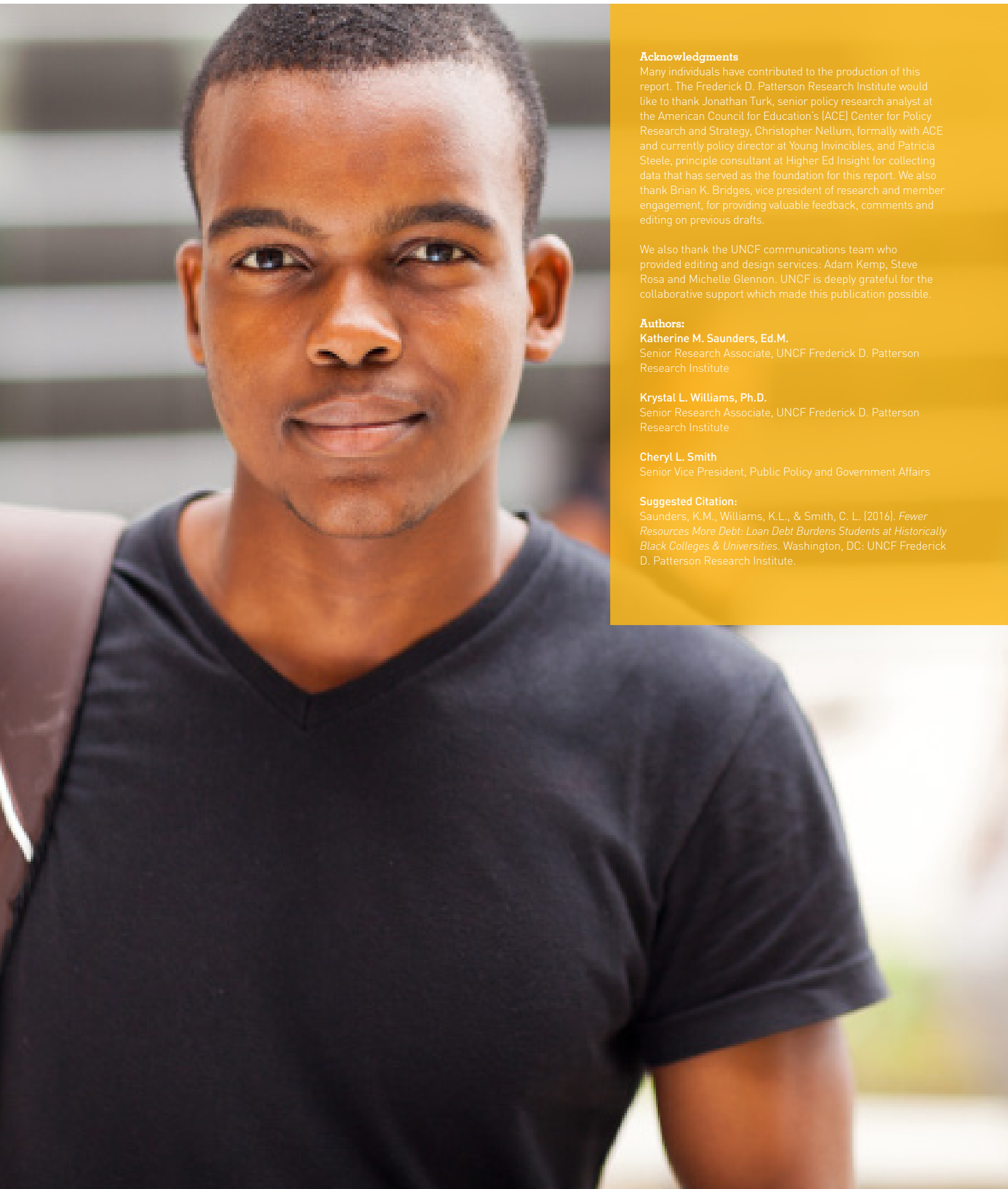




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**FEWER RESOURCES, MORE DEBT:
Loan Debt Burdens Students at
Historically Black Colleges and Universities**



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Executive Summary



Student loans have become an increasingly important way for students and their families to pay for college. But for students at historically black colleges and universities (HBCUs), student loan debt is a substantial burden. Students who attend these institutions—many of whom are low-income and first-generation—must borrow at higher rates and, consequently, graduate with substantially higher debt than their peers at non-HBCUs.

This issue brief examines the rates, amounts and distribution of student loan debt among HBCU students relative to their non-HBCU peers. This analysis focuses solely on undergraduates attending four-year public and private, non-profit institutions, and employs the most recent publicly available data.

Key Findings at a Glance:

1.
A higher percentage of students attending HBCUs use federal loans to finance college compared to their non-HBCU peers.

In 2013, the proportion of HBCU students who borrowed federal loans was 25 percentage points higher than that of their non-HBCU peers (80 percent vs. 55 percent).

2.
HBCU graduates borrow substantially greater amounts of federal loans than their non-HBCU peers.

In 2012, HBCU bachelor's degree recipients borrowed nearly twice the amount of federal loans as their non-HBCU peers (\$26,266 vs. \$14,881).

3.
The percentage of HBCU graduates who borrow large amounts (\$40,000 or more) of federal loans to finance their degrees is four times that of non-HBCU graduates.

For HBCU bachelor's degree recipients who borrowed a federal loan in 2012, one in four students, or 25 percent, borrowed \$40,000 or more. Only six percent of non-HBCU bachelor's degree recipients borrowed \$40,000 or more.

4.
A higher percentage of HBCU students borrow not only federal subsidized loans, but also more costly federal unsubsidized loans and Parent PLUS Loans.

Sixty-five percent of HBCU students borrowed a federal unsubsidized loan, and 10 percent borrowed a Parent PLUS Loan, whereas 36 percent of non-HBCU students borrowed a federal unsubsidized loan, and only six percent borrowed a Parent PLUS Loan.

