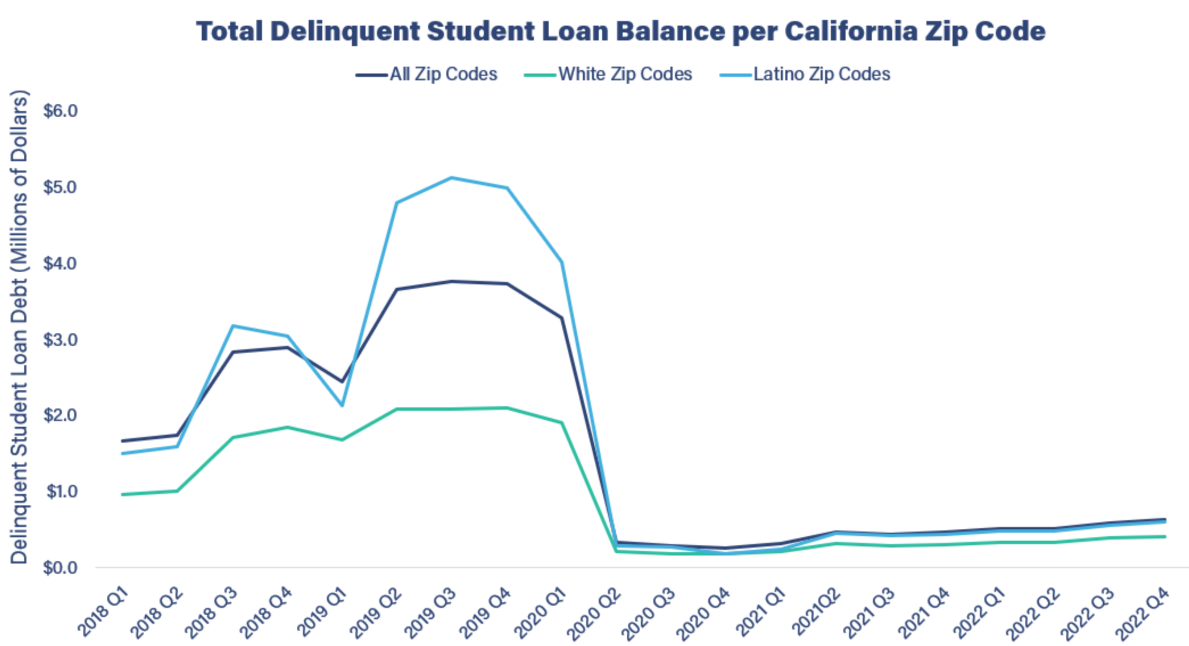
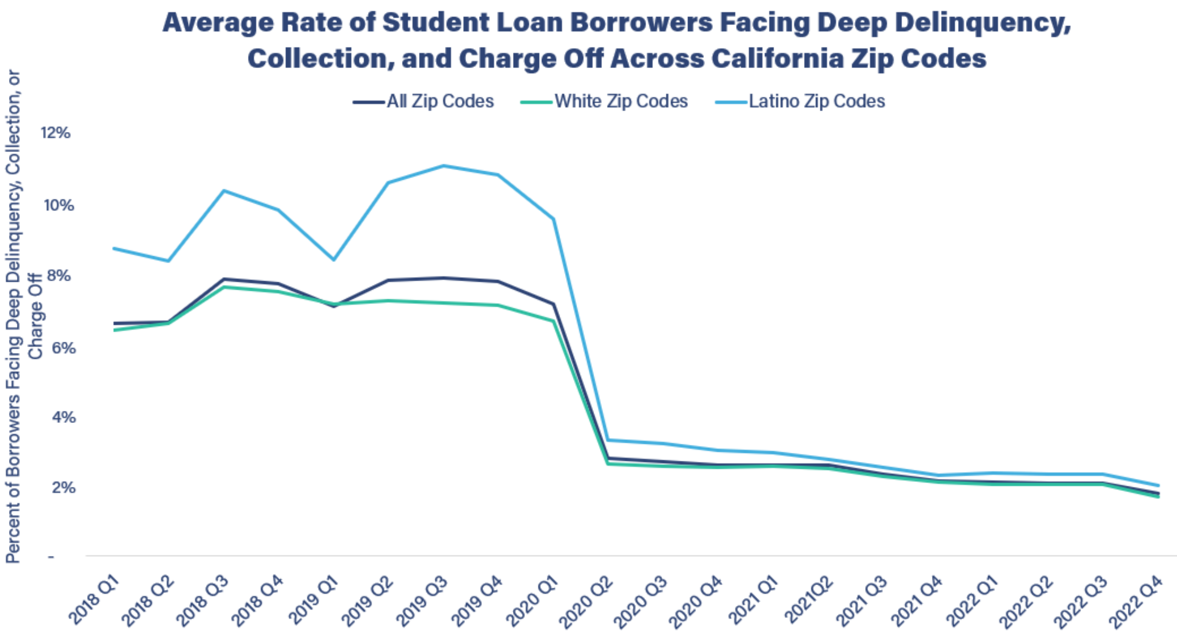
