

FREED FROM DEBT:

A RACIAL JUSTICE APPROACH TO STUDENT LOAN REFORM IN NEW JERSEY



A REPORT BY THE NEW JERSEY INSTITUTE FOR SOCIAL JUSTICE



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The Institute's mission is to empower New Jersey residents to realize and achieve their full potential. Established in 1999 by Alan V. and Amy Lowenstein, the Institute's dynamic and independent advocacy is aimed at toppling load-bearing walls of structural inequality to create just, vibrant and healthy communities. We employ a broad range of advocacy tools to advance our ambitious agenda, including research, analysis and writing, public education, grassroots organizing, the development of pilot programs, legislative strategies and litigation.

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EXECUTIVE SUMMARY

The student debt crisis has left millions of borrowers across the country struggling to pay off their loans. This crisis has been intensified by the current COVID-19 pandemic, which has exposed the cracks of structural racism in our society's foundation. Those cracks are causing earthquakes in Black and other communities of color.

Even before the COVID-19 pandemic and its economic fallout, Black students were more likely to take on student loans, borrow in larger amounts, and default on their loans than their white peers. While student loans once served as a resource to help students achieve economic mobility, they have, even more in this moment, become an immense financial weight that entraps Black students and other students of color in a cycle of insurmountable debt. In the current public health crisis, it is imperative that New Jersey does not further shift the burden of student loan debt to already cash-strapped students.

New Jersey has among the highest student debt levels in the nation, leading to especially arduous debt loads for students in one of the most expensive states in the nation. The state has the third highest cost of attendance in the nation for in-state, full-time students at \$26,070 per year. And, New Jersey is one of the top five states for student loan debt levels, with the average graduate leaving school with \$34,387 in loans.

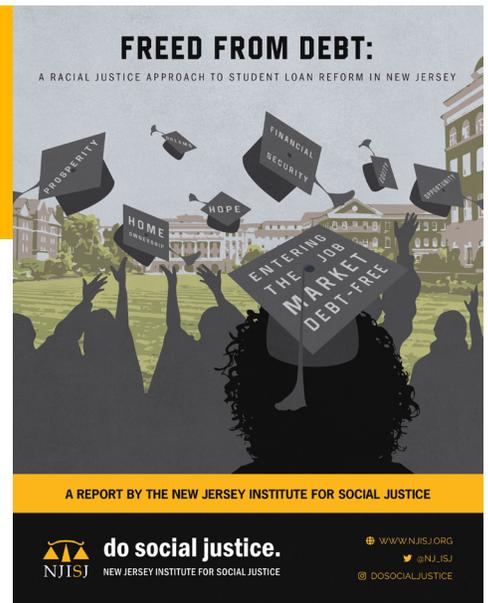
Freed from Debt: A Racial Justice Approach to Student Loan Reform in New Jersey, a report by the New Jersey Institute for Social Justice, aims to chart the path forward for students in the Garden State, with a particular eye toward supporting Black and other students of color who were already bearing the disproportionate brunt of student loans before the pandemic began.

- First, it examines the national student loan crisis, both generally and for Black students in particular.
- Second, it brings this analysis to the state level, highlighting the impact of student loan debt on New Jersey borrowers with a focus on the disproportionate harm of the system on borrowers of color.
- Last, the report introduces four policy proposals aimed at finally freeing New Jersey students from the burden of student loans, with a pronounced emphasis on doing so for its Black and other students of color.

To ensure that current borrowers and future students in New Jersey are truly freed from debt and that our higher education system is an engine of mobility and prosperity, particularly for Black students and other students of color, as we recover from the economic impacts of the pandemic, **New Jersey should take the following steps:**

1. Forgive student loan debt for borrowers with NJCLASS loans, the loan program administered by the state
2. Make public higher education tuition-free for all its students and provide support for non-tuition costs
3. Establish a New Jersey Baby Bond program
4. Expand collection of data on student loan debt by race and ethnicity

Freed from Debt: A Racial Justice Approach to Student Loan Reform in New Jersey sets forth a new trajectory in which students – particularly Black students and other students of color who have been disproportionately harmed by student loans – can reach for their dreams without signing up for a decades-long debt burden.



FREED FROM DEBT: A RACIAL JUSTICE APPROACH TO STUDENT LOAN REFORM IN NEW JERSEY

“Far too many New Jerseyans struggle with crushing student loan debt in good times, and our current crisis has only exacerbated the problem.”¹ - New Jersey Governor Phil Murphy



■ INTRODUCTION

Mass layoffs. Crushing unemployment. Stimulus checks that fail to cover the expenses of everyday life. This is the new reality in America as families across the country struggle to financially weather the storm caused by the COVID-19 public health crisis.

But this economic insecurity is not new for Black and Brown communities. Indeed, as we are seeing more and more with each passing day, the current public health crisis is exposing the cracks in society’s economic foundation that are causing earthquakes in communities of color. For Black communities in particular, who even before the public health crisis had an unemployment rate nearly twice the national rate and have the lowest median wage of any racial group in the country,² this epidemic has exacerbated economic insecurity caused by centuries of institutionalized racism, segregation and disinvestment.

