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LOYOLA UNIVERSITY CHICAGO

EDUCATIONAL DEBT: EDUCATIONAL LOANS AND THE FAMILY

A THESIS SUBMITTED TO  
THE FACULTY OF THE GRADUATE SCHOOL  
IN CANDIDACY FOR THE DEGREE OF  
MASTER OF ARTS

PROGRAM IN SOCIOLOGY

BY

KEYLA NAVARRETE

CHICAGO, IL

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## ABSTRACT

Student debt is a well-documented topic in sociological literature. It is well known that there is a student loan crisis in the United States. However, kinship or familial ties in educational debt is not as studied as individual student loans. The student debt crisis seems to reach a new catastrophic level as years pass. Yet, not much research exists that looks at external sources of financing for students such as parents, grandparents, or other familial ties. This study contributes to the literature of student debt by analyzing debt patterns across those that take out loans for themselves, their spouse, or their children. More specifically, this study hones in on the conditions that bring someone to take out an educational loan at all and how that differs from people that take out educational loans for their spouses or children.

Using data from the 2016 Survey of Consumer Finance, this study quantitatively examines how race, sex, education, income, and number of kids affect the total amount borrowed, the interest rate given, and whether or not it was a Federal loan taken out. The results reinforce previous findings of race being an indicator of more educational debt, however, I did not find a significant predictor for interest rates and could not make an argument for predatory lending practices.



## Introduction

Higher education is now one of the most highly controversial and debated topics across American households. Discussions are fueled over opinions regarding who should pay for higher education, how much education should cost, and particularly the student loan crisis (Cooper, 2017). While all of these concerns are valid, what seems overlooked in these debates is that educational debt is increasingly becoming a family affair. Historically, literature regarding educational debt tends to focus solely on the student and very little on external forces that might be at play in financing the student's educational career. It is common to find literature measuring the mass amount of student loans taken out by young, naïve co-eds, nonetheless I believe the scope is far too narrow in these discussions. Very frequently are parents only viewed as structural support, but in many cases, parents act as primary financial support in funding college educations. There is much left to explore in the realm of educational debt. Overlooking parental educational debt portfolios and the intricacies within that allows the story of student debt to move forward with a vital piece of the puzzle missing.

I seek to fill this gap in the literature by shifting the attention from students to parents. Throughout this paper I will use the term "educational debt" because I believe it is more inclusive and better explains the debt burden. In analyzing debt portfolios of middle-class parents, I can examine the true effects of tuition costs on parents. Even when parents are not personally financing tuition costs under their own names, they might act as a proxy to educational loans by co-signing for their student's loans. When a parent co-signs for an

educational loan this loan not only follows the student, but the co-signer as well until it is paid off. When a person runs their credit report, any loans they have co-signed for show up as part of their debt and so does the payment history on those loans. If the student misses a payment or makes a late payment, that error not only affects the student, but the co-signer as well. Moreover, if a student ever defaults on a loan, the co-signer is the one that faces the consequences and is stuck making payments on that loan. This process binds generations of families together for an entire lifetime and can have grave affects for co-signers.

This analysis is timely because educational debt is at the forefront of public discourse and is a major topic that has made its way to political platforms and campaigns (Ross, 2013). There is also a sudden public angst at the dollar amount that educational debt is currently at. Student debt is at the highest it has ever been, with it recently surpassing consumer debt at 1.5 trillion dollars (Zaloom, 2019). How much of that student debt is actually paid for by parents? How much debt is missing from that 1.5 trillion dollars because this debt is taken on by parents or is financed by borrowing against a mortgage or retirement account or another privatized market approach? When it comes to loans that parents co-signed for, how much of it is actually paid for by the parent because the student cannot afford it or has defaulted on it? It might even be worthwhile to investigate 529s; educational saving accounts, that are taken out by grandparents and how intergenerational forces factor into educational debt (Zaloom, 2019). There appears to be more actors in the educational loan framework than we might know of.

Middle-class students are among the top borrowers and that number is even higher among students of color (Houle, 2018). Due to the established fact that students of color are among the top borrowers, I expect to find the same pattern among parents. Therefore, I expand

my lens to include racial and ethnic characteristics that may explain differences in educational debt across borrowers. This study separates students from parents and federal loans from everything else. Individual student debt is well tracked at the federal level and perhaps at the private level. However, I believe parental debt is much vaguer because of the complex nature that accompanies it. Some parents do not simply take out a personal loan to cover tuition costs. Some parents in fact take out a second mortgage or borrow against retirement accounts in order to finance college. Whatever the financing manner may be, I believe that there is a gap in educational debt literature. I believe parents hold a larger role in educational debt and in many cases probably even levy a significant amount themselves for an education that is not even theirs (Zaloom, 2019).

I analyze educational loan debt by using data from the Consumer Finance Survey. This survey collects basic demographic information along with families' debt information, type of loan, and interest rates (Board of Governors of the Federal Reserve System, 2019). This survey is suitable because of the focus on adults or head of households as the main respondents. The questions that measure educational debt allow us to categorize for who the educational loan was taken out for, how much the loan amount was for, the interest rate given on that loan, and whether the loan is a federal loan or not. The question that probes for who the educational loan is for allows us to make a relational connection between parent and child and provide an inter-familial analysis. The rest of this paper lays out the conceptual framework I use to organize educational debt as well as a literature review of the relevant literature. I discuss the details of the survey more in depth in the methods section as well as my plan of analysis. Results are reported following the methods section and they are reviewed in the discussion section. I conclude with a

brief policy discussion and tie race back to education and why it is important to the discrepancies in educational loan debt.

### **Conceptual Framework**

I draw on the rise of Neo-liberalism, social reproduction theory, and the concept of a financialized society to explain why the family might play more of an important role in the educational debt crisis than initially thought. These frameworks are three that were consistently used in addressing educational debt throughout the literature. Neo-liberalism addresses how the contemporary family and student have increasingly become privatized borrowers. Social reproduction theory explains inequalities across generations and why they persist. Regarding social reproduction theory, I am interested in the familial aspect of it. I think it will best explain the problematic nature of pinning the financing of education on families. Families are at the core of the economic order of this framework, yet not every family is created equally. It is also important to draw on this idea of a financialized society because it addresses the aftermath of the rise of Neo-liberalism, as well as the development of privatized markets.

#### *The Rise of Neo-liberalism*

Melinda Cooper (2017) provides a theoretical timeline on the rise of Neoliberalism and the effects of Reaganism. The rise of neo-liberalism resulted in an inverse relationship with government assistance to citizens. Such a rise led to the restructuring of governmental duties that ultimately shifted fiscal responsibilities onto the family. The privatization of welfare is seen across various policy areas. When turning to higher education, President Reagan's rewrite of the Higher Education Act of 1965 pushed the Neoliberalist agenda forward and the family father back. Before Reagenism, President Johnson made it possible for students from low-income

families to access four-year universities that typically acted as channels for perpetual class reproduction. With the election of President Reagan came a turning point for higher education, it was the first time that neoliberal ideologies surrounding higher education were enacted on a macro-level. With President Reagan's first budget came a shift of prioritization from focusing on grants, to focusing and pushing student loans. Considering this neoliberal emphasis on the financing of education, a student that does not come from a family of wealth will have a harder time financing their education even after turning to their family for help.

### *Social Reproduction in The Neoliberal Era*

Social reproduction is not commonly addressed in discussion regarding higher education. The more traditional approach points to human capital theory, resource dilution hypothesis, and status-attainment theory. I turn the focus to social reproduction theory because I am concerned with the shifting ground of social reproduction within the family in the post neoliberal era. Households find themselves shifting their means to capital from labor power to the provision of payments to finance capital. The privatization of social reproduction is meaningful because it places the household as fundamental to the economic order. In particular, the household is essential in the shift to a finance-led society. The family is an important unit in this equation because the post-Keynesian, neoliberal era removed the state's fiscal duties from areas it was traditionally involved in.

The family is faced with the costs and risk of the daily maintenance of life, while at the same time experiencing this shift to the maintenance of contracted payments to sustain the daily maintenance of life. It is in this aspect of social reproduction where the family faces a crisis (Adkins, 2019). Confronted with rising tuition costs and the withdrawal of the government from

the national welfare state, families are increasingly forced to turn to the privatization of college tuition. Social reproduction is at a crisis because the contemporary finance-led economy places families in low- and middle socioeconomic positions at disadvantages. This intersection of privatized financial markets and social reproduction has created a permanent condition of debt-fueled uncertainty among families.

