ACADEMIX Upshot

HOW COVID-19 EXACERBATES EXISTING INEQUITIES IN OUR FINANCIAL AID SYSTEM

THE UPSHOT

Over time, the disparate impacts of student loan borrowing in the United States have created a financial crisis for several groups of students, and the current COVID-19 pandemic threatens to exacerbate these long-standing disparities by magnifying their root causes. It comes as no surprise, then, that some of the earliest COVID-19 policy discussions centered on helping borrowers who were struggling to repay their loans during the economic downturn. Congress must remember these disparities as it considers new financial aid policies and measures to support student loan borrowers during the turbulent period ahead.

Pandemic-exacerbated inequities will create substantial challenges for students who have already borrowed to finance their higher education and those who are interested in enrolling in the fall. This policy brief outlines three recommendations for the federal government to consider: 1) creating COVID-19 specific accommodations in the financial aid application process, 2) extending federal loan protections until the American public has been adequately inoculated against COVID-19, and 3) maintaining funding for statistical agencies tasked with studying higher education. In the current moment, policymakers must recognize that a lack of affordable education options or supports for manageable loan repayment will hamper efforts to improve both access and success at the postsecondary level, blocking the ability of the United States to reach its educational attainment goals.

THIRD WAY

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NARRATIVE

Federal financial aid plays a critical role in helping students afford a college education. Yet the system is plagued by long-standing inequities that disproportionately affect students of color, low-income students, and students from other groups historically underrepresented in higher education. Acknowledging and addressing these inequities and the factors that contribute to them—including barriers to college affordability and disparities in student debt repayment—is imperative in a moment of crisis like the current pandemic, as the economic downturn due to COVID-19 will exacerbate the challenges faced by students and borrowers over both the short and long term.

A CUMBERSOME FINANCIAL AID APPLICATION PROCESS

To gain access to the majority of federal financial aid, which includes around $30 billion in available Pell Grant funding for low-income students, students must complete the Free Application for Federal Student Aid (FAFSA). Though there is wide variation in which students submit a FAFSA, those with lower incomes are less likely to file.[1] One-third of students who did not file a FAFSA in 2011-12 would have qualified for a Pell Grant.[2]

Students generally use their or their guardians' prior year's tax information to complete the FAFSA. Based on that information, the federal government calculates the amount students' families can contribute to their education and sends this information to the colleges the students selected. Then, college financial aid offices create a financial aid award that typically includes a mix of grants or scholarships, federal work-study if applicable, and student loans. If students' economic circumstances change significantly during the current year, they can contact the college's financial aid office to appeal for more financial aid.[3] The students must then work one-on-one with professionals in the financial aid office to have the chance to access additional funding for college.

Submitting a FAFSA is not a simple process. The FAFSA form itself, as well as the entire financial aid process, is complex, and because of this, students will often miss priority deadlines for state and institutional aid.[4] Obtaining required documentation for many life events, such as loss of a job, can be difficult and time-consuming. This is one of the reasons that, in response to the Great Recession, the Obama administration in 2009 provided guidance to expedite the appeal process, allowing institutions to require less documentation before adjusting aid awards.[5] Still, some students have family members, school staff, or other individuals who can help them navigate the financial aid application process. Students of color, those from lower-income backgrounds, and those who are the first in their family to attend college, on the other hand, often lack the support of someone who can help with completing the FAFSA or providing documentation for appeals. This is why students are more likely to submit the FAFSA, receive financial aid, and enroll in college when they are provided structured support throughout the process.[6]

How COVID-19 Exacerbates These Inequities

The COVID-19 pandemic has exacerbated the existing inequities in the US financial aid system. The National College Attainment Network (NCAN) analyzed data from earlier this year and found that students with fewer economic resources were less likely to complete their FAFSA renewal compared to last year.[7] This was true whether they looked at students with income less than $25,000 per year or students who were Pell Grant eligible. The data also showed a decrease in the number of high school students filing the FAFSA for the first time—signaling concern about whether students will choose to enroll in the fall and how students will navigate financing college through degree completion if they do. In addition, the Department of Education (Department) has recently clarified that the 2009 guidance allowing institutions to expedite appeals will not be applicable for the upcoming academic year.[8] This means that an already difficult process will become even more challenging for all students, but particularly for students of color, those from lower-income backgrounds, and those who are the first in their family to attend college.

