The Vermont Connection

Volume 42 *Black Lives Matter: Centering Black Narratives in Higher Education* Article 11

2021

Educational Redlining: The Disproportionate Effects of the Student Loan Crisis on Black and Latinx Graduates

Tatiana Havens
University of Vermont, HESA

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Racially biased funding in the United States education system has left Black and Latinx students disproportionately affected by the student debt crisis. Some educational loan lenders are using education data in the loan underwriting process, and Black and Latinx students are at risk for being wrongfully charged additional interest and fees. The United States historically excluded Black, Indigenous, and People of Color (BIPOC) communities from opportunities of social and economic mobility, and the student debt crisis perpetuates the financial disenfranchisement of BIPOC students. In this paper, I intend to discuss the racial disparities in educational loan distribution, congressional policies, alternative data usage, and the increased financial risk and vulnerability for Black and Latinx students to further highlight the financial discrimination that exists and persists in higher education.

Keywords: higher education, student loans, BIPOC, Black, Latinx, borrower

The student debt crisis in the United States has reached over $1.5 trillion, and economists estimate that the debt will accumulate to $2 trillion by the end of 2021 (Johnson, 2019). The National Center for Education Statistics (NCES) found 77% of Black students borrow federal student loans compared to the national average of 60% of all student borrowers (Safier, 2018). Other studies have shown that Black and Latinx students are more likely to borrow educational loans, be distributed loans with higher interest rates, and are more likely to pay more overall in student loans than their white counterparts (Atkinson, 2010; Safier, 2018). Racial and ethnic disparities in the United States education system are not new, and Students of Color bear the significant burden of systemic racism at all education levels. Research shows that public elementary and high schools with a majority of students from marginalized backgrounds are significantly underfunded comparative to predominantly white school districts (White, 2015). Studies have also shown that regardless of a district's socio-economic standing, predominantly

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Tatiana Havens (she/her) is a M.Ed. candidate in the UVM HESA program, and she holds a B.A. in Psychology and English Literature from Emmanuel College. Prior to HESA, she served as the Campus Compact First-Generation and Low Income Student Support AmeriCorps VISTA at Wheaton College, MA.

white schools receive more government funding (White, 2015). Racially biased funding for public schools prevents equitable access to critical learning resources for Students of Color, further reinforcing, as opposed to disrupting, the poverty cycle (White, 2015). Racially biased funding in education results in negative economic consequences for people with historically marginalized identities, a practice known as educational redlining (White, 2015; Muhammad et al, 2019; Welbeck, 2020). Educational redlining perpetuates the generational wealth gap and financial disenfranchisement of Black and Latinx people (Welbeck, 2020). In this paper, I will demonstrate how discriminatory lender policies, alternative data usage, and the increased vulnerability and risk to post-graduate financial security further contribute to the systemic exclusion and racism of Black and Latinx students in the United States education system.

The term *Latinx* is used to give voice and visibility to those who feel that their gender is not represented through using Latino/a (Salinas, 2020). Some students have also chosen the term *Latine* as this provides the opportunity for gender-inclusivity and mirrors the conjugations in the Spanish language (Pellot, 2019; Salinas, 2020). It's important to note some Latino/a/x/e students may not identify as closely with this term as it is most commonly used throughout academic writing and activist circles (Salinas, 2020). The language used throughout this paper intends to redistribute power to historically marginalized populations, especially those who are Black or Latinx. In this paper, I aim to further highlight the inequity and racism that exists within the United States education system, and demonstrate how the U.S. legislative system inherently perpetuates white supremacy through its policy writing practices.

I am a first-generation college student who graduated with a significant amount of student debt and as a white borrower it is imperative that I acknowledge the privilege I possess within this crisis. In this paper, I aim to uplift the experiences of Black and Latinx student borrowers and graduates because whiteness has dominated the narrative of the student debt crisis. As a higher education professional, I strive to center transparency, vulnerability, and wellness in my work with students, and I feel it is important to explore the present challenges that impact the college student experience in my scholarship.

