



STUDENT BORROWER
PROTECTION CENTER

Testimony of Katherine Welbeck
Before the California Assembly Select Committee on Student Debt
Student Debt Impacts on California Neighborhoods
Pasadena, CA
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Good morning. My name is Katherine Welbeck, and I'm a counsel at the Student Borrower Protection Center (SBPC) where I focus on civil rights and fair lending issues in the student debt crisis. Prior to joining the SBPC, I spent five years in the External Affairs division of the Consumer Financial Protection Bureau.

It is an honor to be here. I would like to extend thanks to Chairwoman Petrie-Norris and the Members of this Select Committee for holding this hearing to talk about the critical issues before us today.

I'm here to speak about the nation's \$1.6 trillion student debt crisis that is affecting nearly 45 million borrowers.¹ This crisis touches borrowers in every corner of our country, including nearly 4 million people right here in California.²

The average student loan balance nationwide is in excess of \$33,000.³ Over 9 million borrowers are in default, and 3 million more are nearing default status.⁴ As I said before, the numbers here, in California, are equally dire with over \$140 billion in outstanding debt and 15.4% of student loan borrowers severely delinquent on their loans.

Across the country, over ONE million borrowers defaulted last year alone.⁵ That's one borrower defaulting every 28 seconds.

And as this crisis unfolds in neighborhoods all across our country, borrowers and communities of color feel this burden most acutely—experiencing some of the most severe consequences associated with this crisis.

¹ Fed. Res. Bd, Consumer Credit- G.19 (Aug. 7, 2019), <https://www.federalreserve.gov/releases/g19/current/default.htm>.

² Fed. Res. Bank of N.Y., 2018 Student Loan Update (2018), https://www.newyorkfed.org/medialibrary/interactives/householdcredit/data/xls/sl_update_2018.xlsx; Fed. Res. Bd, Consumer Credit- G.19 (Aug. 7, 2019), <https://www.federalreserve.gov/releases/g19/current/default.htm>.

³ Student Borrower Protection Center analysis of U.S. Department of Education administrative data; <https://studentaid.ed.gov/sa/about/data-center/student/portfolio>

⁴ Student Borrower Protection Center analysis of U.S. Department of Education administrative data; <https://studentaid.ed.gov/sa/about/data-center/student/portfolio>

⁵ Student Borrower Protection Center analysis of U.S. Department of Education administrative data; <https://studentaid.ed.gov/sa/about/data-center/student/portfolio>

Throughout the lifecycle of their loans, borrowers of color face significant barriers that impede progress and compound the historic socioeconomic inequality faced by communities of color.

More than 90 percent of African-American and 72 percent of Latino students fund their higher education with student loans in comparison to 66 percent of white students.⁶

The average white borrower pays down almost 95 percent of their loans 20 years after starting college in stark contrast to their black peers who still owe 95 percent of their original balance after the same period.⁷

Recent research from the Federal Reserve Bank of New York has provided comprehensive data that further examines disparities in loan performance for borrowers of color in relation to their white peers. Predominantly-black communities have the highest and fastest-growing student loan balances, with an average balance of \$38,000, about \$5,000 more than the national average.⁸

The Federal Reserve data also points to alarming trends in repayment disparities. Default rates are approximately 17.7% in majority-black zip codes and 13% in Latino-majority zip codes as compared to 9% default rates in majority-white zip codes.⁹

Here in California, the same rings true with regard to borrower distress. Findings from the Federal Reserve Banks of New York and San Francisco show the significant challenges facing borrowers of color in the state.¹⁰

In Los Angeles, default rates in predominantly minority zip codes are double those in predominantly white zip codes.¹¹

⁶ Aisa Canchola and Seth Frotman, The Significant Impact of Student Debt on Communities of Color, CFPB (Sept. 15, 2016) <https://www.consumerfinance.gov/about-us/blog/significant-impact-student-debt-communities-color/>

⁷ Laura Sullivan, Tatjana Meschede, Thomas Shapiro, and Fernanda Escobar, Stalling Dreams: How Student Debt is Disrupting Life Chances and Widening the Racial Wealth Gap, Institute on Assets and Social Policy (Sept. 2019) <https://heller.brandeis.edu/iasp/pdfs/racial-wealth-equity/racial-wealth-gap/stallingdreams-how-student-debt-is-disrupting-lifechances.pdf>

⁸ Andrew F. Haughwout, Donghoon Lee, Joelle Scally, and Wilbert van der Klaauw, Racial Disparities in Student Loan Outcomes, Fed. Res. Bank of N.Y. (Nov. 2019), <https://libertystreeteconomics.newyorkfed.org/2019/11/just-released-racial-disparities-in-student-loan-outcomes.html>

⁹ Andrew F. Haughwout, Donghoon Lee, Joelle Scally, and Wilbert van der Klaauw, Racial Disparities in Student Loan Outcomes, Federal Reserve Bank of New York (Nov. 2019), <https://libertystreeteconomics.newyorkfed.org/2019/11/just-released-racial-disparities-in-student-loan-outcomes.html>

¹⁰ Bina Patel Shrimali, Jacob DuMez, & Sarika Abbi, At What Cost? Student Loan Debt in the Bay Area, San Francisco Off. of Fin. Empowerment (Apr. 2019), <https://www.frbsf.org/community-development/files/student-loan-debt-in-the-bay-area.pdf>; and <https://www.scribd.com/document/414778761/Letter-to-NY-Fed-regarding-Race-Disparities-in-Student-Loan-Borrowers>

