FACT SHEET

Student Loan Refinancing Impact on **Borrowers of Color**

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With the growing problem of student debt in America – now $1.2 trillion – we need to have a conversation about allowing borrowers to refinance student debt, which disproportionately affects certain demographic groups, including borrowers of color.

Student loan debt has a significant impact on borrowers of color.

- African Americans are graduating having borrowed $30,500 or more at nearly a 2-to-1 rate.
  - 27 percent of African American borrowers have debt levels of $30,500 or higher, compared to just 16 percent of white borrowers. [College Board Advocacy & Policy Center]
- Borrowers of color are more likely to depend on financial aid to attend college, including taking out more private loans and exposing themselves to greater financial risk.
  - There was about a 16 percent increase and 12 percent increase among black and Hispanic borrowers, respectively, taking out private loans from the 2003-04 to 2007-08 school years. Private loans usually have twice the interest rate, making these borrowers more vulnerable to defaulting on their loans. [Education Sector]
- Youth unemployment (ages 16 to 24) is higher for people of color, an added challenge for these graduates with debt.
  - Recent data shows youth unemployment is at 20.7 percent for African American youth and 14.4 percent for Latino youth, compared to 10.8 percent among white youth. [Bureau of Labor Statistics]
- Borrowers of color are more likely to enroll in for-profit schools.
  - For-profit schools usually have higher tuition, increased dropout rates, and account for nearly half of student loan debt. [Federal Reserve of St. Louis]
- More than half of Pell Grant recipients are people of color. However, the maximum Pell Grant amount has not kept pace with the cost of college, forcing many borrowers to take out more in education loans.
  - While Congress has increased the maximum Pell Grant award by $85 to $5,730, that is not enough to cover the average cost of college, which has increased at five times the rate of inflation. [Inside Higher Ed, Huffington Post]

Borrowers of color would greatly benefit from refinancing student loans.

- Allowing for refinancing of student loans would relieve pressure from borrowers.
  - If $30,500 of debt was paid back at a flat 6.8 percent interest rate over 25 years, it would cost borrowers $63,500.
    - Refinancing this debt to a 3.86 percent interest rate would decrease the burden to $47,600, saving around $16,000, and lowering monthly payments by about $53.
    - Refinancing this debt to a 4.8 percent interest rate would decrease the burden to $52,400, saving around $11,000, and lowering monthly payments by about $40.
  - If $26,600 of private loan debt was paid back at a flat 13.6 percent interest rate over 25 years, it would total $93,600.
    - If borrowers were given the power to refinance to a 4.8 percent interest rate, it would lower the total payment to around $45,725, saving the consumer around $48,000.
- Implementing student loan refinancing will protect borrowers, and their financial security.
  - Allowing borrowers to refinance for a lower interest rate will help them afford reasonable and flexible monthly loan payments that will not economically cripple the borrower.

**Note: Interest rate calculations are based on proposed legislation that would allow borrowers to refinance at those rates. Debt amounts are based on average debt for college graduates.*