The student loan debt crisis has been amplified by the current public health crisis. As the second largest consumer debt held by households nationwide,³ student loans have traditionally served as a resource to help students achieve the American Dream. Now, however, student loans have become an immense financial burden that entraps students in a cycle of insurmountable debt. The situation is even more dire for our country’s Black students, who are more likely to take on student loans, borrow in larger amounts,⁴ and default on payment than their white peers.⁵

Recognizing the additional strain put on borrowers trying to juggle loans with other bills during the international pandemic, the federal government has temporarily suspended payment and interest on many federally owned loans.⁶ Proposed federal legislation since the start of the public health crisis has included substantial student loan forgiveness for all federal and private

loan borrowers at levels including \$10,000⁷ and \$30,000,⁸ as well as a more targeted approach that reduces loans for those who were economically distressed before the crisis.⁹ At least one presidential candidate in the 2020 race went even further, calling for forgiveness of all student loans,¹⁰ while the presumptive Democratic nominee has called for forgiving all tuition-related federal educational loans for those earning up to \$125,000 in addition to \$10,000 in forgiveness for all borrowers.¹¹

New Jersey must also develop a plan to cancel student loan debt. As one of the country's most expensive states both generally¹² and in terms of higher education for in-state students,¹³ it is imperative that, in this current public health crisis, New Jersey does not further shift the burden of student loan debt to already cash-strapped students – particularly students of color. This is especially important at a time when New Jersey colleges are losing funding and are unsure about the extent of federal and state support.¹⁴ We must avoid the mistakes made during the Great Recession when state budgets were cut and tuition was raised, forcing students to shoulder the financial burden of declining state funding for higher education. We must instead bolster our investments in New Jersey's students using a racial justice approach that will ensure a new course for higher education that is truly inclusive for all.

This report aims to chart the path forward for student loan forgiveness in the Garden State, with a particular eye toward supporting Black and other students of color who were already bearing the disproportionate brunt of student debt before the pandemic began.

- First, it examines the national student loan crisis, both generally and for Black students in particular.
- Second, it brings this analysis to the state level, highlighting the impact of student loan debt on New Jersey borrowers with a focus on the disproportionate harm of the system on borrowers of color.
- Last, the report introduces four policy proposals aimed at finally freeing New Jersey students from the weight of insurmountable loans, with a pronounced emphasis on doing so for its Black and other student borrowers of color.



THE NATIONAL STUDENT LOAN CRISIS



Our country has an urgent student loan crisis. Due to lower state investments and growing student demand, student loans are now the second largest consumer debt held by households – after mortgages – in the country, totaling \$1.54 trillion in the first quarter of 2020.¹⁵ Today, about a third of all adults under age 30 hold student loans.¹⁶ The growing reliance on student debt, along with wage stagnation for recent graduates,¹⁷ has led to students being increasingly burdened by their student loans for decades, limiting their mobility and slowing the transition to a secure adulthood.

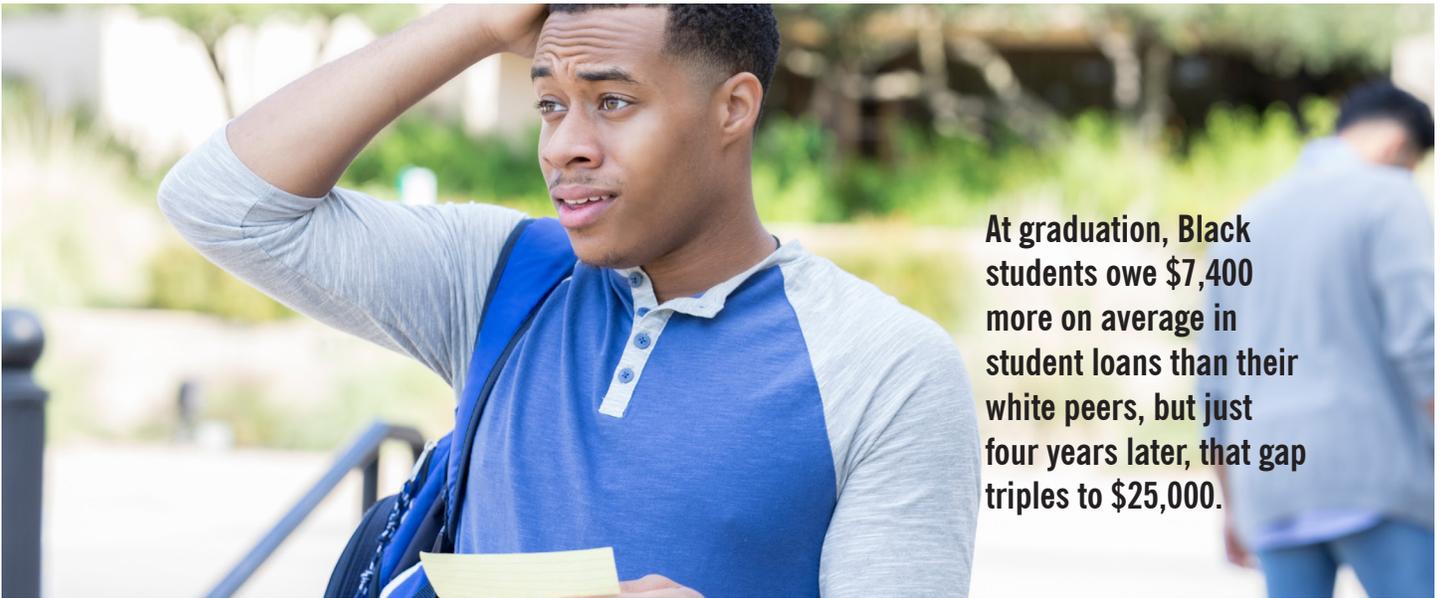
How did we get here?