### *A Financialized Society*

A financialized society is a phenomenon that engendered from the concepts I discussed above. The rise of neoliberalism along with the crisis that social reproduction is facing, gave rise to this idea of a “financialized society.” “Current levels of household debt are massively unsustainable” 75 percent of American households are deeply indebted, and one in seven is being pursued by a debt collector. Median household debt has risen to \$75,600 (Ross, 2013).” An average American does not even own their phone, even something as menial as a phone contract has turned into a financialized process. Not only are basic household needs extremely financialized, so are the mass amount of college degrees in the middle class.

A financialized society is important because it creates a perpetual cycle that will keep sustaining itself because the chunk of Federal loans that are distributed come from an already set budget. On the other hand, privatized loans perpetuate and sustain a financialized society through Student Loan Asset-Backed Securities (SLABS), if someone defaults on their educational loan, there is always something ready to be taken as collateral. It seems that the contemporary modern world sustains itself by loans and debt. This is true for cars, education, homes, many even finance their phones. Looking further into the dataset, the amount of respondents that hold Federal educational loans is astounding.

## *Background*

Higher education has a long history in the United States. In the early formative years, mostly high-income men attended private liberal arts universities. Whereas, more middle-income men attended public state schools that had a stronger focus on vocations (Bailkey et. al, 1953; Jackson et. al, 1962). Land-grant universities are a good example of public school with a strong orientation towards the vocations. At this point in time, very few women attended universities, for the most part wealthy men dominated enrollment in universities. Post-World War II came the equalization of opportunity discourse that brought about the GI Bill. However, the GI Bill was not aimed towards lower-income people in general, it was aimed solely at those that have served in war. Regardless of financial situation, this opened the door to education for many by funding tuition and living expenses (Bailkey et. al, 1953; Jackson et. al, 1962).

The GI Bill quickly increased enrollment rates across American Universities. This legislation paved the way for many veterans that would have otherwise not attended college. It brought more men into the university system, for some time it grew the sex gap even larger. (Bailkey et. al, 1953; Jackson et. al, 1962); Ewert, 2010) Slowly, but surely more women started enrolling in universities and began to outnumber men in degree conferrals. Policy regarding higher ed began expanding beyond veterans and this allowed more women, minorities, and low-income people to enroll in college. Then, as mentioned before, the Reagan era neo-liberalist policies began, and the government began removing itself from its financial duties. Funding college used to be a real and simple concept. It also used to be a realistic concept that was able to be achieved without the debt that many current students carry with them. However, in recent years, the cost of attending college has skyrocketed. The cost of tuition is rising at a much higher

rate than inflation (Martin, 2002). It seems almost impossible to keep up with rising cost of American universities, leaving many Americans with aspirations and realities that do not go hand in hand. Going back to my conceptual framework, many American college students are left with no other option than to finance their education via loans whether they be Federal or private. It is important to note that the funding of higher education can be a highly stratified process. There are multiple mechanisms at work that determine how and why a student funds the cost of higher education.

## **Literature Review**

### *Educational Loans*

Educational debt is heavily referred to as student debt and commonly revolves around the student borrower. The American public, as well as legislators are aware of the educational debt crisis (Doyle, 2007). Much of the discourse and literature surrounding educational debt focuses on parental willingness to take on debt, sib-ship size, lending practices, preparing parents and students for college, the national amount that educational debt has recently reached, etc. There is not much literature available that studies predatory lending or predatory interest rates among educational loans. Before moving forward, I want to define available loans at the Federal level to eligible students in the United States. There are of course, the classic private loans that are always available to students via third party lenders. For example, Sallie Mae, Discover Student Loans, Wells Fargo, etc.

They vary in their requirements as well as their interest lending rates. These types of private loans usually require a credit check and, in many instances, require someone to co-sign the loan. The terms are different for the private lenders, some may require students to make



payments while in school, some may require payments immediately upon graduation, and some might provide a grace period after graduation; like many federal loans provide. There are a few alternatives to the common private educational loan, parents can also use equity on their home or borrow against their retirement account or pension. When it comes to Federal Student Loans, there are three common loans available to students seeking financing; Direct Subsidized Loans, Direct Unsubsidized Loans, and Direct PLUS Loans. All three of these loans were made available in 1965 through the William D. Ford Federal Direct Loan Program. This federal student loan program made it possible for eligible students and parents to borrow directly from the U.S. Department of Education at participating schools (U.S. Department of Education, 2019). These loans do not have the same requirements as the private loans mentioned above. They are subject to different requirements and have different eligibility criteria than their private loans.

Eligible students may borrow subsidized and unsubsidized loans in a different manner than with private companies. Students are not necessarily subjected to the same rigorous credit checks when using Federal loans, however parents electing to use a parent PLUS loan must pass a credit check when applying for the loan (U.S. Department of Education, 2019). These Federal loans have set amount that students can borrow along with a standard interest rate that is given with these loans and they vary as student progress in their college years. The interest rates are standardized (around 3-7%) and tend to be lower than what private lenders offer. Below is a chart that outlines and describes each of the three main loans available at the Federal level. This loan program is the foundation of education lending practices through the Federal government. Since this program, every rewrite or amendment to a program is based off this original program.

Federal Loan Program	Program Details	Annual Award (subject to change)
<b>Direct Subsidized Loans</b>	<ul style="list-style-type: none"> <li>For undergraduate students with financial need</li> <li>For loans first disbursed on or after July 1, 2019, and before July 1, 2020, the interest rate is 4.53%</li> <li>You're not usually charged interest on the loan during certain periods, such as when you're in school at least half-time</li> <li>The U.S. Department of Education (ED) is the lender; payment is owed to ED</li> </ul>	<p>Up to \$5,500 depending on grade level and dependency status*</p> <p>For total lifetime limit, go to <a href="https://studentaid.gov/sub-unsub">StudentAid.gov/sub-unsub</a></p>
<b>Direct Unsubsidized Loans</b>	<ul style="list-style-type: none"> <li>For undergraduate, graduate, and professional degree students; financial need isn't required</li> <li>For loans first disbursed on or after July 1, 2019, and before July 1, 2020, the interest rate is <ul style="list-style-type: none"> <li>4.53% for loans made to undergraduate students, and</li> <li>6.08% for loans made to graduate and professional degree students</li> </ul> </li> <li>You're responsible for paying the interest during all periods</li> <li>ED is the lender; payment is owed to ED</li> </ul>	<p>Up to \$20,500 (less any subsidized amounts received for same period) depending on grade level and dependency status*</p> <p>For total lifetime limit, go to <a href="https://studentaid.gov/sub-unsub">StudentAid.gov/sub-unsub</a></p>
<b>Direct PLUS Loans</b>	<ul style="list-style-type: none"> <li>For parents who are borrowing money to pay for their dependent undergraduate child's education, and for graduate or professional degree students;* financial need isn't required</li> <li>For loans first disbursed on or after July 1, 2019, and before July 1, 2020, the interest rate is 7.08%</li> <li>You must not have an adverse credit history (unless you meet certain additional eligibility requirements) **</li> <li>ED is the lender; payment is owed to ED</li> </ul>	<p>Maximum amount is the cost of attendance (determined by the school) minus any other financial aid the student receives</p>

\*Learn about dependency status at [StudentAid.gov/dependency](https://studentaid.gov/dependency).

\*\*Learn about PLUS loans and adverse credit at [StudentAid.gov/plus](https://studentaid.gov/plus).

Figure 1. Federal Loan Programs

### *Educational Loan Trends*

Turning to a more specific profile of educational debt, I want to show the trends in loans at the national level from the 1990's to about 2012. The first table shows percentages of educational loans and the second table shows amounts. There is an increasing trend of parental involvement in the Parent PLUS loan. The Parent PLUS loan has increased its prevalence from 4% in 1989 to nearly 20% in 2012. It also worth noting that Non-Federal student loans were not given a category until the 2011-2012 data year. Every type of loan in this table increases throughout the years. That seems somewhat plausible for students at the very least because it is

their own education that they are financing. However, the increase in Parent PLUS borrowing is worrisome because it is speaking to a different degree of the educational debt crisis. It is no longer only affecting students; it is slowly entangling parents into the larger “student debt crisis.” Parents are beginning to show representation in Federal educational loans as borrowers as well, this is clear as there is a rise in Parent PLUS loans. They are embedding themselves into the web of educational debt.

