



February 15, 2019

The Honorable Catherine Cortez Masto  
204 Russell Senate Office Building  
Washington, DC 20510

The Honorable Kamala Harris  
112 Hart Senate Office Building  
Washington, DC 20510

The Honorable Doug Jones  
326 Russell Senate Office Building  
Washington, DC 20510

The Honorable Elizabeth Warren  
317 Hart Senate Office Building  
Washington, DC 20510

Dear Senator Cortez Masto, Senator Harris, Senator Jones, and Senator Warren:

Lumina Foundation appreciates the opportunity to share expertise and insights for protecting and empowering students and borrowers of color, in response to the thorough and impressive collection of data you shared regarding the problems facing these students. Lumina Foundation is the nation's largest private foundation focused solely on increasing American's success in higher education. By 2025, we want 60 percent of Americans to have high-quality degrees, certificates and other credentials. In pursuit of this goal, we take an outcomes-based approach and assist efforts to design and build an accessible, responsive and accountable higher education system. As a private foundation Lumina Foundation does not support or oppose any legislative proposals. Instead, our role is to provide nonpartisan research and analysis to policymakers and the general public for educational purposes only. By offering input, we seek to help others fundamentally rethink how American higher education is delivered to better align with the identities and circumstances of today's students.

Regarding your request to define specific proposals the federal government can take to address disparities in borrower outcomes and make higher education equitable for all we offer the following principles, which we will expound on further in this letter:

1. Improve accessibility to disaggregated, publicly available borrower data.
2. Maintain and strengthen student protections throughout the borrower cycle.
3. Make borrower policy equitable and transparent from the outset and with clear default prevention measures.
4. Improve access to need-based aid.

Undoubtedly, the federal government has long played a significant role in enabling access to postsecondary education for millions of Americans. Research has shown, however, that access alone is not enough, and this fact drives Lumina Foundation's investments to increase completion among three opportunity populations: traditional-aged students, returning adults,

and adults with no education beyond high school. The federal financial aid system, which includes loan options, is a central mechanism to increasing access and completion.

While loans help pay the costs that institutional, state, and federal grants and scholarships do not cover, loan debt can also become a barrier to completion for many students. Most students who default on their loans – two-thirds of defaulters – owe less than \$10,000 in student debt.<sup>i</sup> Twenty-four percent of borrowers who have not completed a postsecondary credential defaulted on their loans, compared to 9 percent of borrowers who completed.<sup>ii</sup> Students who leave their institutions with unpaid expenses cannot re-enroll until the debt is paid, a story that is especially true for students of color.

The research is also clear: holding all other variables constant, race<sup>iii</sup> and ethnicity still play a significant role in the amount of debt students of color take on and their ability to repay the debt down.<sup>iv</sup> Loan debt affects not only the student; parents and families of color are also weighed down by the costs of college. Black families, for example, are more likely to borrow than their white, Latino, or Asian counterparts.<sup>v</sup>

Lumina Foundation has partnered with several research, policy, civil rights, and advocacy organizations who have produced or are currently producing research and proposals on how best to support student borrowers of color. We anticipate that many of these partners will individually respond to your invitation and offer deeper insights on their work. Based on our research and analysis, the forthcoming conversation includes some additional recommendations to consider as Congress continues its exploration and deliberations.

### **Protecting and Empowering Students of Color (especially Student Borrowers of Color)**

As aptly stated in your letter, students of color are more likely to borrow, borrow in greater amounts, and make less progress in paying down their debts than their white peers – even if they graduate. Data from the National Center for Education Statistics (NCES) on loan borrowing, repayment, and default status of borrowers confirmed narratives about the disparate student loan burdens experienced by Black students, and the long-term effects on their economic well-being. Analyses of these data found that nearly half of black borrowers defaulted on a student loan, including a quarter of those who received a bachelor's degree and three-quarters of those who dropped out of for-profit colleges.<sup>vi</sup> Black student loan borrowers who graduate with a bachelor's degree are more likely to default than white borrowers who have dropped out.<sup>vii</sup> One study projects that nearly 70 percent of black borrowers may end up in default.<sup>viii</sup> Latino students generally borrow less than black students and at about the same rate as white students. Nonetheless, 36 percent of Latino borrowers default within 12 years after entry.<sup>ix</sup> Unfortunately, high dropout rates among Latino students lead to higher default rates; of Latino, borrowers in repayment, 15 percent were in default and another 29 percent were seriously delinquent on their payments.<sup>x</sup>