First, decreasing investments in higher education over the last three decades¹⁸ have forced growing numbers of college students to rely on higher levels of student loans to achieve their educational dreams. Following the Great Recession, when state spending for public colleges and universities fell by 24 percent,¹⁹ schools have increasingly relied on tuition payments from students to manage their budgets, rather than state funds. At public institutions, tuition made up 25 percent of revenues in 1990 – by 2015, that percentage rose to almost half of all revenues.²⁰ Further, while in 1990 average tuition and fees were equal to around six percent of a typical²¹ family's income, by 2014, average annual tuition and fees amounted to almost 16 percent of a typical family's income.²² Including room and board, college costs now make up over a third of a typical family's income compared to just 17.6 percent thirty years ago.²³ Thus, college is much less affordable in real dollars –

leading more and more students to take on loans to finance higher education. In addition, federal Pell grants, which are crucial for helping low- and moderate-income students pay for college, have had inadequate funding to keep up with inflation and cover a diminishing share of higher education expenses.²⁴ Whereas in 1975, Pell grants covered 79 percent of average costs of tuition, fees, and room and board at four-year public colleges, they cover just 29 percent today.²⁵ Thus, one of the key resources nationally to

help make college affordable has a dwindling impact on today's students. To make matters worse, rising living expenses both on and off campus add to the affordability crisis for students. Since 1980, room and board costs have doubled in real dollars at both public and private four year colleges,²⁶ while off-campus housing expenses have also risen faster than inflation since 2000 and are increasingly burdensome for many students.²⁷ Given these trends, it is no surprise that we have seen student borrowing explode nationally. Among those graduating from public and private nonprofit institutions in 2018, almost two-thirds graduated with debt – averaging \$29,200, up from \$20,500 in 1996.²⁸

Second, despite these rising costs, more and more students are attending and graduating from college than ever. Given the polarization of the labor force in the U.S. – which is increasingly divided among well-paying employment with benefits for highly educated workers and work for low-paid employees who have no benefits and very little control over their schedules²⁹ – a college degree is more important now than ever for economic security.³⁰ Growth in higher education enrollment and attainment has been building for decades. In 1940, just one in twenty U.S. adults held a college degree, but by 2015, one in three adults did.³¹ Young people today are pursuing higher education at the highest rates ever;³² as of 2018, about half (47 percent) of 25-29 year-olds hold an associate's degree or higher and more than one in three (37 percent) hold a bachelor's degree or higher.³³ In fact, college is the path taken by most students today – with two-thirds of 2019 high school graduates enrolled in colleges or universities by



At graduation, Black students owe \$7,400 more on average in student loans than their white peers, but just four years later, that gap triples to \$25,000.

fall³⁴ and more than 85 percent of high school graduates enrolling within eight years.³⁵ However, the outcomes of that attendance are not equal and lead to widespread financial strain.

The combination of rising education costs and student attendance has led to a generation of students whose access to the American Dream – a major reason for attending higher education – has been stymied. Student loan debt has an overwhelming impact on the ability to generate wealth and build long-term security: Households that do not hold student loans are more likely to be homeowners, have lower interest rates on home loans, and hold substantially more retirement and liquid savings compared to those with student loans and the same level of education.³⁶ As outlined in the Institute’s recent report, *Erasing New Jersey’s Red Lines: Reducing the Racial Wealth Gap through Homeownership and Investment in Communities of Color*, owning a home is a primary factor in wealth-building and increasing access to homeownership can help to close the racial wealth gap.³⁷ Yet, student loans are delaying, if not prohibiting, access to this important wealth-building opportunity.

And with this growing student debt burden also comes a growing inability for student borrowers to pay off this debt. Among students who began college in the 1995-1996 academic year, over a quarter of borrowers defaulted on their loans within 20 years.³⁸ Thus, in addition to impeding the financial stability and growth of young people as they enter into adulthood, student loans have damaged the finances of an entire generation of students.

THE NATIONAL STUDENT LOAN CRISIS IS CAUSING EARTHQUAKES IN BLACK COMMUNITIES

Just as the current public health crisis has disproportionately impacted Black communities, so too has the student loan crisis – leading to an inability for Black students to free themselves from seemingly insurmountable debt loads.

In response to the promise of education as the “great equalizer,” our college campuses are increasingly diverse as Black and other students of color make up a growing share of college students.³⁹ Yet, without the family wealth accessible to many white students, Black students must rely more heavily on student debt than their white peers.⁴⁰ Black students often have riskier loans, and are also more likely to have attended for-profit colleges that target low-income people of color to grow enrollments,⁴¹ yet have significantly poorer labor market outcomes.⁴² At graduation, Black students owe \$7,400 more on average in student loans than their white peers (\$23,400 compared to \$16,000), but just four years later, that gap triples to \$25,000 due to interest accumulation – with Black students more likely to owe more than they borrowed – as well as greater graduate school attendance and borrowing (particularly at for-profit institutions).⁴³ Fewer family assets for paying off loans and discrimination in the labor market after college also make paying off loans more difficult for Black students after graduation.⁴⁴ Within twenty years, while the typical white borrower has reduced their debt total by 94 percent, the typical Black borrower is only able to reduce theirs by five percent.⁴⁵ About half of Black students also default over this same time period.⁴⁶ Regardless of the type of school (public four-

year, private nonprofit four year, community college or private for-profit), Black students are more likely than white students to default.⁴⁷ And as the student debt crisis grows, the trends are increasingly daunting for recent students: within just six years of starting school, one third of Black student loan borrowers who began college in 2011-12 had defaulted, including 42 percent of Black students at for-profit schools.⁴⁸ Higher default rates among Black borrowers have long lasting repercussions because default on student loans negatively impacts credit histories and makes it harder and more expensive to buy a house or get other credit,⁴⁹ further exacerbating the racial inequalities in wealth.

