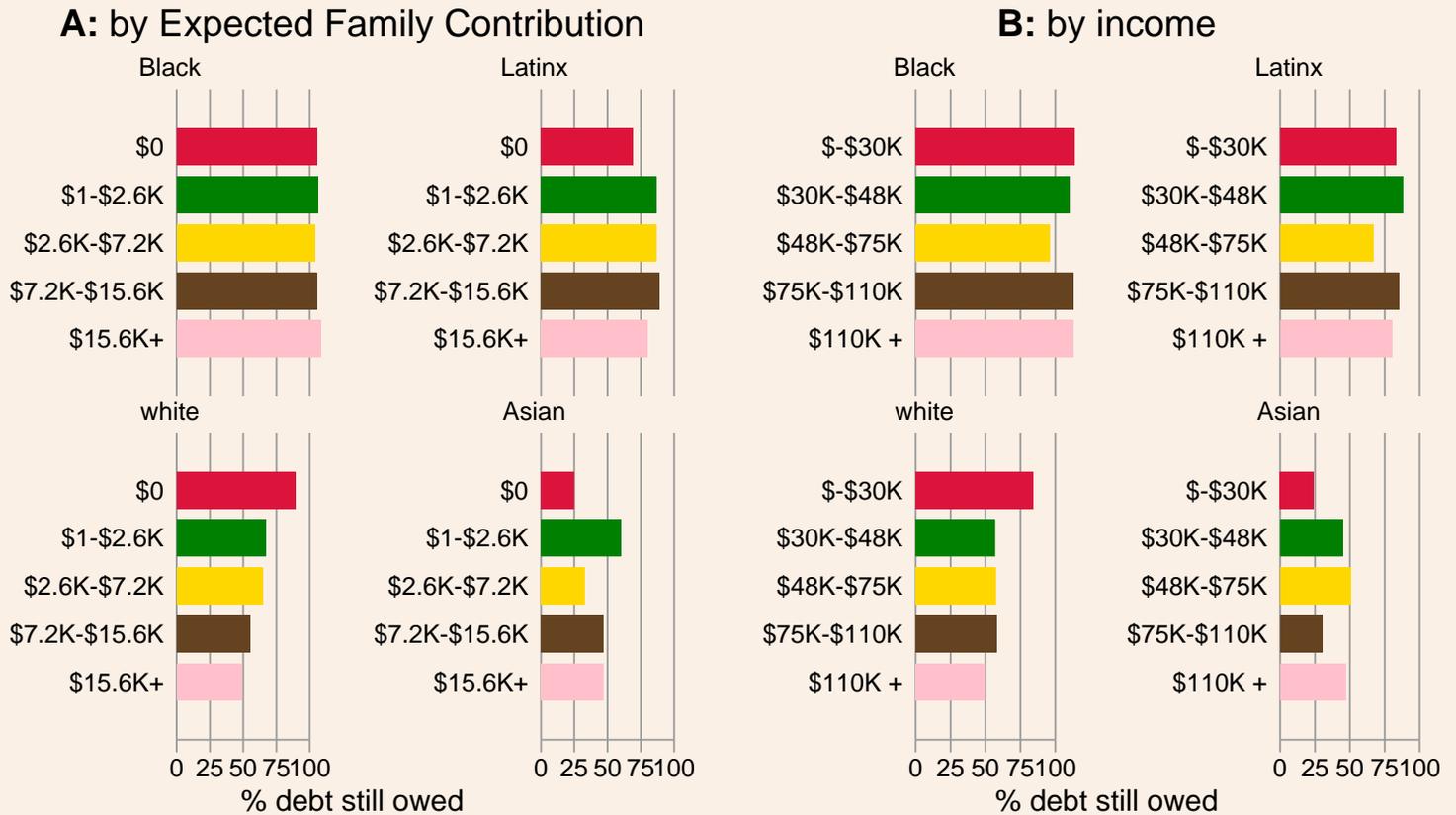


# Student debt and the hidden racial wealth gap in federal aid formulas

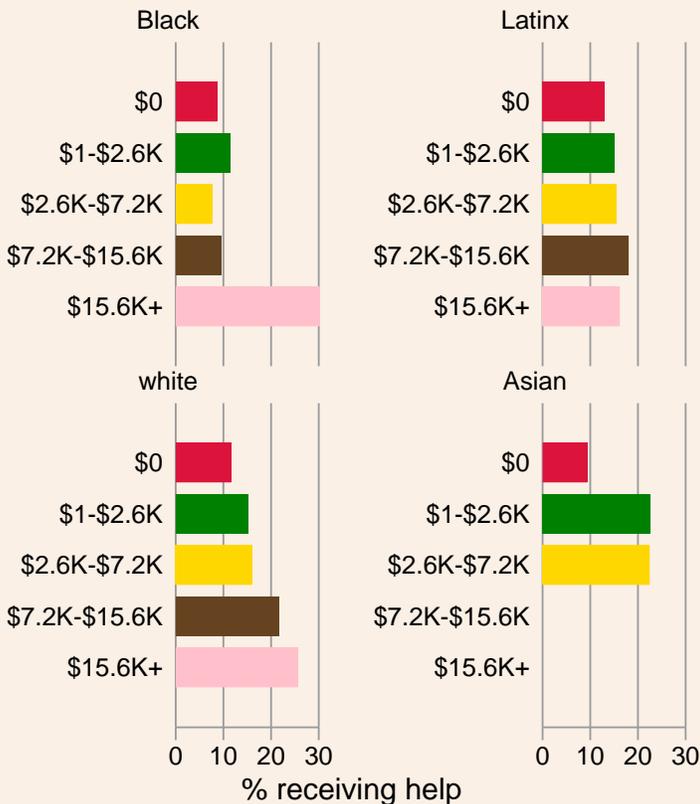
by Jay Colond, Charlie Eaton, Ruben Gonzalez, and Waleed Rajabally\*, University of California, Merced

September 28, 2020

**Figure 1: % original debt still owed after 12 Years**



**Figure 2: % getting help repaying debt by Expected Family Contribution**



**Notes:** The median 2004 Black student borrower still owed 113% of their undergrad student debt 12 years later due to compound interest (Miller 2017). The figures above break out the median % still owed by Expected Family Contribution (EFC, Figure 1A) and income (Figure 1B) brackets. We do so to illustrate that the EFC formula for awarding federal and school grant aid dollars does not account well for wealth deprivation in non-white households by the racial wealth gap. EFC is a means test primarily based on income. EFC excludes most home equity and college savings funds rather than awarding additional aid to those who lack these assets. Addo, Houle, and Simon show that deprivation of household wealth explains much of the gap in initial borrowing between Black and white students (2017). Many non-white borrowers also struggle to repay these debts because EFC does not account for how wealthier households receive more family assistance in repaying debt. If EFC adjusted for this, we likely would see declines in debt still owed in higher EFC categories in 1A. This is only the case for white households for whom income and wealth are more strongly associated. Instead, the % of debt still owed is relatively consistent across all EFC levels for other racial groups, mirroring the pattern across income brackets in 2B.

Figure 2 shows that only white borrowers consistently receive more help with repayment from family as EFC increases. This fits our thesis that the racial wealth gap constrains even higher income non-white families from helping their children with repayment. Further research is needed to assess other potential dimensions of student debt disparities within racial categories.

We use a Du Boisian approach to plot these disparities. Du Bois used bar graphs for cross tabular analyses decades before this became state of the art in the social sciences (Battle-Baptiste & Rusert 2017). We use a new Du Bois Stata scheme (Eaton et al. 2020) to automate graphing with Du Bois' color palette and other style elements (Starks 2019). Data is from the Beginning Postsecondary Survey via Powerstats.

Data/code/Stata scheme @: <https://github.com/jcolond/dnd>  
\*Authorship is jointly shared with authors listed alphabetically.