Children and Youth Services Review 91 (2018) 121–127

Contents lists available at ScienceDirect

Children and Youth Services Review

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

Education loans and asset building among black and Hispanic young adults

Min Zhan[a,*], Xiaoling Xiang[b]

[a] School of Social Work, University of Illinois at Urbana-Champaign 1010, West Nevada Street Urbana, IL 61801, United States
[b] School of Social Work, University of Michigan, 1080 S University Ave, Ann Arbor, MI 48109, United States

ABSTRACT

Use of education loans as a way to finance college education has grown rapidly, with minority students and their families being particularly burdened with education loan debt. Given the rising education loans and the racial/ethnic disparity in wealth accumulation, it is timely and important to examine how education loans affect the ability of future wealth building among minority households. This study examines the association between education loans and financial asset building among Black and Hispanic young adults aged 30 years by analyzing data from the 1997 National Longitudinal Survey of Youth. The results from a treatment–effects model indicate that having education loans is negatively related to net worth and nonfinancial assets at age 30, after controlling for respondents' demographic characteristics, years of education, and working hours. The relationship between the amount of education loans and indicators of financial balance sheets, however, is not statistically significant among the Black and Hispanic young adults with outstanding loans.

With the rising college cost but stagnant household income and student financial aid, many young adults rely on education loans to pay for their college education. The rapid growing reliance on loans to finance college education is evidenced by increases in the number of borrowers and the amount of borrowing (Brown & Caldwell, 2013; College Board, 2012; Federal Reserve Bank of New York, 2013; Payea, Baum, & Kurose, 2013). As a result, household debt from education loans has risen much more sharply in the last decade than other debt such as credit card debt and mortgages.With an estimated cumulative amount over $1.2 trillion (Institute for College Access and Success, 2016), education loans became the second-largest source of household debt next to mortgages (Ratcliffe & McKernan, 2013) in 2010, and in the same year, nearly 40% of households headed by adults under 40 years old had student loan debt (Fry, Parker, & Rohal, 2014).

Black and Hispanic young adults are disproportionately burdened with education loan debt. They are not only more likely to borrow but also borrow in higher amounts (Addo, Houle, & Simon, 2016; Baum & Steele, 2010; Elliott, Lewis, & Johnson, 2014; Kerby, 2013; Ratcliffe & McKernan, 2013; Seamster & Charron-Chenier, 2017). For example, ananalysis of a national sample of adults aged 20 or older indicates that the likelihood of having debt from education loans is about twice as high among Blacks (34%) and Hispanics (28%) as among Whites (16%), with young adults being more likely to owe student loan debt (Ratcliffe & McKernan, 2013). High debt levels ($30,500 or more) are found to be most prevalent among black bachelor's degree recipients (27%) compared to their whites (16%) and Hispanics (14%) counterparts (Baum & Steele, 2010). The studies by Addo, Houle, and Simon (2016) and Seamster and Charron-Chenier (2017) both indicate that black households hold greater student loan debt burden than white households. This higher level of borrowing, coupled with higher interests rate, lower graduate rates, and higher levels of unemployment, among Black and Hispanic young adults, makes their repayment of educational loan particularly challenging (Kerby, 2013).

As such, the education loan debt may have important long-term impact on the financial balance sheet for Black and Hispanic young adults. While some studies started examining the impact of education loans on financial well-being (e.g., Elliott & Nam, 2013; Fry, Parker, & Rohal, 2014; Hiltonsmith, 2013; Zhan, Xiang, & Elliott, 2016), few of them have focused on minority young adults. This is an unfortunate omission because the impact of education loan debt may be different among this population due to the particular financial challenges that minority young adults face. In addition, while net worth has declined substantially across households since the recent economic recession, the decline has been disproportionately large among minority households (Kochhar, Fry, & Taylor, 2011). As a result, wealth inequality has further widened across racial/ethnic groups. Thus, it is timely and important to examine how education loans affect the ability of minority young adults to build wealth in the future. This examination may help identify corresponding policies and practice to improve wealth building among minority young households, which has important implications for their life-long savings and asset accumulation.

In this study, we explore two research questions. First, is having

* Corresponding author.
E-mail address: mzhan@illinois.edu (M. Zhan).

https://doi.org/10.1016/j.childyouth.2018.06.006
Received 25 February 2018; Received in revised form 3 June 2018; Accepted 4 June 2018
Available online 05 June 2018
0190-7409/

education loans associated with their future financial balance sheet among Black and Hispanic young adults? And second, does amount of education loans affect their financial balance sheets? Previous studies tend to include single or few dimensions of wealth; this study includes several measures of wealth accumulation: net worth, financial assets, and non-financial assets. Both financial and non-financial assets are included (in addition to net worth) because evidence shows that these two types of assets may have different impact on household economic and child well-being (Zhan & Sherraden, 2011). These measures thus enable us to capture the impact of education loans on different dimensions of wealth. In addition, previous studies tend to analyze snapshots, assessing short-term impacts of educational loans, but we examine these issues over a relatively longer time frame (over average 9-year period).

1. Literature review

1.1. Rationales

Education loan debt may compromise the post-college financial well-being of young adults by imposing credit constraints and/or heightening debt holders' aversion to taking out additional loans.