As student loan debt continues to grow more burdensome and have an outsized impact on borrowers of color, **it is critical that that we consider the range of ways that wealth equity by race, incomplete definitions of financial need, and drivers of disparate borrower behavior and outcomes must be intentionally considered in protections and**

**policy designs throughout the borrower cycle.** While current protections such as borrower defense to repayment, and institutional accountability measures such as the gainful employment rule help offer recourse and awareness for borrowers, these protections do not apply to all students in all circumstances. There need to be more avenues to mitigate risks prior to and throughout the borrower cycle. We highlight some approaches to enhance protections and help ensure greater equity.

#### *Improve Accessibility to Disaggregated, Publicly Available Borrower Data*

The lack of robust, disaggregated, and easily understood federal reporting on student loan data reduces the ability of policymakers and borrowers to be informed, empowered, and knowledgeable decision makers. Despite the widespread headlines about the student loan crisis in recent years, much of the reporting is based on secondary analysis of self-reported or third-party data.<sup>xi</sup> **Even with the information we do have on loan amounts and default outcomes, we are still largely making inferences about the profiles and experiences of borrowers who are in repayment.**

Clear, readily available information could offer insight into the vulnerability of borrowers of color that lead to disparate outcomes, as well as potential solutions for more equitable repayment options and improved borrower policy that reduces risks from the outset.<sup>xii</sup> The National Student Loan Data System (NSLDS), housed within the Office of Federal Student Aid (FSA), holds billions of records and robust data on federal student loans, but these data are cumbersome to access and use. Our partners at the Center for American Progress<sup>xiii</sup> and the Institute for Higher Education Policy's Postsecondary Data Collaborative<sup>xiv</sup> offered recommendations for improving borrower data infrastructure and reporting as a solution to this problem.

In addition to the need for more accessible and accurate data, there is also a need for more inclusive data. Though not all students of color are adequately represented in publicly available federal data, there are steps that can be taken to mitigate missing information, particularly for Native student borrowers. Native Americans constitute only 1 percent of the U.S. undergraduate population and are often left out of postsecondary research and data reporting.<sup>xv</sup> Given that small sample sizes of American Indian and Alaska Native students in large datasets prevent financial aid analyses, there is a need to work with states and institutions that enroll Native students to leverage their data systems to observe borrower trends. The data problem presents an opportunity to convene Tribal college leaders and advocates, like the American Indian Higher Education Consortium, to find solutions.

#### *Maintain and Strengthen Student Protections throughout the Borrower Cycle*

There have been heightened efforts over the last several years to increase protections for student borrowers, largely in response to rising debt and default rates and enhanced scrutiny of institutions that have been linked the most to these outcomes. These trends are reflected in the advent of the College Scorecard, the gainful employment rule, and stronger borrower defense mechanisms such as loan-forgiveness options for defrauded borrowers. All of these efforts are steps in the right direction, and should continue to evolve, adapt, and be strengthened to best serve and protect students.

It is also important that borrowers have strong mechanisms to help them understand and maneuver their protection options, and an entity to help facilitate those mechanisms. Nonetheless, effective borrower policy should consider safeguards throughout the borrower life cycle to complement oversight efforts, especially with regard to the disparate barriers for borrowers of color. Our partners at The Institute for College Access and Success have examined these issues at length and are nationally regarded for their perspective.<sup>xvi</sup> Furthermore, states can play a role in aligning and reinforcing federal aid use safeguards as they are the original authorizers of institutions to offer education to students in their jurisdictions.

