Children and Youth Services Review 65 (2016) 166–174

Contents lists available at ScienceDirect

Children and Youth Services Review

journal homepage: www.elsevier.com/locate/childyouth

Racial disparities in education debt burden among low- and moderate-income households

Michal Grinstein-Weiss *, Dana C. Perantie, Samuel H. Taylor, Shenyang Guo, Ramesh Raghavan

One Brookings Drive, Campus Box 1196, Brown School of Social Work, Washington University in St. Louis, 63130, United States

ARTICLE INFO

Article history:
Received 19 January 2016
Received in revised form 11 April 2016
Accepted 12 April 2016
Available online 16 April 2016

Keywords:
Asset building
Education debt
Racial disparities
Matching estimator
Student financial aid

ABSTRACT

Evidence now demonstrates significant variation in education-debt levels by race and household income, with Black and lower-income students accumulating higher levels of education debt compared to their White and upper-income peers. This study is one of the first to evaluate whether racial disparities in education debt extend to a low- and moderate-income (LMI) population. With data from a national sample of LMI households in the Refund to Savings study ($N = 17.684$), we employ a two-part modeling approach with a matching-estimator robustness check to estimate racial and ethnic variation in education debt. We find that significant disparities in education debt remain: the odds of student loan indebtedness are twice as high for LMI Black students as for White counterparts. In all, LMI Black students are estimated to incur $7721 more in education debt than LMI Whites, with disparities persisting after graduation. These findings suggest that LMI Black and White students, who face similar liquidity constraints and borrowing risks, are at unequal risk of accumulating education debt. We conclude by discussing the implications of this research for asset-building policies and student loan repayment efforts, both of which offer promise in bolstering college affordability and easing the burden of education debt.

1. Introduction

Education loan debt has reached $1.2 trillion dollars in the United States, surpassing credit cards as the largest form of consumer debt (Chopra, 2013). The growth of cumulative education debt in recent decades has paralleled the rising tuition costs facing students at American colleges and universities. Those costs increased by an average of 82% across all institutions of higher education between 1981 and 2012 (National Center for Education Statistics, 2013). In the United States, 71% of college students rely on education loans to cover educational expenses, and students who graduated from college in 2012 borrowed $29,400 on average over the course of their studies (Institute for College Access & Success, 2013).

Although most college students now accumulate education debt, recent evidence has demonstrated that Black students, many of whom are lower income, become overindebted in pursuit of higher education (Goldrick-Rab, Kelchen, & Houle, 2014; Houle, 2014). Among graduates who earned a 4-year degree in 2012, 63% of Whites and 81% of Blacks borrowed to pay for their degrees. In fact, compared with counterparts from all other racial and ethnic groups, enrolled Black college students incur the highest amount of federal education debt (Jackson & Reynolds, 2013). However, prior work using federal education data has indicated that the most persistent of these gaps is that between the amount of debt held by Black students and graduates, on the one hand, and their White counterparts, on the other (Huelsman, 2015; Jackson & Reynolds, 2013). The average education debt accumulated by Black students over the course of undergraduate studies at 4-year public institutions is estimated to be $3537 higher than that accumulated by White counterparts, and the average is $3969 higher for Black students at 4-year private institutions (Huelsman, 2015).

Substantial differences in education debt may not be limited to 2- and 4-year pursuits; accrued debt burdens may widen as students pursue postgraduate education. Dugger et al. (2013) recently found that levels of both accumulated and expected debt are higher for Black medical students than for their peers from all other racial and ethnic groups. Black graduates in science, technology, engineering, or medicine, as well as those pursuing doctoral education in social science, also remain twice as likely as White counterparts to carry postdoctoral debt in excess of $30,000 (Zeiser, Kirshstein, & Tanenbaum, 2013).

Much of the evidence to date suggests that, despite improvements in access to higher education, Black students face unique risks in paying for a college degree. Black students progress through college and exit with significantly more debt than do peers from other racial or ethnic groups, a finding that holds across institutions, degree type, and area of study. With noted exceptions (Lyons, 2004; Yarbrough, 1989), however, the bulk of previous studies have investigated variation in education debt

Abbreviations: HFS, Household Financial Survey; LMI, Low- and moderate-income; R2S, Refund to Savings; SES, Socioeconomic status; TTFE, TurboTax Freedom Edition.

* Corresponding author.
E-mail addresses: michalgw@wustl.edu (M. Grinstein-Weiss), dperantie@wustl.edu (D.C. Perantie), samuel.taylor@wustl.edu (S.H. Taylor), s.guo@wustl.edu (S. Guo), raghavan@wustl.edu (R. Raghavan).

http://dx.doi.org/10.1016/j.childyouth.2016.04.010
0190-7409/

by race across socioeconomic groups using nationally representative data sets and single-stage regression methods to predict variation in cumulative education debt (Baum & Saunders, 1998; Baum & Steele, 2010; Houle, 2014; Price, 2004). For reasons discussed by Dowd (2008), conclusions drawn from these studies are fundamentally limited by endogeneity and the inability of the analytical methods used to disentangle competing interactions across socioeconomic groups that may predict borrowing patterns.

These limits suggest that important gaps remain in the literature to investigate the ways in which the codependence of race, ethnicity, and socioeconomic status (SES) shape decisions about borrowing for college. Importantly, few studies have applied methods to isolate observed socioeconomic factors when comparing groups from varying racial and ethnic groups, limiting the degree to which one can assess the consistency of divergent trends in debt accumulation. This study sought to close these gaps by using a two-part modeling analysis to estimate expected student-debt burden among a sample of low- and moderate-income (LMI) households. In addition, we attempted to tease out the effects of race and ethnicity from confounding and exposure variables to evaluate the robustness of observed variation in education debt by race. To do this, we used a matching estimator on observed socioeconomic characteristics for minority and White households who borrowed to pay for postsecondary education.