Debt from education loans may impose credit constraints by negatively affecting borrowers' credit scores. Studies consistently indicate that debt, especially heavy debt, can limit borrowers' ability to obtain subsequent loans (Gruber, 2001; Nam & Huang, 2009). Among young adults (under age 40), debt from educational loans is positively associated with the likelihood of having other types of debt, and the total debt among college-educated young households nearly twice that of their counterparts without student loan debt, and the gap is even sharper among less-educated households (Fry, Parker, & Rohal, 2014). Burdened with heavy debt, a study finds that nearly 41% of education loan holders have been delinquent on their loan or have defaulted on it (Cunningham & Kienzl, 2011), and minority loan borrowers have even higher default rates (Kerby, 2013). Brown and Caldwell (2013) reports that young adults with a history of student loan borrowing have 24-point lower credit scores than those without such a history. Such credit history heightens the likelihood that their subsequent loan applications will be denied; or will likely pay high interest rates.

Since credit is a key mechanism for consumption and purchases of financial assets among young adults (Keister, 2000; Oliver & Shapiro, 1995), constrained credit may significantly challenge their ability to accumulate wealth. Take home purchase as an example; debt-to-income ratio is a key factor in qualifying for a home mortgage; but the median debt-to-income ratio among college graduates with debt from loans is as high as 205% (compared to 108% among their counterparts without education loans). As a result, borrowers obligated to allocate a large proportion of their income for education loans and other debt will not qualify for many types of housing loans (Mishory & O'Sullivan, 2012).

In addition to affecting borrowers' credit scores, debt from education and other expenses may also prompt young adults to voluntarily delay the process of wealth accumulation because of associated budget constraints and financial stress. In other words, education loans may cause aversion to debt of borrowers for wealth purchase. For example, the study by Shand (2007) indicates that aversion to debt appears to account for the negative association between education loans and homeownership rates.

The credit constraints and financial stress experienced by minority loan holders, Black and Hispanic loan holders in particular, may be disproportionately higher. First of all, as we mentioned above, minority students are more likely to take out loans to finance college expenses. They also report greater difficulties with and concerns about repayment (Baum & O'Malley, 2003; Ratcliffe & McKernan, 2013). Therefore, they may face higher credit constraints after leaving school. Second, due to racial and ethnic disparities in income and assets (e.g., Bricker et al., 2012; Kochhar, Fry, & Taylor, 2011), young adults from minority families are less likely to receive financial support from their parents. The recent survey from Sallie Mae (2016) indicates that during academic year 2015–16, in general, parent income and savings funded 29% of college costs; however, there is evidence that higher-income, college-education, and white parents were more likely to help pay for their children's college education (Cha, Weagley, & Reynolds, 2005; Houle, 2014; McCabe & Jackson, 2016). Third, studies indicate that minority students receive less of an economic return from their college education than do their White counterparts (e.g., Crissey, 2009). For example, Black college graduates were mostly likely to be unemployed in 2013 (Jones & Schmitt, 2014), and the risk of losing a job in a time of economic recession is greater for them as well (Austin, 2009). Therefore, education loans could pose greater risks for Black and other minority borrowers.

1.2. Empirical evidence

Emerging studies have examined the relationships of education loans with home ownership and wealth accumulation (measured mostly by net worth).

1.2.1. Home ownership

The study findings on the relationship between education loans and home ownership are somewhat mixed. Some research reports that education loans are associated with reduced homeownership rates and delayed purchase of homes. For example, examining Survey of Consumer Finances data (1992–2004) on young households (i.e., household heads aged 23–32), Shand (2007) reports that each additional $1000 in debt from education loans is associated with about a 3% decrease in the homeownership rate among adults who graduated from college in 2003. Stone, Van Horn, and Zukin (2012) analyze survey data from a nationally representative sample of 444 college graduates (classes of 2006–2011), finding that 40% reported delaying decisions on purchase of a home or a car due to the burden of debt from their education loans. Brown and Caldwell (2013)'s bivariate analysis of Equifax data indicates that young adults with a history of student debt suffered deeper declines in terms of home ownership and auto purchase during the recession than their those without such debt; and by 2012, for the first time in the last decade, they had lower rates in all these three indicators than those without student debt.

Through more sophisticated analysis, the study by Houle and Berger (2015) also finds the inverse associations between student loan debt with home ownership status as well as with mortgage acquisition and the amount of mortgage debt, among young adult home owners (NLSY97). However, due to the modest effect size, they conclude there is little evidence that student loan debt is a major culprit in the declining homeownership rates in recent years. They further indicate that student loan debt may be a more significant barrier to home ownership among black young adults. Chiteji (2008) finds no significant associations between transition into home ownership and combined credit card and student loan debt among young adults (25–34 years old) through analysis of Panel Study of Income Dynamics (PSID).

1.2.2. Wealth accumulation

Studies indicate that having student loans hurts an individual's net worth and other measures of wealth accumulation. A report on analyses of the most recent data from the Survey of Consumer Finances indicates that average net worth is seven times greater for college-educated young adults (aged 40 or younger) without education debt than for counterparts with such debt (Fry, Parker, & Rohal, 2014). The study by Hiltonsmith (2013) also analyzes Survey of Consumer Finances data, projecting that an average education loan of $53,000 leads to a lifetime wealth loss of $208,000. He notes that most of this loss would come from retirement savings and home equity. Similarly, Egoian (2013) estimates that a bachelor degree holder with median student debt of $23,300 would have $115,096 less in retirement savings at age 73