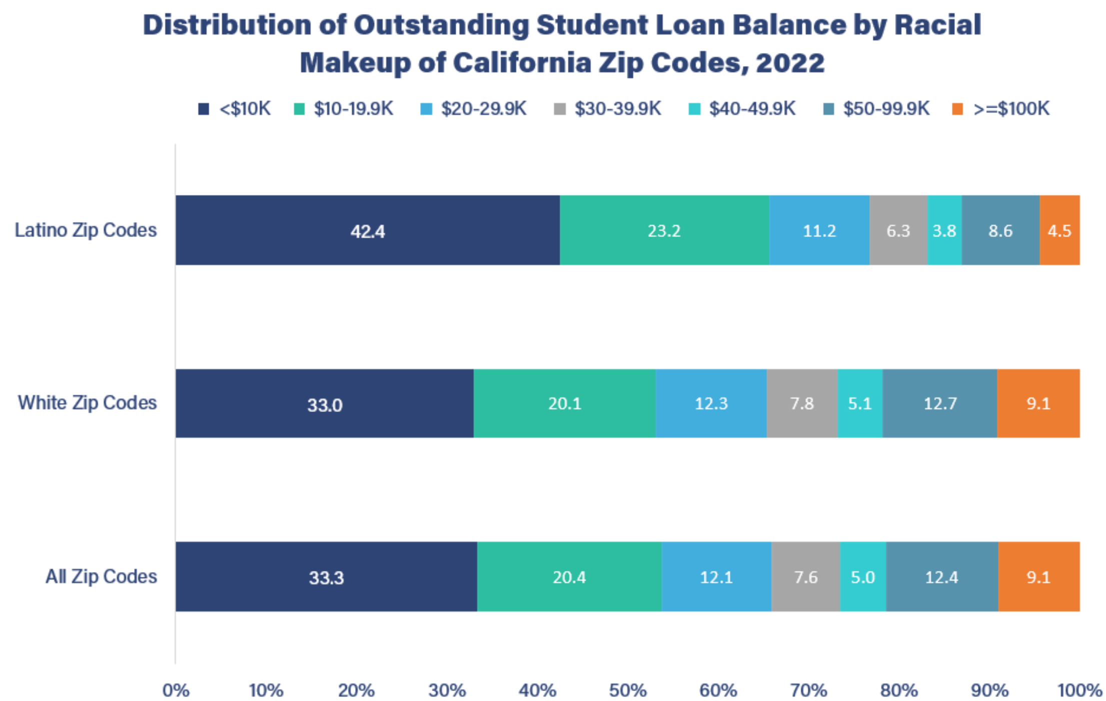