**Table 331.95. Percentage of undergraduate students ages 18 to 24 in their 4th (senior) year or above who ever received federal loans, nonfederal loans, or Parent Loans for Undergraduate Students (PLUS), and average cumulative amount borrowed, by selected student characteristics and control and level of institution: 1989-90, 1999-2000, and 2011-12**

Selected student characteristic or control and level of institution	[Standard errors appear in parentheses]											
	1989-90				1999-2000				2011-12			
	Loans to students			Parent PLUS Loans <sup>4</sup>	Loans to students			Parent PLUS Loans <sup>4</sup>	Loans to students			Parent PLUS Loans <sup>4</sup>
	Total loans to students <sup>1</sup>	Federal loans to students <sup>2</sup>			Total loans to students <sup>1</sup>	Federal loans to students <sup>2</sup>			Total loans to students <sup>1</sup>	Federal loans to students		
2	Stafford Loans <sup>3</sup>	Perkins Loans	4	6	Federal loans to students <sup>2</sup>	7	8	9	10	11	12	
<b>Total</b>	<b>50.5 (0.81)</b>	<b>38.0 (0.77)</b>	<b>13.0 (0.65)</b>	<b>4.1 (0.22)</b>	<b>60.2 (0.66)</b>	<b>58.1 (0.69)</b>	<b>12.4 (0.51)</b>	<b>67.7 (0.74)</b>	<b>64.3 (0.71)</b>	<b>29.0 (0.73)</b>	<b>19.9 (0.70)</b>	
Sex												
Male	51.8 (1.24)	37.9 (1.18)	12.6 (0.76)	3.8 (0.29)	58.2 (0.98)	55.8 (0.99)	12.4 (0.56)	67.2 (1.14)	63.4 (1.10)	29.2 (1.09)	19.9 (1.07)	
Female	49.3 (0.90)	37.9 (0.88)	13.1 (0.72)	4.4 (0.30)	61.8 (0.87)	59.9 (0.88)	12.3 (0.70)	68.0 (1.01)	65.1 (1.05)	28.9 (0.96)	19.9 (0.91)	
Race/ethnicity												
White	49.5 (0.97)	36.8 (0.92)	11.9 (0.64)	4.2 (0.27)	58.9 (0.79)	56.9 (0.82)	12.4 (0.57)	65.5 (0.87)	62.1 (0.81)	29.6 (0.92)	19.9 (0.88)	
Black	68.9 (2.24)	57.1 (2.16)	23.2 (2.42)	7.0 (1.06)	76.8 (2.53)	74.5 (2.49)	15.5 (1.47)	90.3 (1.34)	88.1 (1.74)	31.3 (3.03)	30.4 (2.25)	
Hispanic	57.3 (3.71)	42.3 (4.17)	15.9 (1.65)	4.3 (0.99)	67.4 (2.28)	64.3 (1.88)	14.0 (1.79)	72.3 (1.93)	70.2 (1.98)	28.4 (2.19)	19.3 (2.06)	
Asian <sup>5</sup>	40.5 (1.78)	27.5 (2.30)	13.4 (2.68)	± (†)	50.6 (2.16)	49.5 (2.22)	7.5 (1.29)	50.8 (2.88)	45.2 (2.72)	21.4 (2.76)	9.9 (1.58)	
Pacific Islander	— (†)	— (†)	— (†)	— (†)	55.3 (9.93)	55.3 (9.93)	14.2! (5.01)	± (†)	± (†)	± (†)	± (†)	
American Indian/ Alaska Native	± (†)	± (†)	± (†)	± (†)	46.9 (9.93)	38.7 (9.01)	± (†)	± (†)	± (†)	± (†)	± (†)	
Two or more races	— (†)	— (†)	— (†)	— (†)	50.1 (4.67)	48.5 (4.93)	9.4! (2.91)	77.9 (3.68)	76.4 (3.84)	36.1 (4.68)	20.2 (4.44)	

Figure 2. Distribution of Federal Loans; U.S. Department of Education

Total	Average cumulative loan amount for students with loans (constant 2015-16 dollars) <sup>6</sup>										
	\$15,400 (330)	\$12,000 (210)	\$4,500 (160)	\$9,100 (260)	\$22,400 (200)	\$19,600 (150)	\$19,600 (770)	\$26,600 (410)	\$21,200 (230)	\$15,100 (750)	\$28,600 (1,270)
Sex											
Male	15,900 (360)	12,300 (260)	4,400 (220)	9,800 (410)	22,300 (310)	19,700 (190)	20,300 (1,000)	26,900 (670)	20,900 (320)	16,700 (1,280)	29,900 (2,150)
Female	14,900 (410)	11,700 (230)	4,700 (170)	8,800 (440)	22,500 (300)	19,500 (230)	19,000 (1,030)	26,400 (500)	21,400 (310)	13,800 (810)	27,400 (1,470)
Race/ethnicity											
White	16,100 (330)	12,200 (260)	4,400 (130)	9,500 (250)	22,300 (270)	19,400 (180)	20,300 (930)	26,600 (500)	20,600 (280)	15,600 (790)	28,900 (1,630)
Black	12,200 (730)	12,200 (500)	5,600 (620)	± (†)	25,800 (780)	23,300 (680)	15,300 (1,400)	31,300 (1,190)	26,700 (680)	15,100 (2,240)	26,500 (3,360)
Hispanic	10,400 (1,000)	10,300 (590)	4,000 (300)	± (†)	21,600 (890)	18,800 (600)	18,300 (1,810)	25,500 (1,110)	20,500 (710)	14,100 (2,270)	25,100 (3,510)
Asian <sup>5</sup>	13,400 (860)	9,600 (560)	4,400 (730)	± (†)	19,800 (580)	18,200 (550)	15,700 (3,450)	20,900 (1,210)	18,500 (770)	10,400 (2,000)	29,500 (3,690)
Pacific Islander	— (†)	— (†)	— (†)	— (†)	19,000 (2,730)	16,700 (1,830)	± (†)	± (†)	± (†)	± (†)	± (†)
American Indian/ Alaska Native	± (†)	± (†)	± (†)	± (†)	23,000 (3,850)	22,500 (3,000)	± (†)	± (†)	± (†)	± (†)	± (†)
Two or more races	— (†)	— (†)	— (†)	— (†)	24,200 (1,670)	21,400 (1,410)	± (†)	26,700 (3,010)	19,600 (1,220)	16,000! (5,340)	± (†)

Figure 3. Average Federal Loan Amount; U.S. Department of Education

### *Public Opinion*

Public opinion regarding higher education has been explored in many cases. Scholars have come to the conclusion that the American public simply does not understand the intricacies of higher education and the policy making behind it (Lane, 1978; Quehl, 1988). When it comes to policy making, the parties are clearly divided on the policy intentions surrounding higher education. The funding of higher education is a bipartisan issue that is consistently under fire. Republicans are worried about producing a more efficient system of higher education. Whereas, Democrats have placed a strong emphasis on ensuring the equality of opportunity across all students (Doyle, 2007). It seems that the public's perception over higher education are different from the way policy makers consider higher education. Policy makers place a large value on higher education as a source of long-term investment of knowledge in the future generations, whereas the public tends to see it as a short-term step in the American dream (Quehl, 1988).

The rise of Neoliberalism removed the government from the provision of traditional goods and privatized welfare. This shift in legislation took away thousands of dollars from students and the education budget. Leaving students and families to fend themselves for any educational aspirations they may have had during a time when college tuition began increasing dramatically in price. Below, I include a timeline of State and Federal educational programs that have been implanted, revised, and replaced. This timeline is from the Lumina Foundation's website. They provide a very a very detailed and descriptive timeline of the educational acts and programs that have been around since the 1950's. The bulk of the programs are centered around students, but there are traces of parent loans as well as opportunities for families (Establishing Loans, n.d).