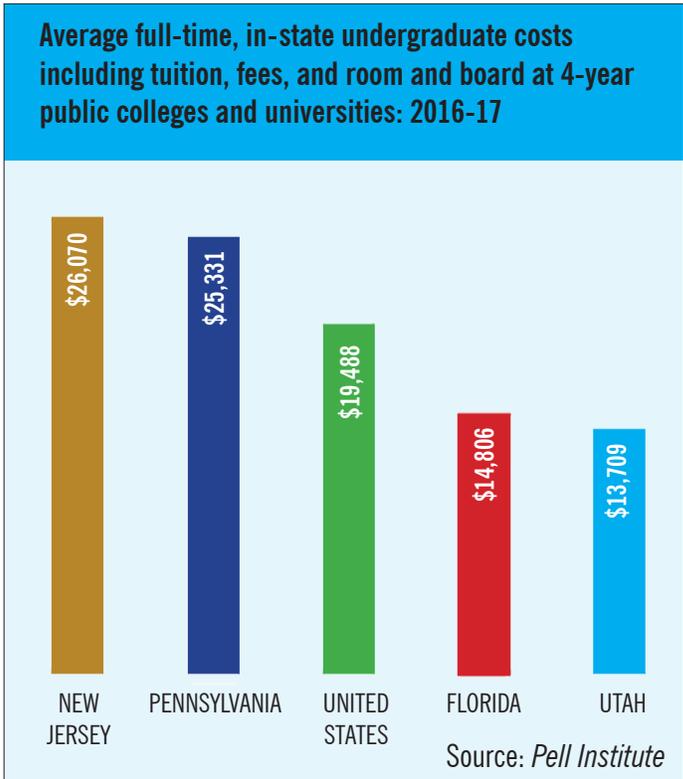
The long-term implications of these disparities in student loan borrowing are enormous. Student debt contributes to economic fragility among the Black middle class, who already face a more precarious financial position than their white peers due to the wealth disparities created by ongoing and historical barriers to wealth-building.⁵⁰ Overall, Black college-educated households hold less than a fifth of the wealth of college-educated white households⁵¹ – rejecting the notion that higher education is a great equalizer. Black college-educated adults are also much more likely to be providing financial support to their parents,⁵² in addition to being likelier to return home after having left their parents’ house for school.⁵³ Across all groups, more education is associated with greater wealth, but our education system comes nowhere close to leveling the playing field. In fact, a college-educated black family typically has just two-thirds of the wealth of white families headed by someone with less than a high school degree.⁵⁴ These patterns and inequities relating to student loan debt are mirrored by New Jersey’s student loan crisis.

Overall, Black college-educated households hold less than a fifth of the wealth of college-educated white households – rejecting the notion that higher education is a great equalizer.

THE STUDENT LOAN PROBLEM IN NEW JERSEY

New Jersey faces among the highest student debt levels in the nation, leading to especially burdensome debt loads for students in one of the most expensive states in the nation.⁵⁵ Like much of the country, New Jersey has experienced declining state support at the expense of student finances, leaving students to make up the difference. From 2004 to 2015, state appropriations for all New Jersey public universities declined by approximately 30 percent.⁵⁶ As just one example, at the state’s flagship university, Rutgers University at New Brunswick, the share of revenue coming from the state has declined more than 25 percent between 1987 and 2012.⁵⁷ State funding per student in New Jersey is down 22.6 percent from pre-Great Recession levels, which translates to \$2,278 less in funding per student.⁵⁸

New Jersey colleges and universities have the third highest true attendance costs in the nation for in-state full-time students at \$26,070 per year.



To make up for declining state investments, higher education institutions in the Garden State have shifted costs to students. New Jersey has the fourth highest in-state tuition rates for public four-year institutions in the country,⁵⁹ with average tuition at four-year public schools in the Garden State increasing over 18 percent between 2008-2018.⁶⁰ The sticker price for New Jersey in 2016-2017 for public four-year colleges ranged from \$28,417 to \$35,130; this is 41 to 74 percent higher than the national average of \$20,150.⁶¹ Further, when looking at the true costs of attendance for undergraduate students, including tuition, fees, and room and board, New Jersey has the third highest costs in the nation for in-state full-time students at \$26,070 per year.⁶²

As a result of these high costs of attendance, New Jersey is one of the top five states for student loan debt amounts, with the average graduate leaving school with \$34,387 dollars.⁶³ New Jersey also ranks number seven in the nation for the amount of students (about two-thirds of recent college graduates) who graduate with loans.⁶⁴ These high levels of borrowing have made the burden of student loans a pervasive problem for Garden State residents. Today, over one in eight people in New Jersey is a federal student loan borrower, amounting to a cumulative federal student loan amount of \$39.8 billion.⁶⁵ The percentage of student loan borrowers in New Jersey who are behind in payments or in default has about doubled from 4.3 percent in 2004 to 8.5 percent in 2019.⁶⁶