5.
A higher percentage of HBCU students combine federal, state and private loans to pay for college than their non-HBCU peers.

Twelve percent of bachelor's degree recipients at HBCUs borrowed a combination of federal, state and private loans compared to only eight percent of non-HBCU graduates.

6.
HBCU students have lower loan repayment rates than non-HBCU students.

Seven years after leaving college, the average cohort repayment rate for HBCU students is considerably lower than that for students at non-HBCUs (59 percent vs. 85 percent). However, these figures alone do not take into account several important factors that impact repayment rates, such as student economic status, labor market conditions and choice of educational program.

A full discussion of the methodology is provided in Appendix A.



Introduction

College degrees are both more essential and more expensive than ever. More employers are looking for college-educated individuals to fill their workforce needs.ⁱ Yet, while a degree is becoming increasingly critical for workforce mobility, the costs of college are rising and federal financial aid is failing to keep pace. Since the early 1980s, college tuition and fees have increased more than three times the rate of growth in family income and also have outpaced inflation.ⁱⁱ Amid state disinvestments in higher education, the decline of the purchasing power of federal Pell Grants relative to college costs and family income challenges, a growing number of students are relying on student loans to finance their education. This reliance on student loans is far greater for students at historically black colleges and universities (HBCUs)ⁱⁱⁱ given the economic profile of the students served at these institutions.

HBCUs disproportionately enroll students from low-income families who have substantial financial need and limited access to additional financial resources. As a result, HBCU graduates generally borrow more in student loans and have higher debt than their peers at other four-year public and private, non-profit non-HBCUs.^{iv} Thus, pursuing a college degree comes at a far higher cost for HBCU students.

This issue brief examines the rates, amounts and distribution of student loan borrowing and repayment rates among HBCU students relative to their non-HBCU peers and places these borrowing practices in the larger context of the students whom HBCUs serve. In this analysis, we look solely at undergraduates attending four-year public and private, non-profit institutions using the most recent data that is publicly available. For a full description of the methodology and data collection, refer to Appendix A.

Our findings reveal that:

1. A higher percentage of students attending HBCUs use federal loans to finance college compared to their non-HBCU peers.
2. HBCU graduates borrow substantially greater amounts of federal loans than their non-HBCU peers.
3. The percentage of HBCU graduates who borrow large amounts (\$40,000 or more) of federal loans to finance their degrees is more than four times that of non-HBCU graduates.

4. A higher percentage of HBCU students borrow not only federal subsidized loans, but also more costly federal unsubsidized loans and Parent PLUS Loans.
5. A higher percentage of HBCU students combine federal, state and private loans to pay for college than their non-HBCU peers.
6. HBCU students have lower repayment rates than non-HBCU students.

These findings, taken at face value, are not ideal for HBCUs.

When placed into the broader context concerning the types of students served at these institutions, the findings help us to understand the debt issues and borrowing behaviors of HBCU students and inform our policy reform recommendations.

With ever-mounting concern regarding student debt, the time is ripe for federal student aid reforms that can alleviate debt burden and make college more affordable for HBCU students. The Higher Education Act (HEA) governing the approximately \$160 billion disbursed by the federal government each year for education loans, Pell Grants and other college assistance is scheduled for renewal. Fortunately, there is an emerging consensus among policymakers and higher education stakeholders that the federal student aid system must be simpler and more targeted to maximize assistance to those students in need of financial help to enter and complete college. HBCU students, who are among the country's most financially needy students, should be at the top of the list.

This report is divided into three sections. The first section provides a detailed description of the key findings from our analysis. The second section provides insight about the students served by HBCUs to frame the broader context informing our findings. In doing so, the second section highlights the salient factors that contribute to HBCU students' higher borrowing practices and debt levels. These factors include economic circumstances that limit access to alternative financial resources, unmet financial need, the declining purchasing power of Pell Grants and small institutional endowments. Finally, we discuss policy recommendations to address the financial challenges that HBCU students face in financing their college education and repaying their student loans.



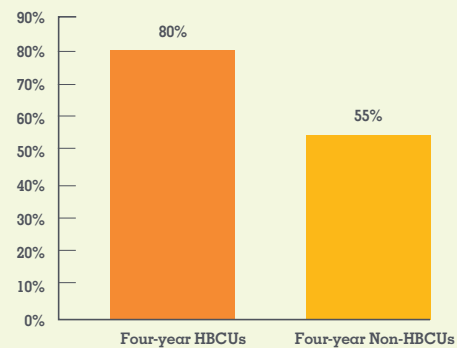
Key Findings

Six key findings emerge from this study that illuminate borrowing and repayment behaviors among HBCU students.

1 A higher percentage of students attending HBCUs use federal loans to finance college compared to their non-HBCU peers.

As noted in Figure 1, the vast majority (80 percent) of undergraduates at HBCUs received a federal student loan in 2013—a markedly greater share than the 55 percent of students attending non-HBCUs. Despite the fact that HBCUs are lower-cost institutions (28 percent lower total cost-of-attendance in 2013)⁴, HBCU students relied more heavily on federal loans to attend college than non-HBCU students.

FIGURE 1 | Percentage of Undergraduates Receiving a Federal Loan by Institutional Sector

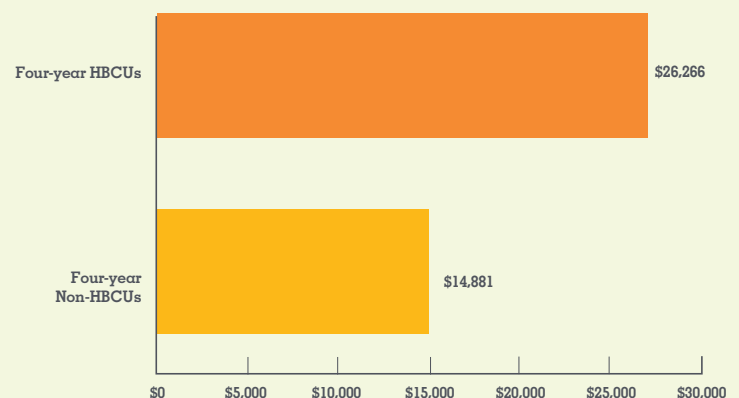


Source: U.S. Department of Education College Scorecard, 2013

2 HBCU graduates borrow substantially greater amounts of federal loans than their non-HBCU peers.

In addition to borrowing at a much higher rate, Figure 2 shows that, in 2012, HBCU bachelor's degree recipients typically incurred much higher amounts of federal loan debt (excluding Parent PLUS Loans) than their non-HBCU peers. The median cumulative federal student loan debt incurred by graduates of HBCUs was \$26,266—about 77 percent greater than the debt (\$14,881) incurred by graduates of non-HBCUs.