<b>Year</b>	<b>Policy</b>	<b>Description</b>
1965	<b>Massachusetts Higher Education Assistance Corporation</b>	Started a guaranteed student loan program, which insured students' bank loans with money raised through philanthropic donations from local businesses. this program provided a model for a future federal student lending program.
1958	<b>The National Defense Education Act</b>	Created the National Defense Student Loan Program. the first federal loan program, now called the Federal Perkins Loan Program. This loan is distributed to students by institutions and require a monetary match from institutions.
1965	<b>Higher Education Act</b>	The first HEA created Guaranteed Student Loans, a public-private partnership with the federal government subsidizing capital from banks to provide loans to low- and middle-income students.
1972	<b>HEA Reauthorization Act</b>	Created the Student Loan Marketing Association (Sallie Mae), originally to add liquidity to the GSL program by buying loans from lenders to add more capital.
1976	<b>HEA Reauthorization Act</b>	HEA Reauthorization provided incentives for states to establish loan guaranty agencies, which insured federal student loans made by lenders.
1978	<b>The Middle Income Student Assistance Act (MISAA)</b>	Eliminated the income requirement for student loans, allowing middle- and high- income students to qualify for loans.
1980	<b>HEA Reauthorization Act</b>	As an addition to the HEA reauthorization, the PLUS program was created to allow parents to borrow for their child's education.
1981	<b>The Omnibus Reconciliation Act</b>	Repealed MISAA, replaced the PLUS program with Auxiliary Loans to assist Students (ALAS) and extended borrowing to graduate and independent undergraduate students.
1986	<b>HEA Reauthorization of 1986</b>	Added provisions prohibiting students in default under GSL from receiving new federal loans. gave the Department of Education more power to regulate student loan lenders. Split ALAS into the Supplemental Loan to Students (SLS) for grad and independent students and brought back PLUS loans.
1990	<b>The Cohort Default Rate</b>	This eliminated student borrowing eligibility at schools with high default rates for three consecutive years.

1992	<b>The 1992 HEA Reauthorization</b>	Direct lending was introduced through a program that made unsubsidized Stafford loans available to all students and removed annual and aggregate borrowing limits on PLUS loans. Restructured Stafford loans and PLUS loans into the Federal Family Education Loan (FFEL) Program.
1993	<b>The 1993 Omnibus Budget Reconciliation Act</b>	Called for a phasing-in of the Direct Loan Program to begin in 1994. established income-contingent repayment, extended repayment plan, and graduated repayment plan for direct loan borrowers.
1998	<b>The Income-Sensitive Repayment Plan</b>	A program for FFEL borrowers was established, allowing FFEL borrowers to be eligible for extended and graduated Plans.
2005	<b>The Higher Education Reconciliation Act</b>	Allowed for professional and graduate student to borrow through the PLUS program.
2006	<b>The Emergency Appropriations Act</b>	Repealed the single holder rule, allowing borrowers to consolidate loans between lenders.
2007	<b>The College Cost Reduction and Access Act</b>	Established the Income-Based Repayment Plan
2008	<b>The Higher Education Opportunity Act (HEOA)</b>	Cohort default rates be calculated to include students in default 3 years after entering repayment and that the U.S. Department of Edu publish those rates. The Ensuring Continued Access to Student Loans Act (ECASLA) temporarily authorized the U.S. Education Department to buy loans from private lenders to ensure students had access to capital during the financial downturn.
2010	<b>The Health Care and Education Reconciliation Act (HCERA)</b>	Repealed the FFEL programs so that all new federal student loans- except for Perkins Loans-would be made directly from the government to students, saving administrative costs. the terms of the IBR are revised by Congress to lower the payment cap and forgive loans five years sooner than previously for a limited subset of students.
2011	<b>The Obama Administration created the Pay as You Earn (PAYE)</b>	Via executive order, extending more generous IBR terms to a larger group of borrowers. The Budget Control Act eliminated subsidized loans for graduate and professional students.
2014	<b>PAYE Executive Order</b>	The Obama Administration, via executive order, expanded the PAYE plan to individuals outside of the original 2011 scope to all borrowers with Direct Loans

Table 1. History of Educational Federal Loan Programs; Lumina Foundation, 2019

*“Student Loan Crisis”*

What also seems to be at the forefront of higher education discussion is the enormous amount that educational debt has risen to. Educational debt alone has surpassed all forms of consumer debt put together and has amounted to 1.5 trillion dollars in the United States. This amount has surpassed credit card debt. Unlike most consumer debt, educational loans are among the few debts that cannot be expunged during bankruptcy. Educational debt is different from consumer debt and it should not be treated in the same manner. Financing an education is different from financing a vehicle. Yet, it is the only debt that follows someone for life even if someone were to declare bankruptcy.

The mass amount of educational loans is of alarming concern to the American public and discussions surrounding the gravity of educational debt have even reached Presidential debate stages (Ross, 2013). In the 2020 Presidential election, Elizabeth Warren and Bernie Sanders are running on a platform that revolves around educational loan reform with plans for reform programs for students and are pushing for a college debt-free America. The rise of the state removing itself from traditional financial areas has placed constituents at the core of financing goods that were once covered by the government. This is clear in the case of higher education; the student and family are given complete responsibility for college costs. This practice reproduces and perpetuates a financialized society that altogether has a different maintenance of daily life.

*Parental Willingness*

Parental willingness to take on debt is among one of the popular topics in the discourse surrounding educational debt. I would say that the clear problem is not whether or not parents are

willing to take on debt for their students. Rather, whether parents have the ability or access to financing opportunities. It seems as almost every parent in these discussions is more than willing to help their student out. However, many middle-class parent's aspirations do not match up with their personal realities. Parents are not in a position to pay up front for their student's education without help from external sources. Many families do not have large amounts in their saving accounts ready to put towards tuition costs. Nevertheless, parental willingness is evident in their readiness to take out Parent-Plus Loans (Zaloom, 2019). This loan keeps the student from racking up educational debt and places parents at the core of the loan.

This is merely one manner that parents may help in financing college educations. The middle-class strata are extremely stratified, parental willingness reveals itself in a number of ways (Seamster and Charron-Chénier, 2017). Some parents may simply cosign a student loan, others may partake in this Student Loan Asset-Backed Security loans, and others may even go as far as to borrow against retirement accounts (Zaloom, 2019; Napolitano et al., 2013; McCabe and Jackson 2016). The harsh reality is that middle-class parents do not have many options to cover tuition costs, and more than not fall victims to the financialized society.

#### *Sib-ship Size and Resource Dilution Theory*

Another approach to education loans and resources is through the perspective of sib-ship size and resource dilution theory. Ultimately, what has come out of these studies is the idea that the larger the sibling ship size, the less amount of resources that are allocated to each sibling. However, with later born siblings with a slight advantage over first-borns because of the nature of building a solid foundation that might come later in life. This idea theorizes that later born siblings may benefit from their birth order because their older siblings are out of the house and



out of the financial picture, in a sense (Carr and Powell, 1989). These results are also found across other studies, Roksa (2019) finds the same negative effect of a large sibship size associated with lesser financial support from families. However, what is meaningful from Roksa's study is that while siblings did in fact dilute resources, the slope was less steep for first-generation students. The negative relationship between sib-ship size and financial support diminished for first-generation students. Roksa did not have a reason as to why this is the case and I think first-generation status may play more of a role than previously noted. Having non-college educated parents may explain debt taken on by parents.

### *College Preparedness*

Another large focus of educational debt literature focuses on a conventional concept of preparing students and parents for college; in both a financial and academic sense. I focus on the financial side of the literature because it speaks to the manner in which the government has really advocated for governmental saving programs for families and their students (Murphy-Erby et al, 2013). College preparation starts as early as the day the child is born. The day parents receive their child's social security number a 529 savings account can be opened in their name. These accounts are supposed to encourage savings among families to prepare them for college costs. However, they are not available in every state, do not account for inflation, and most of the time are not enough to cover tuition costs, but they do gather a small percentage in interest rate. 529's is only one way to prepare students and parents for the financial burden of college tuition. Both students and parents can receive counseling and guidance from the local high school or counselors at the school (McCabe and Jackson, 2016). Although this resource may be available, students of color are more likely to shoulder this burden alone (McCabe and Jackson, 2016).

There are inconsistencies in the social reproduction of financial and social capital among students of color.