COLLEGE AFFORDABILITY AND THE INTERGENERATIONAL WEALTH GAP

When considering college affordability, people often think of the cost of attendance—tuition and fees, room and board, books, and other supplies. Yet the true cost of college also includes other elements of individuals' lives, such as childcare and internet access. While there is less consensus on the exact prevalence, there is broad consensus that food and housing insecurity are urgent issues facing many college students.[9] When these additional non-tuition costs of attendance are covered or subsidized by financial aid, students are more likely to enroll full-time, earn more credits, and graduate.[10]

However, even when aid is available for these types of needs, it is not always well-publicized or communicated, leading students who are most in need of assistance to miss out. Using childcare as an example, approximately 4.3 million undergraduate students in 2015-2016 had at least one child.[11] There is special funding, called the Child Care Access Means Parents in School Program (CCAMPIS), available to low-income students with children to help them fund institution-based childcare. However, a US Government Accountability Office (GAO) study revealed that two-thirds of college websites did not even mention this additional funding.[12] Adequately informing students of available resources and addressing the true price of college is critical to helping students cross the finish line to a degree and closing attainment gaps.

Concerns about the affordability of postsecondary education reflect one of the critical ways that family wealth dictates postsecondary options. One obstacle to achieving educational equity in the United States is the intergenerational relationship between wealth and postsecondary education, for which there is longstanding evidence.[13] Scholars have found that the socioeconomic status of parents is strongly correlated with children's postsecondary education decisions and outcomes, including whether to enroll, where to enroll, and whether to persist and complete.[14] Additionally, research has shown that when parents lose their jobs, their children are less likely to enroll in postsecondary education, which may be due to increased academic and mental health struggles.[15]

Wealth—incorporating such measures as savings, investments, retirement funds vested, and real estate—can play an even more substantial role. Recent research analyzed a nationally representative sample of youth born from 1980 to 1984 and found that wealth plays a larger role than income in students' decisions about whether to enroll in college or which sector of higher education to enroll in (such as two-year vs. four-year), particularly in the case of selective four-year institutions.[16] Understanding the difference between wealth and income is important. For example, when confronted with job loss (income), a family with a significant amount of money saved (wealth) faces very different circumstances than a family without such reserves. An Urban Institute analysis of data from 2010 through 2016 shows that families with the same income can have different wealth.[17] Among families with a typical middle *income* ($58,000 to $86,999), the median Hispanic family had approximately $42,000 in *wealth* and the median Black family had about $39,000.[18] This was dwarfed by nearly $118,000 in *wealth* possessed by the median White family. Families who have been allowed the opportunity to build wealth—particularly White families—are thus significantly better able to navigate short-term income losses and are more likely to be able to afford a college education, whether by paying outright or repaying loans.

How COVID-19 Exacerbates These Inequities

In today's uncertain environment, policy interventions must recognize the myriad ways family economic stability and prosperity shape the trajectories of students. The United States entered a recession in February.[19] The labor force has been drastically affected by the pandemic. Essential workers, individuals whose jobs are considered fundamental during this time, and their families face an increased likelihood of being exposed to COVID-19.[20] Other individuals have lost their jobs and face significant hurdles to receiving unemployment benefits or the government's one-time payment of, at most, $1,200.[21] These workers are more likely to be people of color, have less formal education, or earn lower wages. Essential workers without telework options are more likely to be individuals of color and those with fewer years of education.[22] This is especially concerning as prior research has found that the children of parents who lose their jobs are less likely to attend college. These individuals and their families may be the ones who need the most help paying for college and are among those who could most benefit from the economic returns to earning a degree.

