Testimony by the New York Legal Assistance Group (NYLAG)

Before the New York City Council Consumer and Worker Protection Committee and

the Committee on State and Federal Legislation regarding:

Student Debt as a Barrier to Generational Wealth

November 17, 2022

Chair Velázquez, Chair Abreu, Council Members, and staff, good afternoon and thank you for the opportunity to speak to the Committee on Consumer and Worker Protection and the Committee on State and Federal Legislation about student debt as a barrier to generational wealth. My name is Shanna Tallarico. I am a Senior Supervising Attorney with the Consumer Protection Unit at New York Legal Assistance Group (NYLAG), and I submit this testimony in support of Int. 366-2022, which would require reporting on student loan debt distress in New York City; and in support of Int. 621-2022, which would ban businesses from the predatory practice of charging fees for student debt relief services that are otherwise free to the public.

Founded in 1990, New York Legal Assistance Group (NYLAG) is a leading civil legal services organization that combats economic, racial, and social injustice by advocating for New Yorkers experiencing poverty or in crisis. Our work includes comprehensive, free civil legal services, financial empowerment, impact litigation, policy advocacy, and community partnerships. NYLAG exists because wealth should not determine who has access to justice. We aim to disrupt systemic racism by serving individuals and families whose legal and financial crises are often rooted in racial inequality. NYLAG goes to where the need is, providing services in more than 150 community sites in New York and in our Mobile Legal Help Center. NYLAG's Consumer Protection

Unit (CPU)'s attorneys work on and litigate issues related to consumer debt. They fight for the rights of individuals and families who have become victims of abusive, deceptive, and unfair debt collection and lending practices and help get them out of debt. CPU attorneys defend clients in credit card, auto lending, medical, and student loan debt proceedings; they assist student loan borrowers with their federal student loans; they fight against unjust foreclosure and lending practices; and advise and assist clients in filing for a Chapter 7 consumer bankruptcy discharge. They also file impact litigation cases to stop predatory debt collection and consumer fraud.

Student Debt is Both a Product and a Cause of Generational Wealth Disparities

A college education is supposed to ensure, if not upward mobility and financial security, then at least the opportunity to pursue those ends. This is a reasonable expectation of the significant investment of time, energy and often sacrifice that higher education demands. Yet, for many student loan borrowers, including many of our clients, the necessity of debt is both the result of a lack of generational wealth, and an obstacle to building future generational wealth. Understanding the connection between student debt and generational wealth deficits requires a reckoning with the history of higher education; the intersecting identities of borrowers saddled with the greatest debt; and the role student debt plays in limiting access to wealth-building resources.

Higher education has the potential to be both personally and collectively empowering, but for higher education to remain a desirable pursuit for potential students, it must provide a platform rather than a trap. City Council has a role to play. If New York City believes in the value of cultivating a diverse professional workforce prepared to meet society's needs, it must prioritize closing the generational wealth gap between student loan borrowers and students who did not need to take out student loans to attend higher education institutions. This is best achieved through taking holistic measures that factor in an analysis of access, which Int. 366 and Int. 621 aim to do.

Social Identity and Student Debt

Higher education access in the US has historically been limited by race, sex, and class. Understanding this history helps us see the path to today's student debt crisis and its disparate impacts across race, gender, class, and their intersections. The group most affected by student loan debt are Black women without access to generational wealth.[1] Brittani Williams, co-author of, "How Black Women Experience Student Debt," offers the image of the promise of mobility destroyed by the discovery that the car is broken.[2] This metaphor also has a basis in more literal terms—the obstacles African-Americans have faced to generational wealth-building means that Black women tend to have less of a savings and familial wealth buffer when things go wrong and unexpected expenses emerge. The ability to weather financial emergencies is a significant factor in the Black-white wealth gap and the product of centuries of systemic deprivation and discriminatory practices in all areas of society, including in hiring and housing access.[3]

As a result, Black families "rely more heavily on student debt, and on riskier forms of student debt, than white families do."[4] Black students are also more likely to make riskier investments, like attending for-profit colleges, which are often specifically marketed to students

[1] https://hechingerreport.org/black-women-are-uniquely-burdened-by-student-debt-report-finds/
[2] Ibid.
[3] https://www.americanprogress.org/article/eliminating-black-white-wealth-gap-generational-challenge/
[4] https://rooseveltinstitute.org/wp-content/uploads/2020/07/RI_Student-Debt-and-RWG-201909.pdf

of color, immigrants, and veterans,[5] and which fail to deliver on promised benefits.[6] For-profit colleges sell students on dreams of meaningful credentials and job placement, yet many provide a much lower quality of education than nonprofit institutions do, and are more likely to be closed down. In a 2021 study of a six-year period, only 14% of Black students at for-profit colleges earned a degree, compared with 40% of Black students graduating from nonprofit colleges and universities.[7]

In another 2021 study, women with a college degree can expect to earn 81% (for Black women, 61% and for Latinx women, 53%)[8] of what men with a college degree earn, and for women, that starts at an average annual salary of $35,228, which is around comparable to the average student debt women with an undergraduate degree carry.[9] Women also take an average of "two years longer than men to repay student loans."[10] Women hold 65% of United States student debt, and the reasons include taking on more debt for school; higher likelihood of pursuing advanced degrees; a gendered wage gap; lower family contributions; and a higher enrollment (where 63% of students are women) in for-profit colleges.[11]