*Aspirations vs. Reality*

In her book, *Indebted: How Families Make College Work at Any Cost*, Caitlan Zaloom captures a genuine moment within one of the many families she interviewed. The Nowicki family, has been saving since their two children were born. They actively work more hours than necessary to put extra money away for college funds and to keep their children afloat while they are away at college. In their case, these children's grandparents even started savings accounts to help with tuition costs way in advance. However, even after all of these combined efforts, both of their children still take out, on average about five-thousand dollars annually in federal loans awarded by FAFSA to fully cover tuition costs. Theoretically, this family took the conventional path. They did it the right way. Yet they still came up short in their efforts even though they had intergenerational help in financing their children's college tuition. What comes from this example then? Where does the real problem lie then?

In other cases, families do not earn enough to even put away a small amount into a savings account. If families do earn enough to put small amounts away, something inevitably occurs that drives them to take money out of that savings account to handle the crisis at hand (McCabe and Jackson, 2016; Napolitano et al., 2013; Murphy-Erby et al., 2013). The fact of the matter is that no matter how much you prepare students and parents for college costs, rising tuition costs coupled with low and stagnating wages do not allow families to save as much money as they would like. Many families' aspirations simply do not match up with their financial realities. What makes college possible are loans that provide students the opportunity to

access college. You can prepare a family and their student to do the right thing, to seek the proper resources, apply for necessary scholarships, and save an appropriate amount, but it is not as simple as it sounds. Middle-class families are stuck in a purgatory like setting. Many earn too much to be awarded any financial aid, but at the same time they do not earn enough to personally pay for college up front. This problem leads middle-class students and families to take out massive education loans to cover the costs of tuition. A problem that has historically been central to students is quickly spreading to parents and increasingly becoming a family affair.

### *Quantitative Studies of Educational Debt*

Students are at the center of this discourse. In this literature, students are a salient factor in the study of educational debt. Very rarely are parents or families the unit of analysis and when they are, they are not measured in a quantitative manner. Many of the educational studies that have been done use the National Longitudinal Survey of Youth or other data sets that are student oriented. There is really only one piece of literature that I came across that focused on households and that drew my interest into the Consumer Finance Survey. Seamster and Charron-Chénier (2017) use the Consumer Finance Survey to analyze educational debt. They find that educational debt increased extensively for blacks compared to whites in the last 10 years. This effect was not due to educational attainment differences, but rather, they argue it is due to predatory inclusion.

This is the study I would like to model my study after in terms of methods. The way that they use the Consumer Finance Survey highlights the importance of the family and are able to track debt patterns between racial groups. I can use this survey's data in a similar manner. I will shift the attention to parents and the educational debt patterns accumulated by them for their

children. This will allow me to track how much educational loans are truly affecting parents and how educational inequality is reproduced.

### *Lending Practices*

Lending practices are certainly a significant component in understanding educational debt. In this case, I focus on predatory lending practices; often known as predatory inclusion lending practices. Predatory inclusion is a mechanism by which people of a marginalized group are given an avenue to opportunities, services, or goods that they have historically been barred from (Seamster and Charron-Chénier, 2017). This process is considered predatory because of its underhanded nature. It opens avenues for people that have historically been excluded from services, but solely under conditions that tend to be riskier for the borrower rather than the lender. For example, sub-prime housing loans provide applicants access to mortgage loans with lower requirements, such as lower credit scores and lower amounts for down payments. At the same time, while they open doors to “equalizing” opportunities, they also hand out these loans at higher interest rates.

This predatory practice puts borrowers at a high risk of defaulting on their loans because their payments are calculated with such high interest rates. One small financial crisis can put a family’s safety net at risk and completely mess up their financial plans. Many people are starting to compare contemporary educational loans to sub-prime mortgage loans (Ross, 2013). Predatory loans provide access to financing a college education, however, the return on the investment is much lower for people of color than their white counterparts (Seamster and Charron-Chénier, 2017). Lenders that offer loans above average lending rates contribute to the mass amount that

educational debt has reached. Predatory loans are only a portion of the literature that explains the differences in borrowing between racial groups.

## **Data and Methods**

### *Data*

I utilize the *Survey of Consumer Finances*. The Survey of Consumer Finances is a triennial survey that is conducted by the United States' Federal Reserve and the Department of the Treasury. It has very recent information regarding the American population's finances. I use the latest data from the 2016 survey. The survey data includes information from families' income, demographic characteristics, balance sheets, assets, and income. Respondents are selected randomly, there is a focus on attempting to select families from all different socioeconomic statuses. The survey has an N of 6,421 families. I use every sample that this survey collected; this will allow me to compare across different income groups across the nation.

I utilize this survey because it is a nationally representative survey that contains detailed information about families' balance sheets and pension reports. As mentioned before, other surveys are more student orientated and do not have a full picture of family finances. What is interesting about this survey is that they survey creators multiply imputed the original dataset by five. Often, data is imputed to replace missing values with substituted data. This technique allows us to analyze incomplete data with normal analysis tools like OLS regression. Using multiply imputed data also means using specific commands when it came to programming and coding.

This survey is best suited for my interests because it follows household finances and asks in-depth questions regarding debt. The SCF removes the student from the center focus and

encompasses more than just the student itself. The question on educational debt asks if the household has any educational debt. Who took out the educational debt, who the educational debt was taken on for, and if the loan is a federal loan or not? These questions allow me to draw connections between parents and students in terms of educational debt. It provides insight into the different ways educational debt may be confronted by different families. The survey measures many variables, a few that I'm interested in are; race, sex of household head, highest completed grade by head of household, education loans, income, age, etc. I operationalize educational debt as total value of education loans in dollar amount. These variables will help me paint a better picture of the relationship between educational debt and families. I expand on these dependent, independent, and control variables below.

### *Independent Variables*

I am largely interested in the racial disparities among those that borrow educational loans. The variable *Race* is a categorical variable that contains four categories that measure white non-Hispanic, black/African American, Hispanic, and Other. For this variable, I decided to let white be the reference category. *Income* is a continuous variable that measures household income for the previous calendar year. This includes wages, self-employment and business income, taxable and tax-exempt interest, dividends, realized capital gains, food stamps and other support programs provided by the government, pension income and withdrawals from retirement accounts, SSI, alimony, and other support payments, and miscellaneous sources of income. *Occupation* is a categorical variable consisting of four categories- managerial/professional, technical/sales/services, other (incl. production/craft/repair workers, operators, laborers, farmers,

foresters, fishers), and not working. In this case, I decided to use managerial/professional as the reference category because it is the largest category of workers.

### *Control Variables*

In my analysis, I control for the number of kids in a household, the sex of the head of household, whether someone is married, the age of the head of household, and the highest level of education of the head of the household. The number of *kids* is a categorical variable that ranges from 0 to 7 kids, the reference category is one child. Household *sex* is a dichotomous variable that is coded 1-male, 2-female, here the reference category is male. The measure for *married* is a dichotomous variable that measures whether someone is married/living with their partner or neither married nor living with their partner, the reference category for this variable is married or living with partner. *Age* is a continuous variable that ranges from 18 years old to 95 years old. This survey only surveys adults, therefore everyone will be at least 18 years of age. *Education* is a four tier categorical variable that measures no high school, high school or GED, some college, and college degree, for this variable I use high school or GED as the reference category. It is important to note, that while I used high school or GED as the reference category, the majority of adults in this sample did have some college experience or a college degree.

### *Dependent Variables*

The three dependent variables used in this study are total loan amount, interest rate, and the type of loan (Federal or not). Loan amount is measured in dollars and is a continuous variable. Interest rate was originally a continuous variable. I transformed this variable into a categorical variable in order to better gauge exploitative lending practices. I recoded this variable into a dichotomous variable that separated exploitative interest rates from *normal* interest rates.

The interest rate of 7% is used as the threshold of exploitative vs. not. This threshold comes after a review of what common Federal loan interest rates look like and the ranges of educational loans from private lenders. The typical Federal student loan interest rate ranges from 2-7% with the lower end being the typical interest rate for a student borrower and the higher end being the typical rate for a parent PLUS loan (U.S. Department of Education, 2019). Typically, anything beyond that range falls within a range that is given by a private lender. Therefore, I made the decision to create a binary variable that measures any interest rate above 7%, which are coded as a 1 and all those below 7%, which are coded as a 0. Finally, the variable that measures the type of loan refers to a dichotomous variable that documents whether or not the educational loan in question is a Federal loan with 0-for no Federal loan and 1- yes Federal loan.