Financial Vulnerability and Risk

The systemic racism and generational trauma inflicted on BIPOC communities in the United States has left Black and Latinx students increasingly more vulnerable to social and economic hardship (Yosso, 2005; Atkinson, 2010; Jack, 2019). Higher education is deemed as the avenue for social mobility and economic opportunity, but these institutions are not built to support the growth and prosperity of BIPOC Communities (Atkinson, 2010; Muhammad et al, 2019; Jack, 2019). Black people in the United States have been historically excluded from accumulating wealth by the redlining practices of banks, housing markets, and funding disbursements for education (Atkinson, 2010; Muhammad et al, 2019). The absence of generational wealth has made Black and Latinx students statistically more likely to be low-income, and as a result they are more likely to borrow loans for post-secondary education (Atkinson, 2010; Murakami, 2020). Black and Latinx borrowers are at a disadvantage of repaying their student loans and meeting their daily cost of living as a result of the racial and gender wage gap (Atkinson, 2010; Murakami, 2020).

Atkinson (2010) highlights that 55% of Black students who borrow educational loans graduate with an unmanageable amount of debt, and 65% of Black women are responsible for at least one dependent. Black women statistically experience significantly more financial burdens from the intersection of gender and race-based discriminationatory wage gaps (Atkinson, 2010). The opportunity for fair credit acquisition has been stripped from BIPOC communities as a result of systemic racism and white supremacy, and Black and Latinx students are disproportionately affected by the student debt crisis as a result of this systemic exclusion (Safier, 2018; Muhammad, et al., 2019; Jack, 2019). White policy makers have failed to recognize how their efforts toward accessibility without systemic shifts of power have contributed to the continued subordination of BIPOC Communities (Bell, 1980; Yosso, 2005; Atkinson, 2010). The cost of post-secondary education, federal student debt classifications, and the generational trauma from systemic racism contribute to the continued economic subordination of Black and Latinx graduates in the U.S (Bell, 1980; Atkinson, 2010; Safier, 2018; Jack, 2019; Muhammad, et al., 2019; Murakami, 2020).

Congressional Policies

Policy makers in Congress have written legislation that appears to focus on racial justice, but in practice serves to reinforce social and economic white supremacy within the education system (Bell, 1980). Black and Latinx students are statistically more likely to borrow educational loans, and the absence of inclusive policy writing has perpetuated the fiscal disenfranchisement of People of Color in the United States for centuries (Bell, 1980; Yosso, 2005, Atkinson, 2010). The U.S education system historically operates with interest-convergence, meaning the interests of racial equity for BIPOC students will only be accommodated when they converge with the interests of white people (Bell, 1980). In 1954, *Brown v. Board of Education* was passed as a mandate of desegregation of schools, and racial segregation was an economic barrier to Industrialization in the South (Bell, 1980; Muhammah et al, 2019). The National Defense Education Act of 1958 authorized the National Defense Student Loan (NDSL), allowing the appropriation of federal funds for educational loans to encourage the pursuit of higher education (Atkinson, 2010). Researchers have found that education is an indicator of an economically healthy nation (Bell, 1980; Atkinson, 2010). The NDSL's expansion of higher education federal funding opportunities served to boost the U.S's international education rankings, similar to *Brown v. Board's* economic boost to industrialize the South (Bell, 1980; Atkinson, 2010; Muhammad et al, 2019). Congressional policy implementers have upheld white supremacy by failing to recognize the cultural and social capital of BIPOC communities and the impact of the generational trauma experienced by Black and Latinx people in America (Bell, 1980; Yosso, 2005; Atkinson, 2010).

The Middle Income Student Assistance Act (1978) made federal education funding almost universally acceptable through educational loan distribution being considered part of the parental expected contribution figure, and educational loans were reclassified as non-dischargeable (Ford, 1978; Atkinson, 2010). Non-dischargeable debt-types cannot be eliminated through a bankruptcy proceeding and the racial wealth gap makes managing educational loan debt significantly more challenging for Black and Latinx students (Atkinson, 2010; Muhammad et al, 2019). Congress's Bankruptcy Code dictates that debtors cannot be relieved of their student loan debt without filing an adversarial proceeding case citing 'undue hardship' would occur through repayment of educational loans (Atkinson, 2010; Tetrina, 2019). However, undue hardship is undefined, thus leaving Black and Latinx students vulnerable to implicit bias and inherent racism that exists within the judicial process (Atkinson, 2010; Neinhusser, 2018). Similar challenges were seen in the era of *Brown v. Board of Education* (1954) as difficult standards for 'proof' of segregation and discrimination cases denied Black plantiffs equity and protection under the law (Bell, 1980; Muhammad et al, 2019). Neinhusser (2018) found that congressional policy vagueness "opens the door for institutional agents to employ their notions of sense-making" (26), and policy implementers within the bankruptcy courts have the power to determine a debtor's worthiness of relief (Atkinson, 2010; Tretina, 2019). Current congressional policy provides multiple opportunities for borrowing, but fails to provide protection like relief programs for students, especially for Black and Latinx students who experience predatory lending practices.