FIGURE 2 | Median Cumulative Amount of Federal Loans Borrowed by Bachelor's Degree Recipients by Institutional Sector



Source: National Postsecondary Student Aid Study, 2012

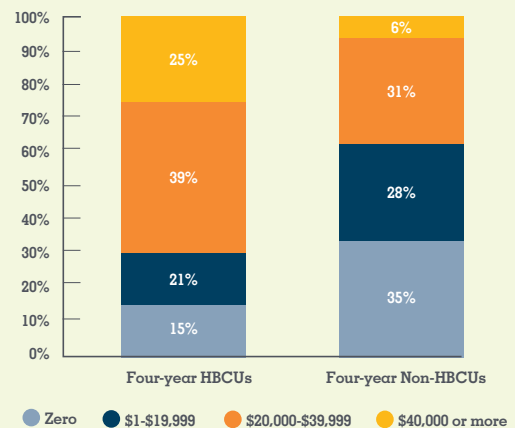
3 The percentage of HBCU graduates who borrow large amounts of federal loans (\$40,000 or more) to finance their degrees is four times that of non-HBCU graduates.

Figure 3 provides insight into the challenges facing HBCU students with regard to financing their college education. The opposite ends of students on the borrowing spectrum—those who borrow \$40,000 or more and those who do not borrow at all—capture the financial circumstances of HBCU students perfectly.

As indicated, the percentage of HBCU bachelor's degree recipients who borrowed \$40,000 or more (25 percent) is four times that of non-HBCU bachelor's degree recipients (six percent). Nearly two-thirds (64 percent) of HBCU graduates borrowed over \$20,000 compared to only 37 percent of non-HBCU graduates. In contrast, only 15 percent of HBCU graduates did not borrow any federal funds. The percentage of non-HBCU graduates who did not borrow any federal funds (35 percent) was more than double the HBCU percentage.

Only 15 percent of HBCU graduates did not borrow any federal funds. The percentage of non-HBCU graduates who did not borrow (35 percent) was more than double the HBCU percentage.

FIGURE 3 | Distribution of Cumulative Federal Loan Debt for Bachelor's Degree Recipients by Institutional Sector



Source: National Postsecondary Student Aid Study, 2012

4 A higher percentage of HBCU students borrow not only federal subsidized loans, but also more costly federal unsubsidized loans and Parent PLUS Loans.

In 2014, 65 percent of HBCU students received a federal subsidized loan, compared to only 37 percent of students at non-HBCUs, as shown in Figure 4. Additionally, 65 percent of HBCU students received a federal unsubsidized loan, compared to 36 percent of borrowers at non-HBCUs. Thus, nearly twice the percentage of HBCU graduates receive each of these financing sources compared to their non-HBCU peers.

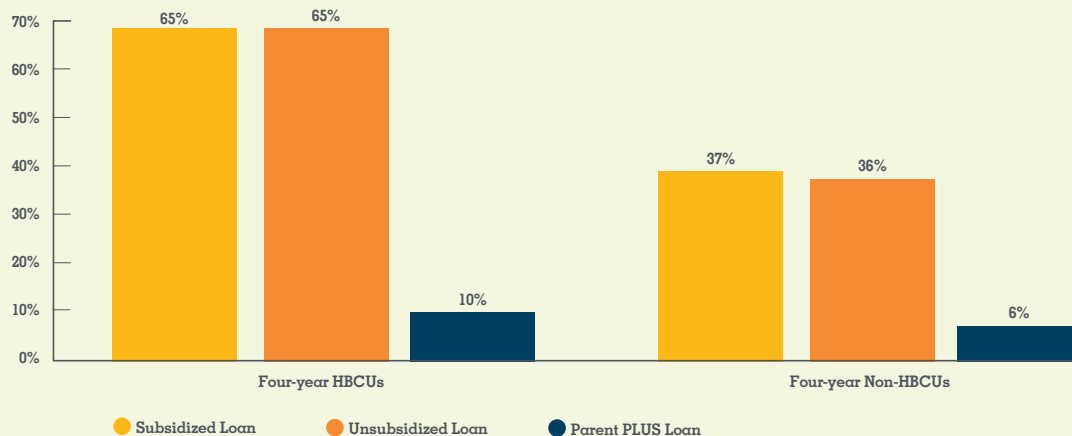
A higher percentage of HBCU undergraduates also finance their education with federal Parent PLUS Loans than non-HBCU students (10 percent vs. 6 percent). Parent PLUS Loans are intended for use after students have utilized both federal subsidized and unsubsidized loans. Accordingly, loan limits for subsidized and unsubsidized federal loans may be insufficient for a proportion of HBCU students and their families who must then turn to other sources of financing, such as Parent PLUS Loans.

SUBSIDIZED, UNSUBSIDIZED AND PARENT PLUS LOANS

Depending on need, students can borrow federal loans that vary in interest charges and fees. Subsidized loans are need-based with an interest subsidy, while unsubsidized loans do not require the recipient to demonstrate financial need and do not include an interest subsidy. Parent PLUS Loans are unsubsidized loans available to parents to assist with college expenses for dependent children, but their interest rates and fees are higher than federal subsidized and unsubsidized education loans.