¹¹ Letter to NY Fed regarding Race Disparities in Student Loan (June 2019) <https://www.scribd.com/document/414778761/Letter-to-NY-Fed-regarding-Race-Disparities-in-Student-Loan-Borrowers>

Mirroring demographic trends here and across the country, Bay Area zip codes with the highest level of delinquency and default also have larger percentages of black and Latino residents.¹²

The Federal Reserve Bank of San Francisco found that Bay area communities with the largest percentages of black and Latino residents had 19.9% of borrowers in delinquency, 15.3% of borrowers in default, and since 2003, 26.9% of borrowers in those communities have defaulted on a student loan—a rate nearly three times higher than neighborhoods with the lowest percentages of black and Latino residents.¹³

With eerie similarities to the mortgage crisis of the past decade, predatory players are preying upon borrowers of color, seeing them simply as a means to get rich quick.

In 2018, California sued Navient for their deceptive servicing practices that cheated borrowers out of their right to lower payments;¹⁴ the CFPB, Illinois, Pennsylvania, and Washington sued Navient for similar abuses the year prior.¹⁵

Debt collectors are more likely to sue black and Latino borrowers than their similarly situated white peers, and African American borrowers are 50% more likely to be called by a debt collector than white borrowers with similar debt balances and rates of repayment.¹⁶

Right here in California, the Mexican American Legal Defense and Educational Fund (MALDEF) has sued Wells Fargo for discriminating against qualified loan applicants based on their immigration status.¹⁷

In the face of mounting evidence that demonstrates the need for more rigorous oversight in the student lending market, the Trump administration has turned its back on borrowers.

The CFPB and Department of Education are charged with protecting borrowers from the countless abuses that we are witnessing in the student lending market; however, the federal government's inaction is allowing an industry to run unchecked.¹⁸

¹² Bina Patel Shrimali, Jacob DuMez, & Sarika Abbi, At What Cost? Student Loan Debt in the Bay Area, San Francisco Off. of Fin. Empowerment (Apr. 2019), <https://www.frbsf.org/community-development/files/student-loan-debt-in-the-bay-area.pdf>

¹³ Bina Patel Shrimali, Jacob DuMez, & Sarika Abbi, At What Cost? Student Loan Debt in the Bay Area, San Francisco Off. of Fin. Empowerment (Apr. 2019), <https://www.frbsf.org/community-development/files/student-loan-debt-in-the-bay-area.pdf>

¹⁴ Complaint, The People of the State of California v. Navient Corp.; https://oag.ca.gov/system/files/attachments/press_releases/CA%20AG%20First%20Amended%20Complaint%20-%20Navient.pdf

¹⁵ Complaint, CFPB v. Navient Corp., No. 3:17-cv-00101-RDM (M.D. Pa. Jan. 18, 2017); https://files.consumerfinance.gov/f/documents/201701_cfpb_Navient-Pioneer-Credit-Recovery-complaint.pdf

¹⁶ Margaret Mattes and Persis Yu, Inequitable Judgments: Examining Race and Federal Student Loan Collection Lawsuits, National Consumer Law Center (April 2019), https://www.nclc.org/images/pdf/student_loans/report-inequitable-judgments-april2019.pdf

¹⁷ Mitzie Perez, et al., v. Wells Fargo Bank, N.A., Case No. 17-cv-00454; <https://www.courtlistener.com/docket/4578394/mitzie-perez-v-wells-fargo-co/>

¹⁸ David Lazarus, CFPB Head, Charged with Protecting Consumers, Says People Need ‘to help themselves,’ Los Angeles Times (Apr. 19, 2019) <https://www.latimes.com/business/lazarus/la-fi-lazarus-cfpb-kraninger-takes-consumers-to-school-20190419-story.html>

Just last week, Democracy Forward, on behalf of Student Debt Crisis sued the Trump administration for neglecting its duty to supervise the student lending market.¹⁹ The lawsuit was filed with support from my organization, which is comprised of former senior CFPB officials who once led this critical oversight work.

The CFPB has abandoned its charge to supervise the federal student loan market and hired a former executive of one of the nation's largest servicers as its student loan ombudsman, despite the numerous complaints launched against his former employer. Under Betsy DeVos's helm, the Department of Education, has repeatedly tried to block efforts to hold servicers accountable for their practices.

In the absence of federal supervision, it is imperative that states and advocates stand-in to protect borrowers from predatory and illegal market practices. California has an opportunity to lead the nation by passing Assemblymember Mark Stone's AB 376, for which the chair has been a strong advocate. This legislation, co-sponsored by SBPC, provides a means for California to create protections for borrowers where federal action has waned.

That is why our work here today is so important—the Select Committee can help the assembly understand the effects of this crisis and provide a foundation of evidence to justify further action.

This legislature must act to protect the teachers who have been denied their right to Public Service Loan Forgiveness, the disabled veterans denied their right to have their loan discharged, and especially the millions of borrowers of color being denied their civil rights.

On behalf of my organization and the dozens of consumer, civil rights, and labor groups across the state that support AB 376, I urge California to offer a pathway forward for the millions of borrowers struggling under the weight of historic debt, and in doing so, pave the way for the nation to address the student debt crisis.

¹⁹ Student Debt Crisis v. Consumer Financial Protection Bureau, Case No. 2:19-cv-10048; <https://www.courtlistener.com/docket/16509640/student-debt-crisis-v-consumer-financial-protection-bureau/>