Family members can become entangled in one another's debts, with negative consequences that cut against building generational wealth. Student loan debt consolidated between spouses is an issue in domestic violence relationships, where the shared loan binds spouses to one another financially, however, Congress recently passed the Joint Consolidation

---

[5] https://thehill.com/opinion/education/589873-for-profit-colleges-prey-on-veterans-the-department-of-education-must-say/
[6] https://rooseveltinstitute.org/wp-content/uploads/2020/07/RI_Student-Debt-and-RWG-201909.pdf
[7] https://thebestschools.org/resources/for-profit-colleges/
[8] https://www.investopedia.com/student-loan-debt-by-gender-5194243
[9] https://www.aauw.org/resources/research/deeper-in-debt/
[10] Ibid.
[11] https://www.earnest.com/blog/women-student-debt/

Loan Separation Act to prevent further financial abuse in intimate partnerships.[12] More commonly, private student loans often require co-signers, and parents eager to help their children may borrow money or co-sign loans, even when they have student loans of their own. Parents also borrow federal parent plus loans with unfavorable loan repayment terms. We have helped many parents who have seen their children through college while they continue to stay in debt on their own federal loans and, if in default, have suffered administrative wage garnishments and benefit offsets of their Social Security.

Access Denied because of Student Debt

Student debt limits borrowers' ability to access capital for major purchases, most notably buying a home, continuing education, and starting a business—activities with a high potential to increase a person's likelihood of financial security and wealth-building. With the median student loan debt outpacing median income levels,[13] it becomes increasingly difficult for borrowers to make these kinds of investments in their futures. Access to capital is blocked off or made much more difficult to one generation, and that difficulty compounds, leaving the next generation with greater obstacles. It is as though the rungs of the ladder are placed much further apart, so one must risk more in jumping from one rung to the next, with a greater chance of falling through between the rungs.

The relationship between homeownership and generational wealth could not be clearer, and a student loan debt-generated barrier to homeownership is a barrier to generational wealth-building. Graduates cannot buy homes if they are saddled each month with student loan

[12] https://jezebel.com/congress-passes-bill-to-free-domestic-violence-survivor-1849560334
[13] https://www.phenomenalworld.org/analysis/homeownership-student-debt/

payments. Homeownership confers many obvious financial benefits. Owning a home increases a person's net worth; allows for access to capital through home equity loans; avoids the unpredictability of the rental market; and may offer the chance to add value through home improvement, a rental unit, or possible tax advantages.

Certainly, we have seen these disparities play out in real time through our clients' lived experiences. Take for example, Melissa, who did everything "right." She attended and graduated from college and now works as a teacher employed by New York City's Department of Education; she has a partner and two children. Melissa had to fund most of her education through federal and private student loans. For the private student loans, the lender required a co-signer and her mother, Cherrie, stepped in to help. After graduation, the private student loan debt became unmanageable, and Melissa fell into default. The lender had insurance and was made whole on the loan, but then a putative debt buyer sued Melissa in State Supreme Court. Melissa had very strong defenses to the debt buyer's claim because the debt buyer did not have proof that it even owned the debt. The damages claimed by the debt buyer was also supported by dubious proof. Nevertheless, Melissa chose not to fight the case. She did not want to put her mother's only asset, her home, at risk. Melissa entered into a many-years-long payment plan settling the debt buyer's dubious claims and delaying her own family's plan to invest in other assets such as a home or her own children's college education.

Many of our clients have attended for-profit schools. They are preyed on by these schools with promises of better career opportunities, only to be saddled with overwhelming debt upon graduation and no better job prospects. These schools also often prey on students' needs to finance their education and push students into federal loans (for which the school depends on to keep the doors open) to fund most of the tuition, and then push students into predatory private student loans that are "designed to fail"[14] to fund the gap not covered by federal loans. NYLAG has assisted countless clients who graduate from for-profit schools and then immediately fall into debt on both their federal and private student loans. This is due to many factors including the predatory nature of the loans, and the lack of clear and concise information about federal student loan repayment options. To boot, scam student loan companies often step in and capitalize on borrowers' distress, inducing them to sign up for paid-for services that are free and steer borrowers often to options that leave them in even worse financial situations.

From experience, we know that most of our student loan clients are first generation college students and/or women who identify as BIPOC; all our clients are trying to build careers and obtain financial security for themselves and their families. It is imperative that New York enact policies that support these goals.

Conclusion

NYLAG applauds the aim of Int. 621-2022, which would create a private right of action for an individual who was scammed by a predatory student debt relief company. It is important for consumers to be empowered to take action against companies that misrepresent their services to their detriment. For Int. 366-2022, NYLAG hopes that more transparency as to the true state of the student loan debt crisis in New York City will push the public and this Council to enact policies that address this crisis.

[14] NY Times, *Loans 'Designed to Fail': States Say Navient Preyed on Students* (Apr. 9, 2017) available at https://www.nytimes.com/2017/04/09/business/dealbook/states-say-navient-preyed-on-students.html.

There is an irony to the notion that higher education is an investment in future stability, when it is at risk of becoming either an investment without justifiable returns, or the sole domain of students with wealth and privilege. Inclusive social and political participation requires, and follows, inclusive access to education. It is encouraging that the City Council is looking to address this cycle of cause-and-effect, and we encourage the City Council to continue to enact policies that are in furtherance of understanding the full impact of the burdens on New York City's student loan borrowers.