Source: U.S. Department of Education Federal Student Aid

FIGURE 4 | Percentage of Undergraduate Student Borrowing Rates by Type of Federal loan and Institutional Sector

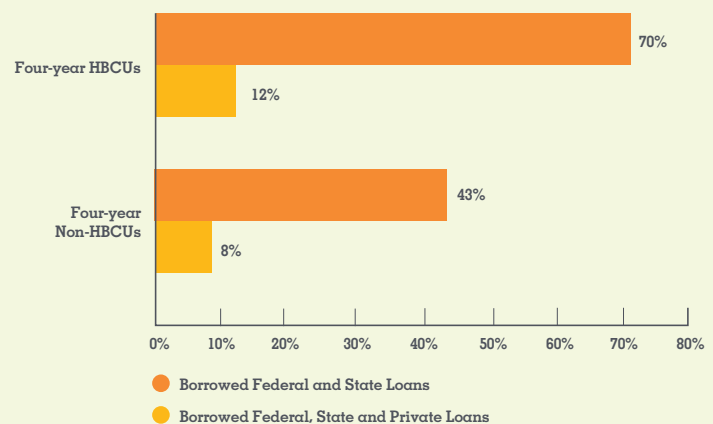


Sources: Federal Student Aid Data Center Student Loan Data; Integrated Postsecondary Education Data System 2013 and 2014

5 A higher percentage of HBCU students combine federal, state and private loans to pay for college than their non-HBCU peers.

In addition to federal loans, some HBCU students borrow state and private loans to fulfill their unmet financial needs. As indicated in Figure 5, 70 percent of HBCU bachelor's degree recipients borrowed a combination of federal and state loans, compared to only 43 percent of non-HBCU graduates. Additionally, more bachelor's degree recipients at HBCUs borrowed private loans in addition to federal and state loans than non-HBCU bachelor's degree recipients (12 percent vs. 8 percent). Private loans can be one of the riskiest ways to pay for college, as they are typically more costly, have higher interest rates and have fewer consumer protections and flexible repayment options than federal loans.

FIGURE 5 | Undergraduate Federal, State and Private Loan Borrowing Rates by Institutional Sector



Source: National Postsecondary Student Aid Study, 2012

6 HBCU students have lower loan repayment rates than their non-HBCU peers.

As shown in Table 1, HBCU students have a lower cohort repayment rate than their non-HBCU peers. According to the most recent data available, in 2013, 59 percent of HBCU borrowers were making progress in paying off their loans seven years after leaving school. For non-HBCU borrowers, the seven-year repayment rate was 85 percent.

TABLE 1 | Seven-Year Loan Repayment Rates by Institutional Sector (2006 Cohort)

	Average Repayment Rate
Four-year HBCUs	59%
Four-year Non-HBCUs	85%

Source: U.S. Department of Education College Scorecard, 2013

WHAT IS FEDERAL STUDENT LOAN REPAYMENT?

After leaving college—whether graduating, dropping out or dropping below half-time enrollment—the student borrower must begin repaying his or her loans. Typically, federal loans have a six-month grace period before the borrower enters repayment. Borrowers can be granted deferment or forbearance to temporarily postpone or reduce payments. Deferment is a temporary delay from loan payments. Loans can go into deferment if the borrower re-enrolls in school, becomes unemployed or faces economic hardships. Loans can be deferred for up to three years. Under forbearance, the borrower can reduce or stop making payments during times of hardship for up to one year. Interest continues to accrue while loans are in grace period and forbearance.

The U.S. Department of Education recently constructed a new loan repayment measure—cohort repayment rate—in the College Scorecard. Under this measure, a borrower must be making at least a \$1 reduction in his or her student loan principal in order to be considered in repayment. If the borrower is in deferment, forbearance or an income-driven repayment plan, but paying only interest, the borrower is not considered in repayment.

Source: U.S. Department of Education, Federal Student Aid



Contextualizing the Challenges

While each of the findings discussed previously provide insight about student borrowing and loan repayment among HBCU students, it is important to understand these behaviors within the context of other information about HBCUs and the students served at these institutions. HBCUs disproportionately enroll more low-income, first-generation and academically underprepared students than other four-year institutions. Table 2 provides insight about student characteristics at HBCUs and non-HBCUs. As indicated, in 2013, over 80 percent of undergraduates enrolled at HBCUs were African American, whereas only 10 percent of undergraduates enrolled at non-HBCUs were African American. Additionally, 71 percent of undergraduates at HBCUs received the Pell Grant, and 41 percent were the first in their families to attend college.

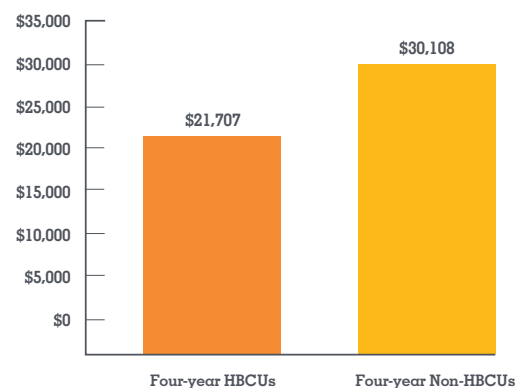
For non-HBCUs, these estimates were 39 percent and 35 percent, respectively. Standardized test scores (e.g., SATs) can be a proxy for academic preparedness; in this regard, the average SAT score for an HBCU student was 859, compared to 1069 for a non-HBCU student. Because of their historic mission to broaden higher education opportunities for underserved groups, HBCUs are less expensive than other four-year public and private non-profit institutions. Yet, regardless of the relatively lower costs of HBCUs, as shown in Figure 6, students who attend these institutions are more likely to graduate with higher levels of debt and lower repayment rates. Several salient factors that help to explain students' borrowing and repayment behaviors are discussed in the following sections.