### *Make Borrower Policy Equitable and Transparent from the Outset*

Default prevention should be included in any proposal to support borrowers of color and loan servicers. Specifically, students who do not finish their programs need clear ways to manage the debt they incur and not make that debt a barrier to re-enrolling and completing. The Department of Education (ED) must develop and implement a coordinated strategy to prevent student loan default and explicitly establish default-prevention activities in its contracts with loan servicers. In addition to an ED-focused strategy, there remains a need to improve borrower education to understand the terms, interest rates, benefits, and protections of student loans, repayment options and plans, and consequences of loan default. This education should occur both at the outset and when a student leaves an institution, especially if they leave without earning a credential. Federal interest in program-level quality and accountability measures accelerates borrower protections because precedent already exists in gainful employment rules and it is more appealing to institutions to reconsider a single, failing program rather than the entire institution. Again, our partners at the Center for American Progress have written at length on these issues and maintain a wealth of respected expertise on these nuances.

## **Making Higher Education More Equitable for All**

### *Better Target Need-Based Aid*

In addition to borrower protections, it is also important to figure out ways to reduce overreliance on loans to address unmet need. A 2018 report by the Center for Law and Social Policy found that 71 percent of students have some level of unmet need, averaging out to just under \$5,000. However, when this figure is unpacked by income quartile, students in the lowest half of the household income distribution experience up to \$13,000 more in financial need (depending on the type of institution), and even higher disparities when race is layered on top.<sup>xvii</sup> This points to a need to improve affordability broadly, but also the need to revisit the calculations used to determine the Expected Family Contribution (EFC) on the Free Application for Federal Student Aid (FAFSA) in ways that better account for what might be driving these disparities by race. Creating sharper asset proxies, accurate *full* cost of attendance reporting, negative EFC calculations to reduce truncation of need, and better need determination formulas can help better direct need-based aid and maximize it for students who need it the most. ED also may consider using its experimental site authority to run experiments on many of these issues, perhaps giving extra points to applicants that serve significant populations of borrowers of color.

## Next Steps

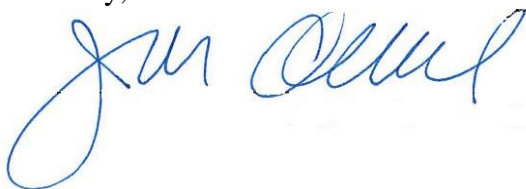
We applaud your focus and attention on this problem, including your willingness to consider unique strategies for different racial and ethnic communities. We also are encouraged by your call to address the challenges evidenced in the research.

Federal student loans have their origins in efforts to help middle-income families afford a college education and help others build a path to the middle class. As the research shows and your letter aptly notes, students of color have higher debt burdens than other groups of students, and such debt has a particularly negative impact for young adults of color who must start their lives in more debt, with less familial wealth and more familial responsibilities, and reap fewer rewards from their educational pursuits.<sup>xviii</sup> Failing to acknowledge this disparity in wealth and assets has not and will not serve students of color or their families. Race matters in this context, and ignoring it will not improve critical outcomes such as reducing default rates or paying down debt, encouraging re-enrollment of students of color who have stopped out, or increasing completion. The research on borrowers of color and repayment provides evidence that race-conscious financial aid policies and policy proposals are founded.<sup>xix</sup>

Lumina Foundation shares your commitment to these issues and will remain involved in the dialogue about how debt burdens, default rates, and other loan burdens may affect different racial and ethnic groups in unique ways. We welcome the opportunity to discuss this work further and solicit recommendations for future investments.

Once again, we thank you for your continued efforts to address racial disparities in student debt and the broader challenges faced by students of color in college and career training. Should you have any questions, please contact me or my colleagues Terri Taylor ([ttaylor@luminafoundation.org](mailto:ttaylor@luminafoundation.org)), Katherine Wheatle ([kwheatle@luminafoundation.org](mailto:kwheatle@luminafoundation.org)) or Wayne Taliaferro ([wtaliaferro@luminafoundation.org](mailto:wtaliaferro@luminafoundation.org)) in our Washington, D.C. office. It is our sincere hope that Lumina Foundation can be a valuable partner in the federal government's work to ensure educational opportunity and a brighter economic future for millions of Americans.

Sincerely,



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## Endnotes

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