And the available financial support for students is largely wanting. New Jersey currently offers New Jersey College Loans to Assist State Students (NJCLASS) loans to students to cover unmet need after grants and federal direct loans have been exhausted.⁶⁷ There are currently over 130,000 NJCLASS loans with a principal amount nearing \$1.8 billion.⁶⁸ However, there are minimum income (\$40,000) and credit score (670) requirements; as a result, over 90 percent of borrowers need a cosigner and those from low income backgrounds who do not have access to credit may not qualify.⁶⁹ Further, over 13% of existing NJCLASS loans are in default.⁷⁰ With over one in ten loans currently in default, it is clear that the New Jersey student loan system is unsustainable for students, just as we have seen with national trends. Although the NJCLASS program is offering increased flexibility to borrowers applying for financial hardship relief during the pandemic,⁷¹ the loans will remain on borrowers' balance sheets and continue to accrue interest.⁷² Further, the state loan program and existing aid programs are not fully meeting student needs, particularly the most economically vulnerable. Even with financial aid, New Jersey students still pay about \$1,000 higher than the national average, with the lowest income students paying almost \$4,000 more than the national average for their income group.⁷³



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Over 13% of existing NJCLASS loans are in default.

NJCLASS LOANS

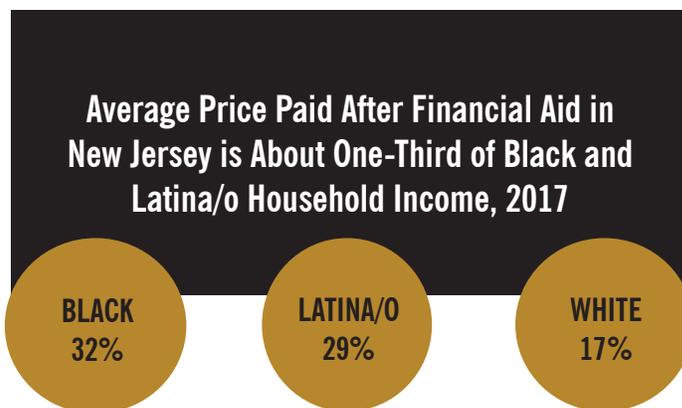
Since 1991, the Higher Education Student Assistance Authority (HESAA) has offered the New Jersey College Loans to Assist State Students (NJCLASS) loan program. NJCLASS Loans, which are funded through private sector bonds, provide financial support to New Jersey students and families who have unmet need after exhausting federal loan options. NJCLASS loans offer a lower interest alternative to the Federal PLUS loan program.

Source: HESAA

As the state faces budget challenges due to the COVID-19 pandemic,⁷⁴ it is crucial that funding for higher education not be slashed as it was across the country and in New Jersey during the Great Recession. Institutions both large and small will undoubtedly feel the pressure of massive operating deficits during the COVID-19 era as millions in potential state aid remain uncertain. In the past, a decrease in state-funded support has meant increased tuition for students.⁷⁵ Such a hike could devastate students of color who have grown more financially vulnerable as a result of the global pandemic and will face a tremendous financial burden should colleges seek to recoup losses through tuition and fee increases. Rutgers, which anticipates \$200 million in losses, has already turned to a hiring freeze, pay cuts for senior officials, and an end of university-sponsored travel and construction to weather the looming financial crisis.⁷⁶ Kean University, which estimates a \$20 million shortfall, is also planning for cuts to manage its substantial fiscal challenges due to the crisis.⁷⁷ Ten of the state's public college and university presidents are hoping to ease their financial woes and aid in New Jersey's economic recovery through the New Jersey Scholar Corps Program, a streamlined transfer process aimed at bringing New Jersey students studying in other states back to the state to study.⁷⁸ More than two in five of New Jersey's high school graduates pursue higher education elsewhere, representing a tremendous loss of talent and human capital.⁷⁹ While this initiative has promise and public institutions are thinking creatively about new revenue sources, one thing is clear: We cannot weather this storm on the backs of students as was done during the Great Recession. We must bolster state investments to ensure current and future access to a college degree does not come at the cost of high levels of indebtedness, particularly for low-income students and students of color.

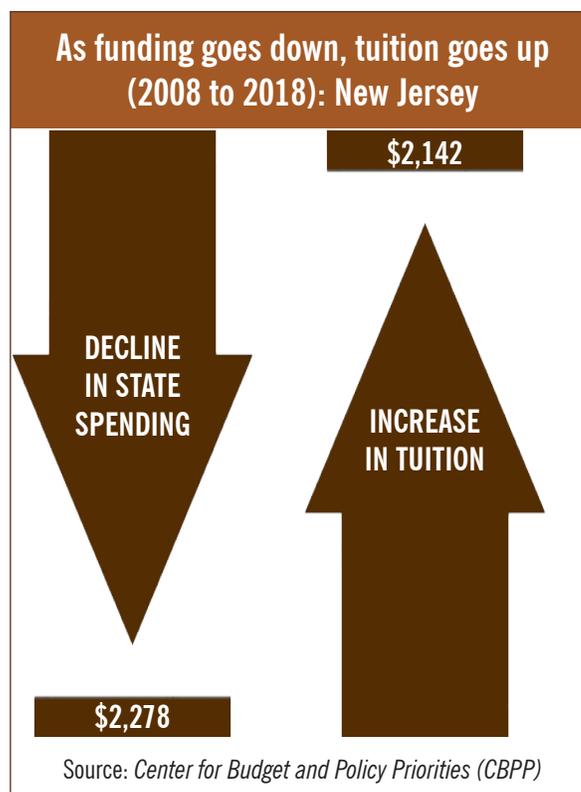
NEW JERSEY'S BLACK AND OTHER STUDENTS OF COLOR ARE WEIGHED DOWN BY DEBT

Given the high inequalities in income⁸⁰ and wealth⁸¹ by race in New Jersey, New Jersey's Black young adults and other people of color face especially acute burdens related to student loans. While research shows that New Jersey has the highest college participation rate for students from low-income families (56 percent)⁸² – who are more likely to be students of color – this participation has come at a very high cost. This is so because