TABLE 2 | Student Characteristics by Institutional Sector

	Four-year HBCUs	Four-year Non-HBCUs
Undergraduates who are African American	84%	10%
Undergraduates who received a Pell Grant	71%	39%
First-generation students	41%	35%
Average SAT Score	859	1069

Source: U.S. Department of Education College Scorecard, 2013

FIGURE 6 | Average Cost-of-Attendance by Institutional Sector

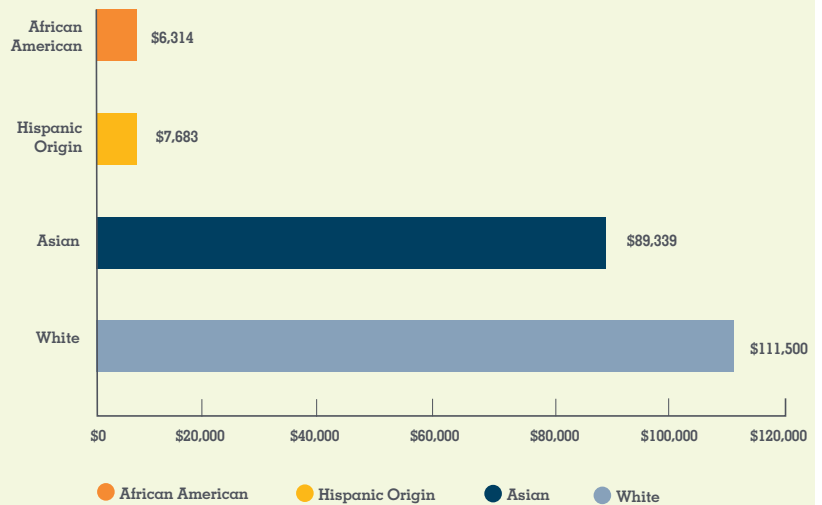


Sources: U.S. Department of Education College Scorecard, 2013.

A higher percentage of HBCU students come from predominately low-income families with lower net worth and lower incomes compared to their non-HBCU peers.

HBCU students' loan needs and borrowing behaviors must be understood within the context of larger socio-economic differences across racial groups. In part, HBCU students borrow more than students from non-HBCUs because African American families generally have lower assets and incomes that limit their ability to contribute toward college expenses. In 2011, the median net worth for African American households was only \$6,314, compared to \$111,500 for white households, \$89,339 for Asian households and \$7,683 for Hispanic households, as shown in Figure 7. Expressed another way, African American families have less than six percent of the typical net worth of white families. Because roughly 80 percent of HBCU students are African American, these estimates suggest that the typical HBCU student has extremely limited family financial assets that could be used to reduce the need to borrow. This conclusion is further reinforced by examining another financial indicator, median family income. The median family income for students attending HBCUs in 2005 was \$28,400—about half the median family income of \$51,400 for students who attend non-HBCUs.^{vii}

FIGURE 7 | Median Household Net Worth by Race/Ethnicity, 2011

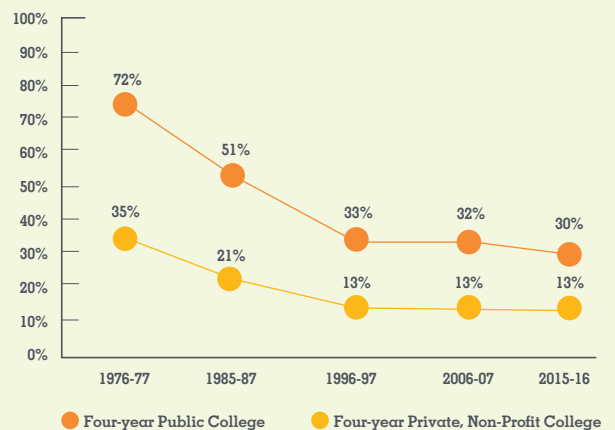


Source: U.S. Census Bureau, Survey of Income and Program Participation, 2011.

The purchasing power of Pell Grants, which HBCU students rely heavily on, has declined dramatically.

The Pell Grant is the largest source of federal grant aid for low-income students who lack the financial means to pay for college. In 2013, 71 percent of students attending HBCUs received a Pell Grant—nearly double the proportion of students who received a Pell Grant at non-HBCUs (see Table 2).^{viii} However, the contribution of the Pell program to meet rising college costs has declined dramatically (see Figure 8). For the 2015-2016 academic year, the maximum Pell Grant award covered 30 percent and 13 percent of the total cost to attend a four-year public college and a four-year private, non-profit college, respectively. This is the lowest proportion of college costs covered since the inception of the program.^{ix} Because of the reduced purchasing power of Pell Grants, low-income students and their families face challenges financing postsecondary education.

FIGURE 8 | Maximum Pell Grant as a Percentage of the Cost of Attendance (Tuition, Fees, Room and Board) by Institutional Sector, 1976-1977 to 2015-2016 Academic Years

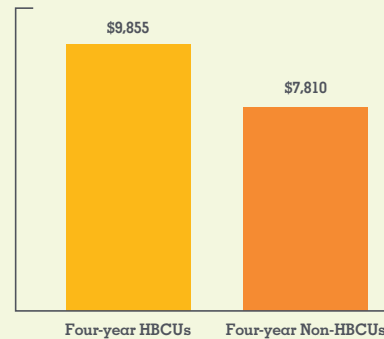


Source: The College Board, Trends in College Pricing, 2015; American Council on Education, Pell Grant Funding History (1976 to 2010).

HBCU students have large amounts of unmet need that require them to borrow student loans.

Even after accounting for grant aid and scholarships, many students at HBCUs do not have all of the financial resources needed to afford college and, thus, are more likely to borrow loans to bridge the gap between aid received and college expenses. Figure 9 illustrates the average unmet need for students at HBCUs and other types of institutions. As indicated, average unmet need for students at non-HBCUs in 2012 was about \$7,810. For students at HBCUs, however, unmet need was about 26 percent higher, averaging nearly \$10,000.