DISPARITIES IN STUDENT LOAN DEBT AND REPAYMENT

Compounding the inequities in students' and families' ability to afford college are structural and systemic inequities related to loan debt and repayment. Total US student loan debt has surpassed $1.6 trillion, but the burden of repayment is far from equally distributed. When it comes to paying down student loans, there is evidence at both the federal and state levels that specific subgroups of students are more likely to struggle: students who do not complete their degree, students who attend for-profit institutions, and students who are Black.[23] Here is what the data tell us (all statistics estimated on a nationally representative sample of first-time beginning postsecondary students):

- Students who borrow to go to college but do not complete their degree are faced with paying back their student loan debt without the commensurate bump in earnings that could have occurred if the student graduated—making them more likely to struggle with repayment.

- Students who attend for-profit institutions are both more likely to borrow (89%, the highest of all sectors) and default on their student loans at the highest rates (47%, the highest of all sectors).

- On average, Black students and their families have limited economic resources due to systemic racism and can face significant labor market discrimination, which reduces their earnings in comparison with their peers who have similar occupations. This is one of the reasons why Black bachelor's degree recipients are more likely to default on their student loans compared to White students who earn a bachelor's degree (21% versus 4%). Even more startling, Black bachelor's degree recipients default more than White students who dropout (18%).[24]

How COVID-19 Exacerbates These Inequities

In the prior section, this brief previously outlined the individuals most likely to find it difficult to afford college this fall due to COVID-19. The same is true for repayment. Disproportionate job loss along racial, income, and education lines will affect the ability of certain individuals to repay. This exacerbates long-standing structural challenges to repayment for students who do not complete a degree, who attend a for-profit institution, or who are Black.

Layoffs and reduced hours have lowered the income of many families, though, as noted above, this has disproportionately affected individuals of color and those with fewer years of formal education. In light of this, the federal government passed the *Coronavirus Aid, Relief, and Economic Security* (CARES) Act. The CARES Act includes an automatic suspension of payments on a subset of federal loans through September 30, 2020. This law also includes a pause on interest accrual. The passage of the CARES Act was a necessary but insufficient start to helping student loan borrowers. Several types of student loans are left out of the CARES Act, such as private student loans, which students attending for-profit institutions relied on more heavily during the Great Recession.[25] Furthermore, while the CARES Act halted wage garnishment for overdue payments on student loans, approximately 54,000 individuals continue to have their wages garnished.[26] Student loan servicers were supposed to report borrowers affected by the CARES Act as still making regular payments to the credit bureaus. However, five million student loan borrowers were erroneously reported to the credit bureaus, which lowered some individuals' credit scores.[27] Therefore, while the CARES Act includes useful policy measures, significantly more must be done to ensure that individuals and their families will have enough money for basic needs while not being penalized for following the government's instructions.

POLICY IMPLICATIONS

Beyond creating an aggressive program of testing for the illness and tracing of those who have been in contact with infected individuals, the federal government needs to consider how individuals can repay loans already borrowed as well as how to make college affordable both in the fall and throughout the coming period of economic recession. Federal policy interventions in the wake of COVID-19 should focus on maintaining college access and affordability while providing sufficient support for affected students and borrowers, including by:

Creating COVID-19 specific accommodations in the financial aid application process. The Department and Congress need to consider that—due to the information used for the FAFSA—financial aid provided to students in fall 2020 generally will be based on economic situations from 2019. This means they must prepare to address a likely need for additional emergency aid due to the negative impacts of COVID-19 and the resulting economic downturn on family finances. While students can update their institutions on changes in their economic situations to appeal their financial aid package, this is done on a case-by-case basis. This creates excessive work for both the students and the financial aid offices (which are often understaffed, particularly the ones located in institutions that disproportionately serve students of color and low-income students). To mitigate these challenges, the federal government could create a national update for the FAFSA that would ask a limited set of questions to reduce the burden on individuals. For example: "Have you or a family member lost their job or been furloughed for a week or more since January 2020?" "Do you have an essential worker in your immediate family?" These questions could be tied to additional emergency aid for the 2020-2021 academic year.