the growing cost of higher education is more burdensome on Black students and other students of color who make up a greater share of first-generation students than continuing-generation students⁸³ and have lower family incomes than their white peers.⁸⁴ What is more, the sticker price of New Jersey public schools is over half the typical income for Black and Latina/Latino families in the state.⁸⁵ Even the average price of attendance after aid at New Jersey's public four-year schools represents about a third of household income for the state's Black and Latina/Latino families, compared to just 17 percent for the state's white families.⁸⁶

Racial wealth inequalities are even more extreme than income inequalities across the U.S., and particularly so in New Jersey.





Today, this translates into an extreme wealth gap in which a typical New Jersey Black and Latina/Latino family has about two cents for every dollar of wealth held by a typical white family in the state.⁸⁷ Because wealth is passed from one generation to the next, wealth disparities by race/ethnicity in the U.S. are a modern manifestation of the obstacles that our government, society and policymakers created – not individual failures. As a result, economic opportunities for Black people have been limited while, at the same time, wealth-building opportunities for white families have been created and advanced.⁸⁸ These systemic inequalities have led to a median wealth for white households in New Jersey of \$352,000 – the highest in the nation, compared to just \$6,100 for Black families.⁸⁹ These stark differences in family wealth translate into enormous disparities for students by race/ethnicity in their financial need for college and in their

ability to pay off student loans. While one in ten New Jersey student loan borrowers have student loan debt in default, this is true for 16 percent of loan holders in communities of color in the state, compared to just six percent in white communities.⁹⁰

In addition, these inequalities are even more pronounced in the areas around New Jersey’s urban centers – 21 percent of student loan holders in communities of color in Essex County, where Newark is located, are in default, compared to four percent of white communities in the county.⁹¹ In Camden County, almost a quarter of borrowers in communities of color are in default compared to eight percent in white communities.⁹² Similarly, in Mercer County – the home of New Jersey’s state capital Trenton – 22 percent of student loan holders in communities of color are in default compared to just four percent in white communities.⁹³ In Atlantic County, almost one in three (28 percent) of loan holders in communities of color have debt in default compared to one in ten borrowers in white communities.⁹⁴ Across the state, the patterns are clear – student loans are more prevalent and burdensome for communities of color, creating long-term financial distress.

STUDENT LOAN DEFAULT RATE BY COUNTY IN NEW JERSEY				
	Essex County	Camden County	Mercer County	Atlantic County
Communities of Color	21%	24%	22%	28%
White Communities	4%	8%	4%	10%
Source: <i>Urban Institute</i>				

In addition, Black students are overrepresented in for-profit colleges in New Jersey, making up around three in ten for-profit college students compared to a little over one in eight students at nonprofit colleges.⁹⁵ Borrowing outcomes at for-profit colleges in New Jersey – where, as the numbers show, Black students make up more than twice their share at nonprofit institutions – reveal that their students are more likely to borrow, have higher debt levels, and are more likely to default than their peers in public and private nonprofit colleges.⁹⁶

Thus, higher education in New Jersey today serves to reinforce the racial wealth gap in the state and creates extreme financial burdens on students with the greatest financial need, particularly low-income students of color. Rather than being an engine of opportunity, our student loan system has increasingly relied on students to foot the bill for college; as a result, it is holding students of color back from economic mobility and exacerbating the racial wealth gap. We must change these patterns now to ensure that we are able to remake our higher education system such that inclusion for students of color does not come with a decades-long debt burden.

SOLUTIONS:

FREEING NEW JERSEY STUDENTS FROM DEBT

Student loans remain both unaffordable and unmanageable for the Garden State's Black students. Families grapple with how to repay their loans while trying to make ends meet in one of the most expensive states in the country. And the debt students and families carry affects everything from housing choices to career paths. New Jersey must transform its entire higher education system to address the student loan crisis and the racial wealth divide. The time is now for reform of student loans in New Jersey.

The following four policy proposals will lead us to a future beyond our current crisis in which student borrowers in New Jersey, particularly Black and other borrowers of color, can be truly freed from debt.

■ POLICY PROPOSAL 1: New Jersey should forgive student loan debt

During the current public health crisis, policymakers at the national level have introduced several new proposals for loan forgiveness — recognizing the substantial burden of student loans during the pandemic and its economic fallout. More and more policymakers are joining the movement for federal and private loan forgiveness that took root nationally over the past year as presidential candidates outlined their policy agendas. Earlier this spring, New Jersey's two U.S. senators supported a proposal for the federal Department of Education to take over student loan payments for federal loans during the COVID-19 crisis and to forgive at least \$10,000 in debt from federal loan borrowers.⁹⁷ Federal policymakers are thus increasingly realizing that student loan obligations are a drag on the livelihoods of a generation of people and our larger economy.

At the state level, we must go even further: NJCLASS borrowers need loan relief to be freed from debt. To offer New Jersey residents a pathway to financial freedom, the state should forgive all outstanding NJCLASS student loan debt. This meaningful investment will have tremendous immediate and long-term impact. Researchers and advocates have indicated that loan forgiveness could help boost the economy by freeing up dollars in household budgets from debt payments.⁹⁸ Debt forgiveness also offers borrowers access to a future free of the decades-long repayment cycle so common today for borrowers, particularly borrowers of color.