FIGURE 9 | Average Annual Unmet Need by Institutional Sector



Source: National Postsecondary Student Aid Study, 2012

HBCUs have relatively small endowments, which hinders their ability to provide institutional grants to students.

Institutions with larger endowments than HBCUs and vibrant alumni giving programs are better equipped to provide more financial assistance to their students. On average, HBCUs tend to have small endowments and rely more heavily on student tuition and fees to operate. As a result, HBCUs typically cannot provide financial aid packages that are competitive with those from more well-resourced institutions, which requires most students to seek other sources of funding such as loans. In 2015,

the top 10 HBCU endowments ranged from \$34 million to \$660 million, while the top 10 non-HBCU endowments ranged from \$10 billion to \$36 billion.* (For a list of the top 10 HBCU and non-HBCU endowments, refer to Appendix B.) Moreover, alumni giving, which is vital to building institutional endowments, is often lower at HBCUs than at non-HBCUs, due in part to the large gap in wealth between African American families and other racial groups.



Various factors impact HBCU loan repayment rates

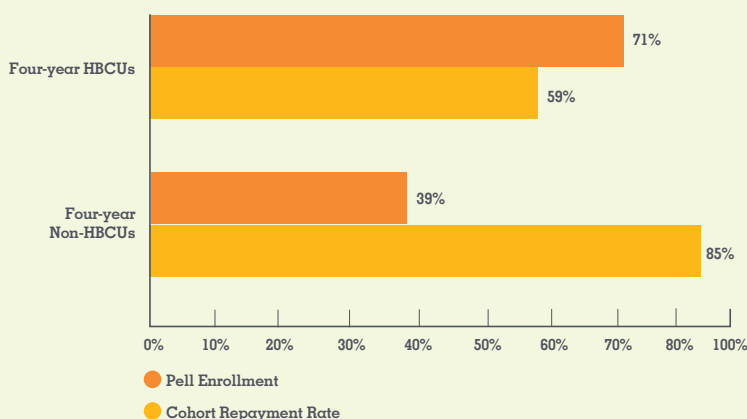
While loan repayment rates provide information about students' progress towards reducing their college debt, these estimates do not take into account several important factors. For example, loan repayment rates can be impacted by the type of loan repayment plan that students select and the methods employed to calculate repayment status. Because of the formula used to calculate loan repayment rates, students that are enrolled in an income-based repayment plan and making timely payments may still be considered "non-repayers" if their payments are not reducing the actual principal loan amount.

More importantly, economic factors, such as individual and family income, unemployment and debt burden also influence loan repayment rates.^{xi} In an analysis of debt distribution at graduation and its impact on loan repayment,^{xii} Mark Kantrowitz, in his report, *The Impact of Loan Repayment Rates on Pell Grant Recipients*, concludes that an institution's repayment rate is largely correlated to the percentage of Pell Grant recipients served at the institution. This research provides useful contextual information for understanding loan repayment rates at HBCUs in particular. As shown in Figure 10, compared to other four-year institutions, HBCUs generally have a lower seven-year loan repayment rate, but also serve a larger percentage of Pell Grant recipients. In 2013, 71 percent of HBCU students received Pell Grants, and the average loan repayment rate for these institutions was 59 percent. In contrast, only 39 percent of students at non-HBCUs received Pell Grants and these institutions had an average loan repayment rate of 85 percent. In other words, non-HBCUs have loan repayment rates twice as high as those at HBCUs, but the percentage of low-income students that they enroll is roughly half the proportion at HBCUs. Hence, the student socioeconomic differences between HBCUs and non-HBCUs can help to explain differences in loan repayment rates.

In addition, students' economic backgrounds can illuminate other elements that influence loan repayment rates at HBCUs. For example, some studies show a correlation between family income prior to college and earnings after college. Figure 11 illustrates findings from a report by the Brookings Institute that examined the relationship between the proportion of students receiving Pell Grants and the median student salary after attending college.^{xiii} According to this report, the higher the proportion of Pell Grant recipients at an institution, the lower students' median salary after attending the institution is likely to be. HBCUs serve the highest proportion of Pell Grant recipients compared with other types of institutions. It follows that HBCU attendees are more likely to have lower salaries that could hinder their ability to either repay their student loans or to enroll in a repayment plan where their payments are not substantial enough to meet the benchmark necessary for "repayer" status.

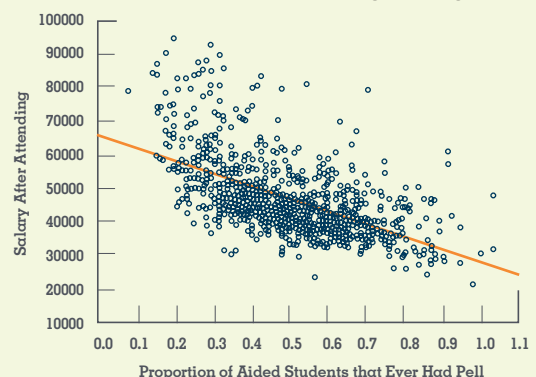
Labor market conditions might also impact students' ability to repay loans. Discriminatory hiring and employment practices may push even well-educated African American college graduates into situations of unemployment and underemployment,^{xiv} which make it harder for them to reduce and eliminate loan debt. Moreover, HBCU graduates are more likely to select majors and related career paths that offer lower salaries. According to a report from Georgetown University's Center on Education and Workforce,^{xv} African Americans are underrepresented in college majors associated with the fastest growing and highest paying occupations. Instead, they are highly represented in majors associated with serving the community, such as human services and social work, which tend to have relatively lower earnings. These unique characteristics increase the burden of repayment for HBCU graduates.

