SOUTHSTRONG
PEOPLE FIRST. EQUITY CENTERED

TOPIC: Higher Education
LEVEL OF GOVERNMENT: Federal, State

The Student Debt Crisis's Impact on the South and A Path Toward Economic Recovery

Anna N. Smith, *Research Associate at the Roosevelt Institute*

PROBLEM

The growing national student loan balance is a looming threat to the Southern economy, narrowing the path toward a lasting economic recovery. Prior to COVID-19, national student debt was already a major barrier to borrowers' economic mobility, with two-thirds of borrowers unable to pay their principal or monthly interest on payments. Now, with unemployment still high, the impact of student debt will only compound.

Even though Southern borrowers do not hold the most student debt in the nation, the region's high unemployment rate—among young people in particular—means student borrowers struggle to pay off their debt. Indeed, several Southern states have student debt–to-income ratios higher than the national average.

Student debt is also a particular challenge for the South because of the ways it contributes to the racial wealth gap. Long-standing racial inequities within the economy and education system force Black students to borrow at disproportionately higher rates than white students do. In fact, in 2016, 85 percent of Black students took on debt to finance their higher education, compared to 70 percent of white students and 69 percent of students overall. Furthermore, students at Historically Black Colleges and Universities (HBCUs) borrow at higher rates than those at non-HBCUs. And, as Dr. Sherice J. Nelson noted in their SEAP policy brief, "Prioritize HBCUs for Pandemic Assistance", HBCUs are concentrated in the Southeast.

Unless immediate action is taken, student debt will weigh down the Southern economy, with Black borrowers bearing the brunt of the burden.

Key Data

- As of 2019, federal student loan debt reached $1.6 trillion. Household debt is already high in several Southern states. Nationally, student debt makes up an average of 11 percent of total household debt. Of the Southern states, Virginia, North Carolina, South Carolina, and Florida make up the highest debt-to-income ratio with an average high of 2.03.
- The South has high student debt, with the average Southern borrower taking on $35,592 and an average of around 60 percent of students taking on debt. In fact, from 2004 to 2019, the average debt grew by 83 percent in Georgia and by 93 percent in Virginia.
- Compared to white borrowers, Black students are more likely to take on loans, graduate with higher rates of debt, and struggle to repay their debt. In fact, 20 years after starting school, the median white borrower has paid off 94 percent of their debt, while the median Black borrower still owes 95 percent of their debt.

- Twenty-one percent of Black bachelor's degree holders have defaulted on their student loan payments within 12 years of graduation, compared with only 3 percent of white borrowers. A recent study found that 13 percent of Black borrowers are likely to never be able to repay their loans.
- Students at HBCUs on average borrow $11,385 more than non-HBCU students. This is in part because HBCUs enroll a larger share of low-income students—71 percent, compared to 39 percent at non-HBCUs. With 75 percent of HBCUs located in the South, this specific debt burden has fallen particularly hard on Southern Black students.
- In the South, the youth unemployment rate is substantially higher than the rest of the country. In April, the Southern youth unemployment rate was 29.0 percent, compared to the national average of 24.4 percent. Youth workers also made up 15.4 percent of the unemployment claims filed in the South in September.
- In particular, young Black workers have experienced far higher rates of unemployment than their white peers. As of August 2020, the unemployment rate among young Black workers was 24.7 percent, compared to 11.9 percent among young white workers. This racialized economic divide and path toward recovery among young workers parallels that of the Great Recession, in which young Black men ages 18–24 had higher unemployment rates than their white and Latinx workers post-recovery.

SOLUTIONS

- **Widespread Student Debt Cancellation.** Amid a recession that's likely to be prolonged, substantial student debt will continue to weigh heavily on Southern borrowers. With the average Southern borrower holding $36,650 in student debt, $50,000 in widespread student debt cancellation would relieve the majority of Southern borrowers of their debt burdens; $75,000 in debt relief would alleviate the debt for up to 80 percent of Black households, and would increase overall Black wealth by 42 percent. Widespread student debt relief can provide real and meaningful stimulus to the South and the economy at large, helping to create a more equitable economy post-recovery.

- **Debt-Free College for All.** Student debt cancellation is only a short-term solution to a mounting crisis. Making college debt-free and accessible for all students, on the other hand, will provide long-term relief without prolonging the student debt crisis. In 2016, Tennessee became the first state to offer free college tuition: At the Williamson Campus of Columbia State Community College, the Tennessee Promise Scholarship Act now offers free tuition to low-income students, resulting in record community college enrollment. While this program is by no means perfect, it shows that free college education is a significant step toward more equitable access to higher education—without the undue burden of student debt attached.