Alternative Data Practices

Students of Color are being racially profiled by student loan distribution companies who collect educational data during the loan underwriting process, and this further exacerbates the economic inequity BIPOC communities experience in the U.S (Douglas-Gabriel, 2020; Arnold, 2020; Welbeck, 2020). Some lenders have used an applicant's alma mater or their specified academic program as determinants of creditworthiness in the loan underwriting process (Douglas-Gabriel, 2020; Arnold, 2020; Welbeck, 2020). The Student Borrower Protection Center (SBPC) released a report in February 2020 titled, *Education Redlining*, which warns of the exacerbation of financial discrimination toward Students of Color by adopting the use of education data in the loan underwriting process (Welbeck, 2020). Financial technology firms, or 'fintechs', claim educational data collection is a way to make credit more accessible for young applicants with minimal or stagnant credit histories, but access does not equate equitable opportunity (Arnold, 2020; Douglas-Gabriel, 2020).

Two fintech companies, Upstart and Climb Credit, have faced scrutiny for being racially-biased in their loan distribution process which violates fair lending laws (Douglas-Gabriel, 2020; Arnold, 2020). Climb Credit is a New York based student-lending company that considers an applicant's major or academic program to predict post-graduate earnings and calculate a potential debt-to-income ratio (Douglas-Gabriel, 2020). Upstart is an online lending platform that collects data about an applicant's college as one of the variables in its credit scoring model (Douglas-Gabriel, 2020; Arnold, 2020). When using Upstart's model, a hypothetical 24 year old Howard University applicant seeking to refinance a $30,000 loan would pay $3,500 more in interest and $729 in loan origination fees than New York University applicant (Douglas-Gabriel, 2020; Welbeck, 2020; Arnold, 2020). Similarly, a New Mexico State University applicant would pay almost $1,724 more in interest and $631 in origination fees than a NYU student (Douglas-Gabriel, 2020; Welbeck, 2020). SBPC also found that Wells Fargo charges a hypothetical community college borrower about $1,134 more on a $10,000 loan than they would an applicant from a four-year institution (Fain, 2020; Welbeck, 2020; Arnold, 2020). Hypothetical applicants from Black or Latinx-serving institutions are dealt more burdensome educational loans than applicants from predominantly white institutions which is racist and furthers economic inequity for Borrowers of Color (Welbeck, 2020).

According to a study conducted by the American Enterprise Institute (AEI), Climb Credit's practice runs a high risk of violating fair lender laws as major and academic program choices are indicators of the economic discrimination faced by margainalized student populations (Douglas-Gabriel, 2020). Studies have shown the financial risk of borrowing student loans, non-dischargeable debt, may influence an individual's academic program and career choices (Atkinson, 2010). On average Black graduates earn less in salary and are more likely to borrow educational loans than white graduates, and a low-income student may choose a career path with fewer years of schooling to maintain their cost of living and minimize their post-graduate debt (Atkinson, 2010). Black and Latinx students experience increased socioeconomic pressure when selecting a major or academic program because of racist wage determinants and the burden of accumulation of non-dischargeable educational loan debt (Atkinson, 2010; Rustin et al, 2017; Safier, 2018; Douglas-Gabriel, 2020). The fintech companies' loan distribution practices fail to make credit acquisition accessible or equitable for Black and Latinx students, and further exacerbate the burdensome federal debt classification policies that contribute to the financial disenfranchisement of Borrowers of Color (Atkinson, 2010; Rustin et al, 2017; Safier, 2018; Douglas-Gabriel, 2020).