FIGURE 10 | Seven-Year Loan Repayment Rates and Percent of Undergraduates who received a Pell Grant by Institutional Sector



Sources: U.S. Department of Education College Scorecard, 2013

FIGURE 11 | Relationship between the Proportion of Students Receiving Pell Grants and their Salaries after Attending College



Source: Grover J. Russ Whitehurst and Matthew Chingos. *Deconstructing and Reconstructing the College Scorecard*, Brookings Institute, Evidence Speaks Report, Vol. 1, #4, October 15, 2015.

Policy Recommendations

The burden of student loan debt felt by millions of Americans was a significant issue in the 2016 presidential elections. In January 2017, President-elect Donald Trump—and the next U.S. Congress—will have a fresh opportunity to address the financial struggles that HBCU and non-HBCU students face in fulfilling their college dreams. This is critical, not only to HBCU student borrowers, whose future financial well-being is especially compromised, but also to our country, whose economic growth suffers when individuals cannot start businesses,^{xvi} purchase houses^{xvii} and accumulate assets^{xviii} because they are burdened by education loan debt.

What can be done to reduce the heavy debt burden faced by HBCU students? Below are four key areas ripe for reform.

1 **Policymakers should reduce the complexity of the federal student aid eligibility process to reach more low-income students and provide more grant aid for those with need.**

Student aid experts, backed by solid research, confirm that the federal student aid eligibility process is too burdensome and a barrier to college access.^{xix} An estimated two million students leave valuable Pell Grants on the table because they are unable to navigate completion of the lengthy and complex Free Application for Federal Student Aid (FAFSA). This means that some HBCU students may fail to access an average Pell Grant of \$3,700 a year, which could be used to finance college expenses instead of incurring debt.^{xx} President Obama and a bipartisan group of legislators have proposed to streamline the FAFSA^{xxi} and this proposal should be a priority for the HEA reauthorization. In addition, consideration should be given to setting federal aid eligibility for more than one year for qualified students to reduce the requirement to resubmit the FAFSA each year, thus removing a significant obstacle for some HBCU students. Further, the HBCU student loan burden could be reduced if policymakers adjusted the federal needs analysis methodology to account for the very low levels of family wealth among many HBCU students, which increases their need for loans to complete college.

2 **Policymakers should reduce the need for low-income students to borrow loans by increasing grant aid and work-study opportunities.**

Pell Grants were intended to expand higher education opportunities for low-income students by reducing financial burdens. However, this report shows that the maximum Pell Grant award relative to the average annual cost of attending college has fallen to its lowest level since the inception of the program. Consequently, unmet financial need (after grant aid and scholarships) for HBCU students is about \$10,000, on average, a year, requiring them to turn to loans to close the gap. To address these issues, Pell Grants—the financial foundation for HBCU students and other low-income students—should be shored up. Policymakers could do this in a number of ways: increasing the maximum Pell Grant and ensuring that inflation does not erode its purchasing power; restoring the ability of students to receive Pell Grants for summer study; providing Pell bonus awards to keep students on track toward earning their degrees in four years; and expanding Supplemental Educational Opportunity Grants (SEOGs) that go to Pell Grant recipients who have the highest financial need.

In addition to boosting Pell Grants, more HBCU students could assume less debt *and* enhance their employment skills if policymakers expanded and targeted the Federal Work-Study (FWS) program. The FWS program was established as part of a trio of campus-based college aid programs to provide work opportunities for students to help pay college expenses. Policymakers should expand FWS funding significantly to provide additional work and career opportunities for HBCU students and revise the FWS allocation formula so that it rewards those colleges enrolling, serving and graduating Pell Grant recipients. Such reforms would also leverage additional debt reduction for low-income students with FWS earnings supported through the required institutional matching funds (e.g., colleges must contribute at least \$1 for every \$4 awarded).

3 Policymakers should make federal loans less costly for students and their families.

Policymakers could reduce the HBCU student debt burden by making federal loans less costly for students and their families so that students and parents assuming federal loans do not subsidize the federal government. While interest rates on federal student loans declined slightly for the 2016-2017 school year, they are projected to rise thereafter. Moreover, these loans include up-front origination fees that increase student borrowing costs. For example, the Parent PLUS Loan currently requires a 4.3 percent origination fee in addition to a 6.3 percent interest rate.^{xxii} As a result of interest and fees charged, the federal government collects more in net revenue from education loans over the life of the loans than the cost of lending the funds.^{xxiii} In addition, HBCU students and other borrowers should be able to more easily refinance older student loans at today's lower interest rates. These reforms would help to lessen the loan burden that HBCU graduates are confronting currently.



4 Policymakers should ensure that the federal student loan servicing system serves students well and that the student loan repayment process is manageable, effective and efficient.

Policymakers should assist both HBCU and non-HBCU borrowers by creating a single, simple, and automatic income-based repayment plan as the default option for all borrowers, with flexibility for those who wish to make higher payments. This plan could greatly reduce loan repayment risks. While implementation details would need to be studied and perhaps piloted, such a system could be established through a payroll withholding system. Importantly, this program would serve as an insurance mechanism to protect HBCU borrowers during periods of under- and unemployment, guarantee loan repayment and virtually eliminate defaults, making the current federal student loan system more manageable for borrowers and effective and efficient for taxpayers.

This report also finds that the vast majority of HBCU students must borrow loans in order to obtain a postsecondary education; yet, they and other borrowers have not been well served by the more than \$840 million allocated to student loan servicing in federal fiscal year 2016. The poor performance of the federal student loan servicing system has been well documented by the U.S. Department of Education, the Consumer Financial Protection Bureau and the Government Accountability Office.^{xxiv} The result is loan repayment rates that are too low and default rates that are too high among HBCU borrowers. Policymakers should increase oversight over federal contractors that service education loans and expedite steps to improve services provided to borrowers.