At a minimum, the Department must inform and communicate with students about completing their FAFSA and the availability of appeals. The Department must also ensure that institutions can complete appeals without undue administrative burden. Currently, the Federal Student Aid website includes a frequently asked questions list which has one explanation about what to do if students' ability to pay for college has changed.[28] However, if one visits the Department's website and navigates to the student loans section, there is no information about updates due to COVID-19, and details about the appeals process are not readily provided.[29] It is not clear how often or in what ways the Department is reaching out to student borrowers, but some combination of email, text messages or calls, and advertisements could be a useful starting point. Institutions have widely varying budgets and capacity to create targeted communication for students about the appeals process.

Further, the Department's recent clarification on prior guidance allowing institutions more latitude in quickly processing the appeals of students creates significant barriers. Several institutions have noted their concern that if students and their families are not made aware of the appeals process, or if institutions themselves cannot adjust aid, some students may choose to forgo their education altogether. This is an especially important concern in the current context given varying projections of potential enrollment declines and the higher risk of loan default for borrowers who do not complete their degree.[30] A significant push likely needs to be made by the

Department, in addition to individual institutions, to encourage students to complete their FAFSA and to appeal their financial aid if their economic situations have changed. The Department also needs to reinstate prior guidance allowing institutions to grant appeals more easily to help students.

Extending federal loan protections until the American public has been adequately inoculated against COVID-19. Federal policymakers should recognize that ongoing economic insecurity will lead to significant disruption in the ability of individuals to make loan repayments until a vaccine is developed and widely distributed. Due to this, pauses in interest accrual on student loan balances and wage garnishment—borrower protections that the CARES Act instituted through September—will need to continue until after a vaccine is developed to allow individuals to use their income to pay for food, housing, and other basic needs. This type of aid should be targeted at all educational loans and not just loans given directly to undergraduate students since over one million parents and graduate students borrow to pay for college. While the economy continues to "recover," positive overall unemployment numbers obscure uneven improvement. For example, while the overall unemployment rate improved in May 2020, Black and Latinx families face higher unemployment rates.[31] This is one of the reasons that the student loan safeguards introduced in the CARES Act must be extended and properly enforced.

Planning should also commence to prepare for what will happen once the pause on repayment is removed. Based on the erroneous reporting to credit bureaus that has already occurred, the Department will need to create clear guidelines and hold loan servicers accountable for any actions relating to COVID-19 responses. A clear communication plan should be created to notify student loan borrowers when they will be expected to make payments again. Laying the groundwork for easing individuals back into repayment is critical in order to prevent a rise in defaults immediately after the transition.

Maintain funding to statistical agencies tasked with studying higher education. The Department routinely fields nationally representative surveys that aim to better understand the collegiate and post-collegiate experiences of higher education students through the National Center of Education Statistics (NCES). Currently, the National Postsecondary Student Aid Study (NPSAS), a nationally representative survey of all students enrolled in higher education focused on how students and families pay for college, is being administered. This sample will also spin-off to create the Beginning Postsecondary Students (BPS) survey, which will follow first-time students for six years after entering higher education and track their educational and career outcomes. NCES has rightly moved to collect administrative data and include questions directly related to institutions' COVID-19 response and how it affected students' financing of higher education in ongoing NPSAS surveys. NCES plans to include similar types of questions in the BPS follow-ups. Ensuring that the funding allocated to NCES remains strong so that scholars, practitioners, and policymakers can adequately assess the efficacy of pandemic-related shifts in the financing of higher education will be key.
The effects of this crisis on higher education will be felt for decades. The future of postsecondary education, public health and safety, and long-term economic recovery in the United States rely on collecting data on the current moment and analyzing it to make informed decisions moving forward.

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