Debt forgiveness also eliminates a significant burden on extended families who serve as cosigners and put themselves in financial peril if a borrower cannot make payments. Today, students and parents can find themselves locked in an intergenerational cycle of debt if they do not have the means to repay their loans — and what was already a crisis in student debt has been exacerbated by the pandemic. Borrowers of color who carry a disproportionate amount of student loan debt and are more likely to default would benefit substantially from loan forgiveness and borrowers need relief now more than ever. Removing the burden of student loans for borrowers in New Jersey's state loan program would address the unequal economic risks Black and other students of color take in the pursuit of higher education.

■ POLICY PROPOSAL 2: New Jersey should make public higher education tuition-free for all of its residents and provide support for non-tuition costs

With high sticker prices and high average costs, access to New Jersey’s public institutions remains a significant financial burden for students in the state, particularly Black students and other students of color. New Jersey created the Community College Opportunity Grant (CCOG)⁹⁹ and has proposed a program – the Garden State Guarantee¹⁰⁰ – that make the first two years of college tuition-free for low- and moderate-income students. In addition, Rutgers University, Newark – in a city where Black people make up the largest share of the local population – offers free tuition for low- and moderate-income Newark residents; as a result, their Black graduation rate is greater than the national



As New Jersey strives to maintain competitiveness in the wake of the current crisis, the public higher education system will play a crucial role in upskilling and training the future workforce.

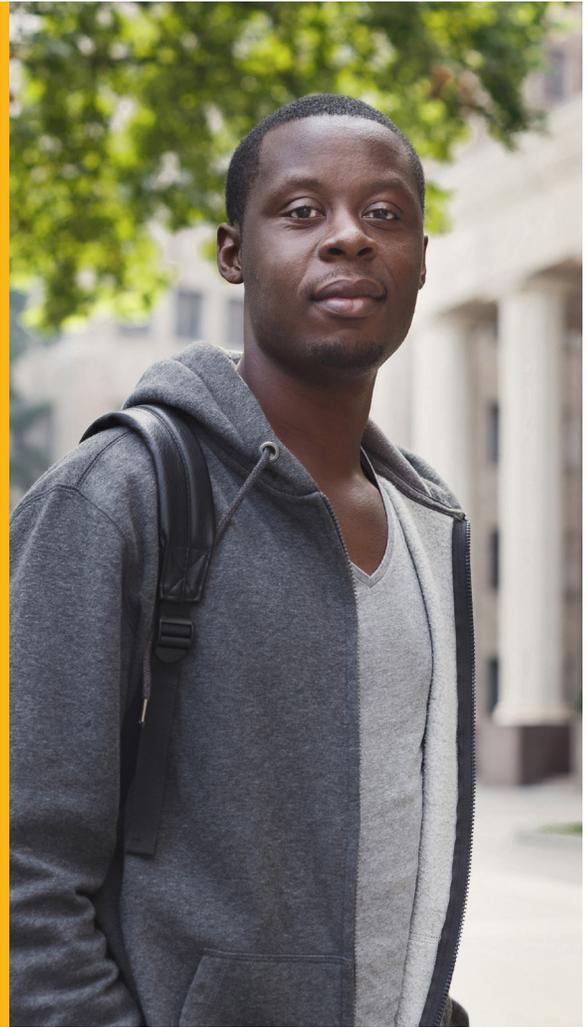
New Jersey must transform its entire higher education system to address the student loan crisis and the racial wealth divide. The time is now for reform of student loans in New Jersey.

average.¹⁰¹ To truly support low-income students and students of color in completing their bachelor’s degrees, state aid should cover tuition for all four years at public colleges and cover the full cost of attendance for low-income students.

As New Jersey strives to maintain competitiveness in the wake of the current crisis, the public higher education system will play a crucial role in upskilling and training the future workforce. Though New Jersey produces a large number of high school graduates each year who are potentially college ready,¹⁰² the percentage of college-age students who leave the state to study elsewhere is the highest in the country.¹⁰³ The newly-established New Jersey Scholar Corps program is a key example of how colleges are attempting to combat this brain drain;¹⁰⁴ through the recruitment of New Jersey students currently studying out-of-state, the program seeks to revitalize the state by allowing transfer students to take advantage of in-state tuition prices and other benefits at participating public institutions.¹⁰⁵ However, even with programs like Scholar Corps, the cost of attendance may still be a considerable burden for low-income students and families. Tuition-free higher education would enable New Jersey residents to receive a world-class education while strengthening their ties to the local community regardless of their financial status and, thus, also bolstering the state’s workforce and economy.

INVESTING IN OUR INCREASINGLY DIVERSE STATE

As colleges, workforce development professionals and policymakers consider how to recruit and retain New Jersey students and ensure that our increasingly diverse state is ready for the economy of tomorrow, the state must be willing to make the kind of meaningful investments that would enable residents to go to college in-state without building debt that will limit financial mobility after graduation. Part of this investment should also include a conscious effort to diversify its four-year public universities. Black students in New Jersey are overrepresented in the county college (two-year) system and are 30% less likely to attend a four-year in-state school.¹⁰⁶ At Rutgers, New Brunswick, Black students are just 7% of the undergraduate population,¹⁰⁷ a surprising number when you consider New Jersey's 84% Black high school graduation rate¹⁰⁸ is above the national average¹⁰⁹ and Black people make up 15 percent of the state's population.¹¹⁰ By investing in the young people of the state through a commitment to tuition-free college for New Jersey students, debt-free college covering full needs for low-income students, and expanding the diversity of students at the state's four-year institutions, the state can do much more to retain students and invest in the future economy as we rebuild after the pandemic.