#### *Dummy Variables*

I created one dummy variable that aided my analysis. The variable “*Whose\_edu\_chvss*” is a dichotomous variable. It splits those that took out a loan for themselves or spouse versus those that took out a loan for their children. I created this variable because an important part of my analysis is focused on the relationship between family and educational loans. This variable allowed me to differentiate between children loans and non-children loans within my analysis. This relationship is something I thought laid latent and wanted to bring it to light by measuring it with the dichotomous variable that I created. This variable also allowed me to analyze any variation within those that take out loans for themselves or spouse versus those that take out loans for their children’s’ education. Ultimately, my primary interest is educational loans for children, otherwise I would have made this a three category variable with, loans taken out for: respondent themselves, spouse, or child. It might be worth coming back to this variable and



switch it up by combining together spouse or child (since this is technically still a familial relationship) versus respondent alone.

### *Analysis*

This study analyzes the association between race, income, and occupation on educational loan debt, educational loan interest rates, and public versus private lending. I used ordinary least squares regression and logistical regression models to test the associations between the independent variables and the dependent variables. In Stata/IC 16.1, I used the `micombine` command to estimate the multiply imputed data. This command is used because it adjusts for the standard errors within the imputed data. The first regression model is a logistic regression analysis that uses the entire sample. It measures any educational loan vs no educational loan. The following three main models test the relationship between the APR, and Federal Loan or not, Educational Loan Amount and the independent variables. The dependent variables APR and Federal Loan or not are dichotomous variables and are analyzed using logistic regression. Logistic regression relies on odds ratios, the amounts reported in table 1 reflect odds ratios for the first three models listed.

The variable Educational Loan Amount is a continuous variable and is analyzed using an OLS regression analysis. This variable is also transformed by taking the natural log of it, therefore the logged version of the variable is used in the analysis. The dummy variable “*whose\_edu\_chvss*” is added into the three main regression models, APR, Federal Loan or not, and Educational Loan Amount to differentiate between the loan purpose and is condensed to only those that have an educational loan. That is, only respondents that had a loan amount greater than \$1 are considered in the three regression models that test the main dependent variables.

APPENDIX A illustrates the four the descriptive statistics of the four regression models. My hypotheses are as follows: (1) Race has an effect on the amount of educational debt parents have. (2) Race has an effect on the type of debt parents take out. (3) Race has an effect on the interest rate on the educational debt that parents take out.

## **Results**

### *Any Educational Loan vs. None*

The first regression model tested is any educational loan vs none. This sample focuses only on those that have any educational loan at all. The table to this regression model and all of the regression models are presented at the end of this results section. The pseudo-R<sup>2</sup> reported for this model is .2289 (not shown). This regression model explains 22% of the variation in educational loan debt. This is the largest R<sup>2</sup> I was able to obtain among all my models. The first variable in the model is Education. Those with no high school education are 62% less likely to hold an educational loan than those with a high school degree. Those with some college are 2.3 times more likely to hold an educational loan than those with a high school degree. Those with a college degree are 2.6 times more likely to hold an educational loan than those with a high school degree. In terms of race, Black people are 86% more likely to hold an educational loan than their White counterparts. Those in the *other* category are 28% less likely to hold an educational loan than their White counterparts.

When it comes to occupational category, those in the other group are 20% less likely to hold any educational loan compared to those in the managerial category. Similarly, those in the not working category are 25% less likely to hold any educational loan than those in the managerial category. Women headed households are 79% more likely than male headed

households to have any educational loan. Interestingly, those that are not married are 50% less likely than those who are married to hold any educational loan. The variables kids, income, and age are continuous variables, they are at the end of the regression models. For the variable kids, each kid increases the odds of having a loan by 13%. In terms of income, there is no percent change in the odds of holding a loan. Finally, for the variable age, each additional year of age decreases the odds of having a loan by 6%. I ran the regression model with different reference groups, these results are not shown. This was done as supplemental analysis because of my interest in differences between racial groups. When Black is the reference category, White are 47% less likely to hold a loan, Hispanics are 58% less likely to hold a loan, and those in the other category are 61% less likely to hold an educational loan. When Hispanic is the reference category, the only significant result is among the Black category. Blacks are 2.3 times more likely than their Hispanic counterparts to hold an educational loan.

### *APR*

The second regression model tests predatory lending practices by measuring the interest rates of the educational loans reported. This sample was reduced to those that had a positive loan amount and the dummy variable *whose\_edu\_chvss* is introduced to the models at this stage. The pseudo-R<sup>2</sup> reported for this model is .0223 (not shown). This regression model explains 2% of the variation in the independent variable: APR. To my surprise, I did not find any significant results in the regression model that measured APR. This is surprising to me to an extent, perhaps the non-significant results of this model have to do with the percentage of respondents that hold Federal Loans rather than private loans. At the same time, the pseudo-R<sup>2</sup> let me know that statistically, there is a better model that I could use for this analysis. Again, I ran the regression

model with different reference groups, these results are not shown, but done as supplemental analysis. When Black is the reference category, there are no significant results from the model. When Hispanic is the reference category, again there are no significant results from the model.

#### *Federal Loan vs. Other*

The third regression model tests federal loan vs other. Like APR, this sample was reduced to those that had a positive loan amount and the dummy variable *whose\_edu\_chvss* is also included in this analysis. The pseudo- $R^2$  reported for this model is .0333 (not shown). This regression model explains 3% of the variation in the independent variable: Federal loan versus other. The only significant variable to come out of this analysis is race. Those that are Black are 2.27 times more likely than the reference group (*White*) to hold a federal loan. This follows the general trend of previous literature and studies; this is what I expected and hypothesized.

Educational debt tends to show a curvilinear pattern for the middle-class and people of color have an even higher chance of debt in this pattern (Seamster and Charron-Chénier, 2017; Houle, 2013; Houle, 2014). Like before, I ran the regression model with different reference groups, these results are not shown, but done as supplemental analysis. When Black is the reference category, those in the White category are 56% less likely to hold a loan. The other category are 65% less likely to hold a loan. When Hispanic is the reference category, there are no significant results across race.

#### *Educational Loan Amount*

The fourth and final regression model measures Educational Loan Amount in dollars. This regression model is the only OLS model, therefore the results depicted in the column of this variable are regression coefficients, not odds ratios. The  $R^2$  reported for this model is .1978 (not

shown). This regression model explains 19.78% of the variation in the independent variable: educational loan debt amount. I used the formula  $[100*(\text{Exp}(\beta)-1)]$  to calculate the percent change in the variables (Wooldridge 2009). The first variable in the model is Education. At an alpha level of .05, having some college is associated with a 29% increase in educational loan amount relative to those with a high school diploma. At an alpha of .01, having a college degree is associated with a 157% increase in educational loan amount relative to those with a high school diploma. Race was not a significant variable in this regression analysis. The next significant variable is occupation. With an alpha of .10, technical occupations are associated with a 16% decrease in educational loan amount relative to those in managerial/professional occupations.

Similarly, at the same alpha level, other occupations are associated with a 20% decrease in educational loan amount relative to those in managerial/professional occupations. At an alpha level of .05, not working is associated with 29% decrease in educational loan amount relative to those in managerial/professional occupations. Not married proves significant at the .01 alpha level. Not married is associated with a 40% decrease in educational loan amount relative to those in managerial/professional occupations. Finally, at the .10 alpha level, income is associated with a 0% change in educational loan amount relative to those in managerial/professional occupations. Like in the first regression model, not married is a significant characteristic that reduces the chance of holding educational loan debt. Like before, I ran the regression model with different reference groups, these results are not shown, but done as supplemental analysis. I find no significant results when I ran the model with Black as the reference racial group. Similarly, I find no significant results when I ran the model with Hispanic as the reference racial group.