Figure 6: The pause on federal student loans during COVID effectively eliminated the disparity in the rate of deep delinquency among student loan borrowers across white and Latino/a neighborhoods.



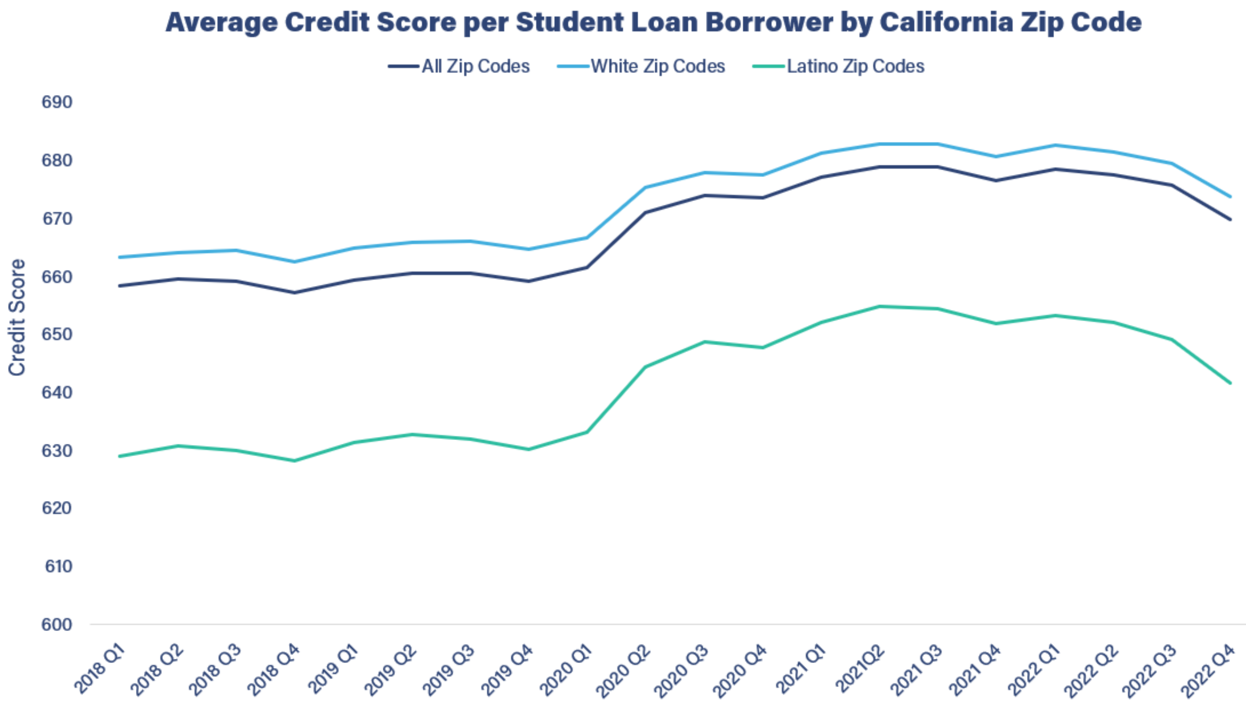
In 2022, 42.4 percent of borrowers in Latino/a neighborhoods had an outstanding balance of $10,000 or less. In contrast, only 33 percent of borrowers in white neighborhoods belonged to the same category (Figure 7). In 2022, the share of borrowers with outstanding balances of less than $10,000 decreased in all groups compared to 2018. The share of borrowers with less than $10,000 in outstanding balance is the highest in Latino/a neighborhoods in both 2018 and 2022, followed by white neighborhoods. Accordingly, the federal student loan debt cancellation program that President Biden proposed in August 2022 would leave a greater share of borrowers living in Latino/a neighborhoods debt free.

Figure 7: The federal student loan debt cancellation program that President Biden proposed in August 2022 would have a greater impact on borrowers living in Latino/a neighborhoods.



In the pre-payment pause period, credit scores among borrowers showed an upward trend until 2021 Q1 (Figure 8). After the payment pause, there was a sudden jump in the credit scores for all borrowers, with a larger improvement observed in the Latino/a neighborhoods, although the average credit score remained lower in Latino/a communities. In 2022, there is a slight decline in the credit score across all study groups. Latino/a neighborhoods have lower average credit scores than white neighborhoods, which suggests limited access to credit (or access at a higher cost).

Figure 8: The federal student loan payment pause improved credit scores across the board, but it helped borrowers in Latino/a neighborhoods the most.



Relative to white neighborhoods, Latino/a neighborhoods showed a more precarious credit condition in terms of the number of student loan borrowers, higher delinquencies, and lower credit scores. The payment pause helped to momentarily reduce the disparity between Latino/a and white neighborhoods, but with the end of the payment pause in late 2023, it is likely that the disparities will quickly reemerge the same or worse, even as all borrowers face more difficulty managing their loans.