To address noted gaps, we analyzed a unique set of data on LMI households from the Refund to Savings (R2S) initiative, a national tax-time intervention aimed at promoting saving behavior (Grinstein-Weiss et al., 2015). The R2S project was developed and implemented through the collaboration of Intuit, Inc., the makers of TurboTax software (Intuit, 2014), with academic researchers from Washington University in St. Louis and Duke University. The specific panel used in this analysis came from the Household Financial Survey (HFS) components of the R2S study. The HFS is a comprehensive evaluation measuring the effects of the R2S intervention and captures the unique financial and economic positions of LMI households following participation in the study. We focused on common SES measures in our analysis because socioeconomic and financial risk factors, both observed and unobserved, remain highly predictive of borrowing for both Black and White students from LMI households. The relative socioeconomic similarity of White and Black households in this sample thus allowed for a closer comparison of their education debt outcomes and enabled us to isolate known risks. This approach also enabled us to test assumptions about the central role that SES plays in predicting differential patterns of loan use. Namely, we tested the assumption that patterns of borrowing and total education debt may even out if Black and White students from households of comparable SES are treated equally on factors of associated risk. All else being equal, if the effects of race on education debt hold independent of observed socioeconomic factors, we expect that the risk of accruing larger education debt burdens will remain significantly higher for Black students than for their White counterparts.

2. Literature review

2.1. Accounting for disparities in education debt

Prior research on predictors of borrowing and loan use has drawn upon social and traditional economic theories in offering a variety of interdependent explanations for racial disparities in education debt. Social and asset development research has emphasized the role of household wealth disparities in determining the postsecondary outcomes of minority students and students from low income households (Elliott, Destin, & Friedline, 2011). Here, evidence suggests that household assets and debt are predictive of student borrowing in two important ways. First, household wealth can directly reduce the unmet costs of college. Households with assets in the form of savings (e.g., CDs, retirement) or investments (e.g., stocks, mutual funds) have access to more convertible financing options, thereby obviating the need for interest-bearing loan products (Zhan & Lanesskog, 2014). Second, household assets, particularly parental assets, serve a protective factor for reasons that are not exclusively economic. Parental assets predict access to vital educational resources (e.g., extracurricular enrichment activities) that can promote the development of social capital and later achievement for minorities in a number of social and educational domains (Nam & Huang, 2009; Zhan & Sherraden, 2011a, 2011b). To put the wealth gap into perspective, Shapiro, Meschede, and Osoro (2013) estimated that the total difference in wealth between White and Black families stands at $236,500, triple what it was nearly 30 years ago. Thus, pre-enrollment variation in access to and accumulation of assets and other resources may indirectly influence Black students' debt accumulation owing to lower household-level or parental assistance and longer time-to-degree trajectories (Elliott & Nam, 2012; Kim & Otts, 2010).

In line with rational actor approaches, the economics literature has raised demand-side explanations for gaps in education debt, emphasizing that choices around degree program, major, or institutional type more readily account for observed racial and class differences (Thomas, 2003; Thomas & Zhang, 2005). The implication of these interpretations is that, net of adverse selection, borrowers objectively weigh returns to higher education and reason that loan financing is likely to maximize expected postcollege gains. But purely economic interpretations often are not attuned to the myriad sociocultural factors that affect borrowing decisions for certain subgroups of students (Brand & Xie, 2010) and constrain college choice (Chung, 2012). For example, such explanations may point to the selection of Black students into high-cost, nontraditional institutions or degree programs to the exclusion of social factors that may explain the consistency or function of such institutional self-selection. For-profit educational institutions, where Black students comprise over 30% of all enrollees, have drawn public scrutiny for offering 4-year degrees that cost 59% more, on average, than equivalent degrees at nonprofit schools (Knapp, Kelly-Reid, & Ginder, 2012). On average, students who graduated from for-profit institutions in 2013 entered the labor market with $10,550 more in education debt (Institute for College Access & Success, 2014).

2.2. Consequences of education debt

Recent empirical work on education debt has noted uniquely negative effects of education debt on minority students and students with low income. Much of the evidence has differentiated the effects of debt on enrolled students from its effects on graduates. For low-income students, even modest levels of education debt are negatively associated with important indicators of postsecondary achievement. Dowd and Coury (2006) analyzed data from the Beginning Postsecondary Students Study, finding that student loans negatively affected the degree completion rates of public community-college attendees. For many minorities and lower-income students, two-year community colleges are cost-efficient and provide accessible means for vocational training and labor market mobility (Kane & Rouse, 1999; Schudde & Goldrick-Rab, 2015). Using the same data as Down and Coury, Kim (2007) demonstrated that the effect of loans on completion is particularly pronounced for Black students and students from low-income families, regardless of the institution they attend. Recent evidence has extended these findings, suggesting that loan balances exceeding $10,000 promptly reduce students' likelihood of finishing their degree at 4-year universities, with students from the bottom 75% of the income distribution being most vulnerable (Dwyer, McCloud, & Hodson, 2012). The conceivable associations between high debt burden and long-term financial well-being are thus cause for further investigation among many asset-building researchers. Supporting this is evidence that recent indebted college graduates are more likely to delay important financial investments such as graduate school (Zhang, 2013) and homeownership (Andrew, 2010; Elliott, Grinstein-Weiss, & Nam, 2013a) compared to previous cohorts of college graduates or those with lower debt burdens. Education debt may also inhibit graduates' ability to accumulate savings and assets