<b>Variable</b>		<b>Any Edu Loan vs. None</b>	<b>APR</b>	<b>Fed loan vs. Other</b>	<b>Edu Loan Amount</b>
<b>Education</b>					
	No High School	0.384***	0.453	0.597	-0.13
<i>Reference:</i>	High School/GED	<i>Reference</i>	<i>Reference</i>	<i>Reference</i>	<i>Reference</i>
	Some College	2.322***	0.896	0.851	0.257**
	College	2.619***	0.654	1.058	0.945***
<b>Race</b>					
<i>Reference:</i>	White	<i>Reference</i>	<i>Reference</i>	<i>Reference</i>	<i>Reference</i>
	Black	1.868***	1.296	2.271**	-0.013
	Hispanic	0.792	0.812	1.054	0.068
	Other	0.724*	1.328	0.785	-0.006
<b>Occupation</b>					
<i>Reference:</i>	Managerial/Professional	<i>Reference</i>	<i>Reference</i>	<i>Reference</i>	<i>Reference</i>
	Technical/Sales/Services	0.971	0.86	0.902	-0.151*
	Other (incl. production/	0.790*	0.99	1.538	-0.184*
	Not Working	0.747*	1.222	1.765	-0.256**
<b>Sex</b>					
<i>Reference:</i>	Male	<i>Reference</i>	<i>Reference</i>	<i>Reference</i>	<i>Reference</i>
	Female	1.788***	1.349		0.098
<b>Marital Status</b>					
<i>Reference:</i>	Married	<i>Reference</i>	<i>Reference</i>	<i>Reference</i>	<i>Reference</i>
	Not Married	0.504***	0.664	1.135	-0.342***
<b>Kids</b>					
	Number of Kids	1.133***	0.942	1.097	-0.031
<b>Household Income</b>					
	Income	1.000***	1.000	1.000	0.000*
<b>Respondent Age</b>					
	Age	0.938***	1.000	0.995	-0.005
<b>Whose Edu</b>					
<i>Reference:</i>	Self or Spouse Loan	<i>Reference</i>	<i>Reference</i>	<i>Reference</i>	<i>Reference</i>
	Children's Loan		1.612	0.825	0.151
	N	6248	1209	1216	1216

Table 1. Regressions Table

Note: Loan Amount displays regression coefficients, not odds ratios.

## Discussion

The literature surrounding student debt is astounding and can be overwhelming. Given this, it is surprising that there are not more quantitative studies regarding educational loans and kinship. Previous literature focuses solely on student debt without digging deeper into the manner. To my knowledge, this study introduces interest rates into the study of educational debt and analyzes how interest rates on educational loans vary between racial groups. This study also adds to the literature by quantitatively separating parental educational debt from children's educational debt and analyzing if there is a relationship between educational debt and kinship.

More specifically, this study confirms previous findings over the significance of race on educational loan amount total (Seamster and Charron-Chénier, 2017; Houle, 2013; Houle, 2014). Race shows to be a significant factor in predicting any educational loan in general and again in the Federal Loan model as well. That is, Black Americans are more likely than White Americans to hold any educational loan in general and on top of that, they are more likely to hold Federal Educational Loans as well. The education outcomes make sense, as shown in previous literature, Blacks and people of color are more likely to hold educational than other groups (Houle, 2013). It is interesting to me that women are more likely than men to hold educational debt, perhaps this is evidence of a gendered financialized process. It could be that men have family savings or nest eggs ready for them to use when the time for college comes. Given the history of higher education and how historically men were the ones to attend college, I wouldn't be surprised if we're still seeing those effects in the funding of higher education. The measure that threw me off is the marriage variable. Single people are about 50% less likely than their married counterparts

to hold any educational debt. I don't understand this trend, maybe once people marry, they marry their partner's debt as well?

Perhaps, the largest surprise after reviewing the results was the lack of significant predictors in the Apr regression model. There was not a single significant predictor in this model. One reason for these results could be because out of the 6,080 people in the model, 5,382 had Federal Educational Loans. Given the manner in which I created the Apr variable, I divided between *predatory* lending rates and what are arguably more common interest rates. I operationalized predatory interest rates as anything about 7% or more, which tends to be the higher end of Federal educational loans. Due to the fact that a large percentage of loan holders were Federal educational loan holders, it makes logical sense that the large part of the sample fell under the 7% or less interest rate category.

It may be more reasonable to apply this analysis to a sample that is more evenly spread in terms of private and public loans. Public Federal loans do not generally vary from the 3-7% area and are difficult to analyze for predatory lending rates. They just do not and cannot meet the criteria that categorizes an interest rate as predatory. The third regression model of Federal loans follows the general trend of previous literature and studies; this is what I expected and hypothesized. Educational debt tends to show a curvilinear pattern for the middle-class and people of color have an even higher chance of debt in this pattern (Seamster and Charron-Chénier, 2017; Houle, 2013; Houle, 2014).

The last regression model that measures educational loan amount reveals interesting results in terms of marital status. For those unmarried, for a one unit increase in marital status, I find a decrease by 0.342 of a dollar in educational loan amount total. This is suggesting, on



average unmarried people have less educational loan amounts than married people. I don't have an explanation for this other than maybe after people get married, they combine their spouse's debt with their own. When I take a look at the descriptive statistics of marital status based on educational category, those that are married and hold a college degree are the largest group in the sample. The nature of the sample could be the reason for what I think is this odd prediction.

The dummy variable I used to differentiate between parental debt and child's debt did not show to be significant in any of the regression models. This is where I was attempting to draw a connection to kinship and test the relationship between educational debt and family members. Another approach I could take is making an alternative variable for this measure. I am interested in familial connections among educational debt. Another approach I can take is recoding this variable into one that measures respondent educational loans versus those that are taken out for spouses and or children. This would essentially compare any family loan versus individual loan, this could provide slightly different results because I found an interesting effect of marriage among the regression models.

Race is a significant predictor in the first regression model of any educational loan vs. none. In this model, Blacks are 1.868 times more likely than Whites to have any educational debt. Race is also a significant predictor in the type of loan taken out. Black Americans are 2.27 times likely than White Americans to hold a Federal loan. Unfortunately, I did not find any significant predictors in the Apr model and therefore, could not draw any conclusions regarding predatory lending practices or the interest rates associated with those loans. Similarly, race did not show to be a significant factor in the fourth regression model that tests for educational loan amount. This result was particularly interesting because previous literature shows more

borrowing among brown and black students. I expected this variable to follow the trends that have been reported in previous educational loan debt literature.

### *Limitations*

By in large, the biggest limitation this study faces are the lack of respondents that hold private educational loans. Because of this, there was not a good chance to compare across those with public versus those with private loans. This sample overwhelmingly held public Federal loans, about 89% of the sample reported Federal educational loans. The fact that an overwhelmingly amount of respondents held a Federal loan speaks to my framework over a financialized society. People are increasingly relying on loans to cover the costs of higher education. In this case, more often than not, people rely on Federal loans to finance higher education. This information is useful and is readily made available to the public.

Information regarding private educational loans is not readily available to the public and would require direct questions in the form of a survey to population that holds private student loans. Unlike public educational loans, private loans are not usually processed by the Federal Government and are not required to abide by the same regulations as public educational loans. This means private lenders can handout larger interest rates, have different co-signing requirements, and even keep their data over amounts and interest rates in-house without releasing it to the public.

The notion of predatory lending in terms of interest rates is important to the discussion of educational debt and higher education because it can reveal structures of systemic poverty and racism. In their assimilation study of Mexican Americans Telles and Ortiz (2008) find that education is the most significant factor for successful assimilation in the U.S. context. However,

after the second generation of Mexican-American immigrants, the third and fourth generation tend to regress and even stall educational attainment, the high school dropout rate increases significantly among these generations and is greater than the dropout rates in the first and second generations (Telles and Ortiz, 2008). They make a case of discrimination and structural racism that prevents Mexican-American students from attaining education and successfully assimilating into the U.S. mainstream. Given the importance of education on socioeconomic attainment and assimilation, it is important to test predatory lending rates against racial and ethnic groups in terms of educational loans or educational financing. A more dedicated study to private lending practices has the potential to reveal patterns of discrimination. I imagine racial and ethnic groups may suffer from something similar to the payday loan services that provide quick relief with a heavy penalty by way of ridiculous interest rates.

The discussion of private educational loans is also important to educational debt because sometimes private loans may be the only option some students have. Students that are from a mixed-status family with parents that are undocumented do not qualify for parent PLUS loans. They cannot receive the same help from their parents as other students whose parents are U.S. citizens. This might lead them to seek loans from private lenders as a last ditch resort to fund their college educations. Therefore, adding another level of analysis (*parental legal status*) and potentially revealing additional structures of inequality. A study looking into interest rates may highlight institutional predatory practices that perpetually discriminate against certain borrowers. If public educational debt that has been studied thus far in previous literature reveals racial disparities in lending practices, I do not imagine private lending to look much better or that much different from current literature on public educational loans.