Recommendations for Further Consideration

Black and Latinx students are disproportionately affected by the student loan crisis as a result of systemic racism and racially-biased educational funding (Bell, 1980; Atkinson, 2010; Welbeck, 2020; Arnold, 2020). Despite evident racist tendencies through hypothetical applications, the Credit Bureau failed to find Upstart or Climb Credit's loan distribution process to be discriminatory and in violation of fair lender laws (Rustin et al, 2017; Ficklin and Watkins, 2019; Douglas-Gabriel, 2020; Arnold, 2020). The Credit Bureau must reform their fair lending tests, and proceed to conduct more robust tests of lender policies to reevaluate more explicit and implicit possibilities for discrimination against BIPOC applicants (Rustin et al, 2017; Ficklin and Watkins, 2019; Douglas-Gabriel, 2020; Welbeck, 2020; Arnold, 2020). Additionally, congressional policy has historically allowed for liberal lending, but proves to be incredibly restrictive for seeking debt relief (Atkinson, 2010). Lenders and policy makers must develop a stronger risk-assessment tool for borrowers beyond the current credit-assessment tool as credit acquisition is not equitably accessible for Black and Latinx communities in the United States (Rustin et al, 2017).

Future researchers should consider the possibilities of shifting educational loans to no longer be non-dischargeable or further defining 'undue hardship' (Atkinson, 2010; Rustin et al, 2017; Neinhusser, 2018). Policy vagueness proves difficulties for both the lender and applicant in ensuring ethical practices are prioritized, and Black and Latinx students are more vulnerable to implicit biases of lenders in their sense-making process of the policy (Neinhusser, 2018). Historically, Congress has refused to shift student loans from a non-dischargeable debt classification because it is believed that degree attainment results in social and economic mobility (Atkinson, 2010). Unfortunately, the racism that exists in the United States inhibits Black and Latinx students from experiencing this increased social and economic wealth as a result of a degree, and in turn are more likely to default on their student loan repayment plan due to unmanageable debt (Atkinson, 2010). As a result of this, there needs to be increased investigations into fair lending violations, and proper reparations, like debt relief, forgiveness, and refund programs, to Black and Latinx students who experienced predatory lending practices in their pursuit of higher education (Douglas-Gabriel, 2020).

The SBPC Report found that educational redlining was happening to Black and Latinx students through discriminatory educational loan lending policies, and Congress has historically failed to provide proper debt relief for student borrowers (Welbeck, 2020; Fain, 2020; Arnold, 2020; Murakami, 2020). In April of 2020, the Senate began to pursue the ways in which educational redlining is preventing Black and Latinx students access to social and economic mobility, so future research is necessary to track the development of transformative Congressional policy (Arnold, 2020; Douglas-Gabriel, 2020). Most importantly, reparations, like equitable credit acquisition, are necessary to BIPOC communities in the United States. Further research is necessary to continue to explore violations of fair lender laws, and highlight the present methods that Black and Latinx students are being systematically excluded from social and economic stability (Welbeck, 2020; Arnold, 2020).

Conclusion

Educational redlining is happening at the elementary, secondary, and post-secondary education levels, and has historically inhibited the social and financial well-being of BIPOC communities in the United States (Atkinson, 2010). Progressive policy must develop debt-relief programs that provide equitable access to social and economic stability opportunities for BIPOC communities in the United States (Douglas-Gabriel, 2020). Congressional officials must further evaluate the methods in which they have historically and continuously contributed to the systemic oppression of BIPOC communities (Atkinson, 2010). Further research must explore the impact of educational redlining on the school-to-prison pipeline, and lawmakers must seek to center equity and justice for Black and Latinx students in their practice (Atkinson, 2010; Muhammad et al, 2019). These officials must further demonstrate an active commitment to institutional transformation that empowers and emboldens the success of BIPOC students through the development of inclusive, equitable educational policy (Atkinson, 2010; Douglas-Gabriel, 2020). It is imperative that lawmakers understand the impact that predatory practices and exclusionary policy has on BIPOC students, especially those who are Black and Latinx seeking financial support for post-secondary education. The student debt crisis is growing at exponential rates, and there is a disproportionate burden experienced by Black and Latinx students (Johnson, 2019; Arnold, 2020). It is the responsibility of educational policymakers to protect the financial and social wellbeing of BIPOC students, and to eradicate predatory practices, like educational redlining, which contribute to the systemic subordination of BIPOC communities in the United States.

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