There is also already precedent in other states for such a move. For example, when New York established the Excelsior Scholarship in 2017,¹¹¹ it became the first state in the nation to offer four years of tuition without academic performance requirements.¹¹² While the program has a number of eligibility requirements,¹¹³ it highlights what is achievable when states invest in the financial security and outcomes of their students.

In addition, public institutions should also provide free childcare assistance, including for evening students. Nearly half of all Black female undergraduate students and about a quarter of Black male students are raising dependent children.¹¹⁴ In 2015, only half of New Jersey's public two and four year colleges offered campus child care.¹¹⁵ Without meaningful investment in child care subsidies, students with families – particularly Black students – risk struggling to complete their degrees.

Unfortunately, even among students without tuition costs, the majority graduate with debt.¹¹⁶ This is especially true of older students who are solely responsible for their own living expenses and related costs.¹¹⁷ While financial aid should cover the full cost of college for low-income students, including costs outside of tuition, New Jersey should also offer no interest loans to low-income students, as we have seen done in other states,¹¹⁸ for additional or unexpected needs that may arise. Because interest often continues to accrue even when loans are in repayment, deferment or forbearance under the current loan structure,¹¹⁹ many students struggle with reducing their loan principal even when making regular payments. This reform could save students substantial sums in interest payments over time and help students who have difficulty reducing their original balances.¹²⁰ To adequately meet the needs of low-income borrowers, no interest loans must include automatic deferral of principal balance payments while the student is enrolled in school as well as flexible repayment options post-graduation or withdrawal.



■ POLICY PROPOSAL 3: New Jersey should establish a Baby Bond program

The racial wealth gap contributes to inequities in higher education access and student loans that reinforce the racial wealth gap. To equalize the playing field, New Jersey should establish a Baby Bond program that provides each child with a financial endowment at birth.¹²¹ A New Jersey Baby Bond program would be universal, but the amount of the investment and the match rate would be progressively designed to provide greater support to children from low-wealth households.¹²² As outlined in the Institute’s report *Reclaiming the American Dream: Expanding Financial Security and Reducing the Racial Wealth Gap through Matched Savings Accounts*, Child Savings Account (CSA) programs have already been implemented across the country, providing long-term savings accounts to children, particularly low-income children, and offering new opportunities to build savings for things such as higher education.¹²³ CSA programs have helped students build assets¹²⁴ and a Baby Bond program would go even further than existing CSA programs to help low-wealth young people of color to save assets for the future and to help reduce the racial wealth gap. A New Jersey Baby Bond program would be a bold program with a significant endowment to truly reshape wealth inequality for the next generation of young people in the Garden State. Given that lack of access to wealth is a fundamental barrier to the pursuit of higher education, such an account could assist low-income and low-wealth families, who are more likely to be Black and other people of color in the state, in financing their children’s post-secondary education and non-tuition expenses and help to reduce the racial wealth gap. New Jersey’s U.S. Senator Cory Booker has advocated for a Baby Bond program nationally;¹²⁵ the Garden State should also lead the way in rewriting our state’s extreme racial wealth inequality through a Baby Bond program.

■ POLICY PROPOSAL 4: New Jersey should expand its collection of data on student loan debt by race and ethnicity

While there has been an increase in the amount of publicly available data on the national student debt crisis, state-level student loan data with reliable demographic information remains elusive. While it is possible to find the amount of total federal student debt owed by state,¹²⁶ detailed racial and demographic data on student loan borrowers in New Jersey is insufficient. The state should work to improve and make publicly available data on student loan outcomes for New Jersey’s student loan borrowers, particularly data by race and ethnicity, to address the disparate impacts that are produced by the current system. While some basic information is available publicly about NJCLASS borrowers,¹²⁷ more detailed information, particularly by race/ethnicity, would underscore more clearly the disparate impacts of the debt crisis. Of particular importance is information on average balances, monthly payment amounts and default experiences as well as the number of unique borrowers. Any data gathered should be reviewed and utilized by the Department of Banking and Insurance as well as the Secretary of Higher Education to hold colleges and universities with large racial disparities accountable. At the national level, institutions lose their federal aid if their default rates are especially high;¹²⁸ New Jersey should similarly consider whether institutions should remain eligible for funding if they show clear shortfalls in default rates or racial disparities in loan outcomes.

CONCLUSION

From presidential candidates to students, more and more people are calling for practical solutions to the growing student debt problem. Today, in response to the coronavirus pandemic, New Jersey is taking incremental steps to help student borrowers and policymakers are increasingly recognizing the long-lasting burdens of student loans. It is crucial that in this time of crisis, the state does not put the burden of current budget challenges on the backs of students as was done by states across the country during and after the Great Recession. Instead, we must reinvest in and reshape higher education to build a more equitable and inclusive system. The policy proposals in this report represent key actions the state can take to ensure that, as we rebuild from the current coronavirus crisis, we do not exacerbate our student loan crisis – particularly for our Black students and other students of color. With the implementation of these policy recommendations, New Jersey’s current borrowers and future students can finally be freed from debt and will be able to share in the Garden State’s enormous wealth.



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