## Conclusion

Educational debt is a multifaceted topic that has traditionally been explored via the student borrower. To my knowledge, this is the first study to analyze interest rates as a potential predatory factor in educational debt lending. This study took a more nuanced approach to educational loans that recognizes the complex nature of higher education. The results reinforce the role race plays in educational debt. The pattern found in this study reveals that being Black is a precursor to holding a Federal student loan. In this study, Blacks are 2.27 times more likely to hold a Federal student loan than the reference category: White. This study further provides empirical support for the argument that educational debt experiences racial disparities.

Although my variable differentiating between parent and student debt did not find significant results, I do believe this type of investigation is worth trying again with a couple of changes. Perhaps a survey inquiring into specific educational debt portfolios could lead to different results. I am hesitant to continue down the narrow funnel of students as the sole sample. There is small evidence that Parent PLUS loans are on the rise and finding its equivalent in the private educational loan sector (perhaps a cosigner on a private loan) could be an interesting comparison. The nuances of this study, predatory lending rates and the intra-familial analysis of educational loans deserve further exploration as more current data becomes available.

APPENDIX A  
REGRESSION MODELS' DESCRIPTIVE STATISTICS

**INDEPENDENT VARIABLES' DESCRIPTIVE STATISTICS**

<b>Variable</b>		<b>Observations</b>	<b>Percent</b>	
<b>Any APR Over 7%</b>				
	Below 7 %	4,570	75.5	
	Over 7%	1,483	24.5	
	Total	6,053		
<b>Federal Loan</b>				
	No	698	11.48	
	Yes	5382	88.52	
	Total	6,080		
<b>Any Loan</b>				
	No	26,025	81.06	
	Yes	6,080	18.94	
	Total	32,105		
<b>Logged Loan Amount Total</b>		<b>Observations</b>	<b>Mean</b>	<b>Standard Dev.</b>
	0-13.06049	32,105	1.91	3.987228

**DESCRIPTIVE STATISTICS FOR REGRESSION MODEL 1**

<b>Variable</b>		<b>Observations</b>	<b>Percent</b>	
<b>Education</b>				
	No High School or GED	3,267	10.46	
	High School or GED	6,809	21.8	
	Some College	7,679	24.58	
	College Degree	13,485	43.17	
	Total	31,240		
<b>Race</b>				
	White	22,401	71.71	
	Black	4,177	13.37	
	Hispanic	3,059	9.79	
	Other/missing	1,603	5.13	
	Total	31,240		
<b>Occupation</b>				
	Managerial/Professional	11,320	36.24	
	Technical/Sales/Services	6,141	19.66	
	Other (incl. production/	4,704	15.06	
	Not Working	9,075	29.05	
	Total	31,240		
<b>Sex</b>				
	Male	23,955	76.68	
	Female	7,285	23.32	
	Total	31,240		
<b>Marital Status</b>				
	Married	19,520	62.48	
	Not Married	11,720	37.52	
	Total	31,240		
<b>Whose Edu</b>				
	Self or Spouse	4,975	81.83	
	Child	1,105	18.17	
	Total	6,080		
		<b>Observations</b>	<b>Mean</b>	<b>Std. Dev.</b>
<b>Kids</b>	0-7	31,240	0.7900128	1.130898
<b>Income</b>	0-306,000,000	31,240	799817.4	5461926
<b>Age</b>	18-95	31,240	53	16

## REGRESSION MODEL FOR REGRESSION MODEL 2

<b>Variable</b>		<b>Observations</b>	<b>Percent</b>	
<b>Education</b>	No High School or GED	205	3.37	
	High School or GED	1,015	16.69	
	Some College	2,117	34.82	
	College Degree	2,743	45.12	
	Total	6,080		
<b>Race</b>	White	3,871	63.67	
	Black	1,338	22.01	
	Hispanic	545	8.96	
	Other/missing	326	5.36	
	Total	6,080		
<b>Occupation</b>	Managerial/Professional	2,540	41.78	
	Technical/Sales/Services	1,740	28.62	
	Other (incl. production/	965	15.87	
	Not Working	835	13.73	
	Total	6,080		
<b>Sex</b>	Male	4,360	71.71	
	Female	1,720	28.29	
	Total	6,080		
<b>Marital Status</b>	Married	3,710	61.02	
	Not Married	2,370	38.98	
	Total	6,080		
<b>Whose Edu</b>	Self or Spouse	4,975	81.83	
	Child	1,105	18.17	
	Total	6,080		
		<b>Observations</b>	<b>Mean</b>	<b>Std. Dev.</b>
<b>Kids</b>	0-7	6,080	1	1
<b>Income</b>	0-6,075,818	6,080	101,148	254,325
<b>Age</b>	19-82	6,080	40	12



## REGRESSION MODEL FOR REGRESSION MODEL 3

<b>Variable</b>		<b>Observations</b>	<b>Percent</b>	
<b>Education</b>	No High School or GED	205	3.39	
	High School or GED	1011	16.7	
	Some College	2106	34.79	
	College Degree	2731	45.12	
	Total	6053		
<b>Race</b>	White	3,861	63.79	
	Black	1,326	21.91	
	Hispanic	543	8.97	
	Other/missing	323	5.34	
	Total	6,053		
<b>Occupation</b>	Managerial/Professional	2,534	41.86	
	Technical/Sales/Services	1,731	28.6	
	Other (incl. production/	963	15.91	
	Not Working	825	13.63	
	Total	6,053		
<b>Sex</b>	Male	4,347	71.82	
	Female	1,706	28.18	
	Total	6,053		
<b>Marital Status</b>	Married	3,701	61.14	
	Not Married	2,352	38.86	
	Total	6,053		
<b>Whose Edu</b>	Self or Spouse	4,951	81.79	
	Child	1,102	18.21	
	Total	6,053		
		<b>Observations</b>	<b>Mean</b>	<b>Std. Dev.</b>
<b>Kids</b>	0-7	6,053	1	1
<b>Income</b>	0-6,075,818	6,053	101,399	254,855
<b>Age</b>	19-82	6,053	40	12

**DESCRIPTIVE STATISTICS FOR REGRESSION MODEL 4**

<b>Variable</b>		<b>Observations</b>	<b>Percent</b>	
<b>Education</b>	No High School or GED	205	3.37	
	High School or GED	1015	16.69	
	Some College	2117	34.82	
	College Degree	2743	45.12	
	Total	6080		
<b>Race</b>	White	3,871	63.67	
	Black	1,338	22.01	
	Hispanic	545	8.96	
	Other/missing	326	5.36	
	Total	6,080		
<b>Occupation</b>	Managerial/Professional	2,540	41.78	
	Technical/Sales/Services	1,740	28.62	
	Other (incl. production/	965	15.87	
	Not Working	835	13.73	
	Total	6,080		
<b>Sex</b>	Male	4,360	71.71	
	Female	1,720	28.29	
	Total	6,080		
<b>Marital Status</b>	Married	3,710	61.02	
	Not Married	2,370	38.98	
	Total	6,080		
<b>Whose Edu</b>	Self or Spouse	4,975	81.83	
	Child	1,105	18.17	
	Total	6,080		
		<b>Observations</b>	<b>Mean</b>	<b>Std. Dev.</b>
<b>Kids</b>	0-7	6,080	1	1
<b>Income</b>	0-6,075,818	6,080	101,148	254,325
<b>Age</b>	19-82	6,080	40	12

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## VITA

Keyla Navarrete was born in Chicago and raised in the suburb of Berwyn, Illinois where she graduated from J. Sterling Morton West High School. Prior to attending Loyola University Chicago, she attended The Ohio State University in Columbus, Ohio. At Ohio State, Navarrete earned a Bachelor of Science in Criminology and Psychology, with research distinction, in 2018. While attending Ohio State University, Navarrete developed and worked on an undergraduate thesis titled: “*American Attitudes Towards the Funding of Higher Education.*” This project is where she initially developed an interest in higher education and debt. In addition to developing an undergraduate thesis, Navarrete also served as a research assistant to Dr. Natasha Quadlin where her interest in inequality and stratification further grew. Currently, Navarrete is a graduate research assistant for Dr. Cristian Paredes at Loyola University Chicago working towards her Ph.D. in sociology.