ABOUT THE AUTHORS

SULTANA FOUZIA

Sultana Fouzia is a Postdoctoral Scholar at Berkeley Law. Her current work uses empirical methods to evaluate the impact of student debt on borrowers' welfare. Fouzia holds a Ph.D. in Applied Economics from Oregon State University.

JONATHAN GLATER

Jonathan D. Glater is a professor at Berkeley Law, where his scholarship focuses on equity in higher education access and in particular on the effects of student debt. He is a co-founder with SLLI, as well as faculty director of the Center for Consumer Law and Economic Justice at Berkeley Law.

DALIÉ JIMÉNEZ

Dalié Jiménez's scholarly work focuses on contracts, bankruptcy, consumer financial distress, the regulation of financial products, its intersection with consumer protection, and access to justice. Professor Jiménez spent a year as part of the founding staff of the Consumer Financial Protection Bureau where she worked on debt collection, debt relief, credit reporting, and student loan issues. Prior to her academic career, she clerked for the Honorable Juan R. Torruella of the United States Court of Appeals for the First Circuit, and was a litigation associate at Ropes & Gray, L.L.P. in Boston.

Methodology

The student loan data used in this analysis is from the University of California Consumer Credit Panel (UC-CCP) covering a five-year period from 2018 through 2022.[vi] We use quarterly data for each year. We include only the primary loan recipients to eliminate the chances of double-counting. Any account that was paid off completely is not included. This study focuses on borrowers' student loans only. Borrowers may have other types of loans (and most likely they have several). We use the ACS to identify the racial and income distribution across California and identify the outcomes in ZCTAs with populations that are at least two-thirds Latino/a, or white.

UC-CCP reports the postal zip codes of the borrowers whereas ACS uses the ZCTA formulated by the U.S. Census Bureau. To get a coherent result for race and income distribution, we used a zip code-to-ZCTA crosswalk to link data from the Health Resources and Services Administration's Bureau of Primary Health Care for the study period, and all the results reported are at ZCTA level. We excluded ZCTAs with five or fewer borrowers to maintain the anonymity of the borrowers and to avoid unrepresentative areas. In our sample, there are approximately 1700 ZCTAs (the number varies +/-5 over the study period). Of these, 980 ZCTAs are predominantly white neighborhoods and 204 ZCTAs are predominantly Latino/a neighborhoods. Predominantly Black and Asian neighborhoods are very few in number (7 and 12 respectively) and therefore are not included in this analysis.

Endnotes

[1] Federal Student Aid, Department of Education. https://studentaid.gov/data-center/student/portfolio/.

[2] Ratcliffe, Caroline, and Signe-Mary McKernan. "Forever in Your Debt: Who Has Student Loan Debt, and Who's Worried?." Urban Institute. United States of America. (2016).

[3] Hanson, Melanie. “Student Loan Debt by Race” EducationData.org, January 16, 2023, https://educationdata.org/student-loan-debt-by-race; Perry, Andre M., Marshall Steinbaum, and Carl Romer. "Student loans, the racial wealth divide, and why we need full student debt cancellation." The Brookings Institution, June 23 (2021) https://www.brookings.edu/research/student-loans-the-racial-wealth-divide-and-why-we-need-full-student-debt-cancellation/. Jimenez & Glater, *Student Debt is a Civil Rights Issue: The Case for Debt Relief and Higher Education Reform,* Harvard Civil Rights- Civil Liberties Law Review (CR-CL), Vol. 55, No. 1, 2020, p 131-198.

[4] We define a delinquent loan as one that is 30 days or more past due.

[5] Of course, Latino/as are not the only minority racial group in California, let alone the only one for whom student loan debt presents an acute burden. The present case study simply focuses on Latino/as in California as a single example of the broader trend of student loan debt weighing disproportionately on borrowers of color. For more on how student loan debt disparately affects people of color generally, see https://protectborrowers.org/disparate-debts/.

[6] The UC-CCP is a new dataset of anonymized consumer credit information acquired through SLLI and SBPC's collaboration with the California Policy Lab. https://www.capolicylab.org/data-resources/university-of-california-consumer-credit-panel/.