Summary

Today, students are borrowing loans to finance their college education at unprecedented rates. Moreover, students at HBCUs, who are typically lower-income and have less access to alternative financial resources, rely more heavily on loans. Data from this study suggest that, compared to their non-HBCU peers, students at HBCUs borrow education loans at greater rates; have higher median loan debt; seek loans from more costly sources (e.g., unsubsidized federal and private loans); and encounter more loan repayment challenges. A host of factors provide critical contextual information for understanding loan debt burdens at HBCUs. These include the decline of federal

investments in need-based aid relative to college costs, unmet student financial need, limited institutional financial aid awards, racial wealth gaps and other economic barriers often experienced by African American students and families. These factors help to explain HBCU students' greater need to borrow loans and their challenges in repaying those loans. At a time when college credentials are crucial, federal policymakers have a unique opportunity to shape federal student aid policies and programs in ways that will help struggling HBCU students secure more resources to earn their degrees with less debt.

APPENDIX A

METHODOLOGY

This study employed data from various large-scale, national datasets for an investigation of student borrowing, debt levels and loan repayment behaviors of students at HBCUs and other institutions. The dataset with the most salient information for a given issue was selected in instances where various datasets overlapped topical areas. For each of these datasets, the latest year of data was utilized in order to provide the most current figures. Furthermore, where applicable, these analyses are restricted to four-year public and private, not-for-profit institutions. Given that this study focused on describing or summarizing data in the aforementioned topical areas, descriptive statistics were the appropriate analytic approach. The following outlines brief information about each of the datasets that were used:

U.S. Department of Education College Scorecard: This robust dataset is provided by the U.S. Department of Education, and combines elements from various sources including the Integrated Postsecondary Education Data System (IPEDS), the National Student Loan Data System (NSLDS) and the U.S. Department of Treasury. Institution-level data is reported, spanning 1996 to 2013. The intended purpose for this dataset is to provide information about institutional performance, financial aid and student outcomes. Data elements include the following topics: federal financial aid, institutional and student body characteristics, academic offerings, admissions characteristics, costs and financial aid, completion rates and earnings and loan repayment.

National Postsecondary Student Aid Study (NPSAS): This study is conducted by the U.S. Department of Education National Center for Education Statistics (NCES) and includes a large, nationally representative sample of institutions and students. NPSAS provides data on students in postsecondary education with a particular emphasis on how they finance their education. This study serves as the primary source of information concerning student aid, and it is used to inform related public policies. Data is available from 1996 to 2012, and compiled from multiple sources including institutional records, government databases and student interviews. While the overall study includes information for both undergraduate and graduate students, these analyses are limited to undergraduates.

Integrated Postsecondary Education Data System (IPEDS): IPEDS is also conducted by NCES and serves as the U.S. Department of Education's core postsecondary education data collection program. It includes institution-level data from 1986 to 2013 on all postsecondary institutions that participate in the federal student financial aid programs as required by the Higher Education Act of 1965. IPEDS is based upon a series of 12 interrelated survey components concerning the following areas: institutional characteristics, completion, graduation rates and outcome measures, admissions, student financial aid, human resources, finance and academic libraries. For this study, data concerning student financial aid was utilized.

Survey of Income and Program Participation (SIPP): SIPP is a household-based survey conducted by the U.S. Census Bureau to measure the effectiveness of existing federal, state and local programs. This survey is also used to estimate future costs and coverage of government programs, as well as to provide improved statistics on the distribution of income and measures of economic well-being in the United States. SIPP includes a continuous series of national panels—each featuring a nationally representative sample gathered during a span of approximately four years. Data is available for panels starting between 1984 and 2008. This survey covers topics such as economic well-being, family dynamics, education, assets, health insurance, child care and food security. This study employed data from the 2008 panel which was collected in 2011.

APPENDIX B

TABLE 1 | Top 10 HBCU Endowments and Top 10 Non-HBCU Endowments, 2015

HBCU	Endowment	Non-HBCU	Endowment
1. Howard University	\$659,630,000	1. Harvard University	\$36,448,817,000
2. Spelman College	\$362,986,000	2. Yale University	\$25,572,100,000
3. Hampton University	\$263,237,000	3. University of Texas System	\$24,083,150,000
4. Meharry Medical College	\$139,054,000	4. Princeton University	\$22,723,473,000
5. Tennessee State University	\$51,416,000	5. Stanford University	\$22,222,957,000
6. Texas Southern University	\$48,684,000	6. Massachusetts Institute of Technology	\$13,474,102,000
7. North Carolina A&T State University	\$48,100,000	7. The Texas A&M University	\$10,477,102,000
8. Winston-Salem State University	\$37,219,000	8. Northwestern University	\$10,193,037,000
9. University of the Virgin Islands	\$34,274,000	9. University of Pennsylvania	\$10,133,569,000
10. Virginia State University	\$33,902,000	10. University of Michigan	\$9,582,335,000

Source: National Association of College and University Business Officers and Commonfund Institute, 2015.

Note: Institutions with missing data were not included.

ENDNOTES

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- ii Maime Lynch, Jennifer Engle, and Jose L. Cruz. *Lifting the Fog on Inequitable Financial Aid Policies*. The Education Trust, November 2011. <http://edtrust.org/wp-content/uploads/2013/10/Lifting-the-Fog-FINAL.pdf>
- iii HBCUs include 101 two- and four-year institutions that are committed to educating students of color from low-income families. Under Title III of the Higher Education Act of 1965, Congress officially defined an HBCU as an institution whose principle mission was, and is, the education of African Americans.
- iv This category of four-year non-HBCUs includes all four-year public and private non-profit colleges and universities and excludes HBCUs.
- v In 2013, the average total cost of attendance at all HBCUs was \$21,707 vs. \$30,108 at other four-year public and private non-profit colleges and universities (excluding HBCUs). Author's calculations use data from the U.S. Department of Education College Scorecard: average annual total cost of attendance, including tuition and fees, books and supplies, and living expenses for all full-time, first-time, degree/certificate-seeking undergraduates who receive Title IV aid. It is calculated from values in the IPEDS Institutional Characteristics and Student Financial Aid components.
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