



■ CHARTBOOK

## Unrepayable Debt

How Economic, Racial, & Geographic Inequality  
Shape the Distribution of Parent PLUS Loans

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## Georgetown Center on Poverty and Inequality

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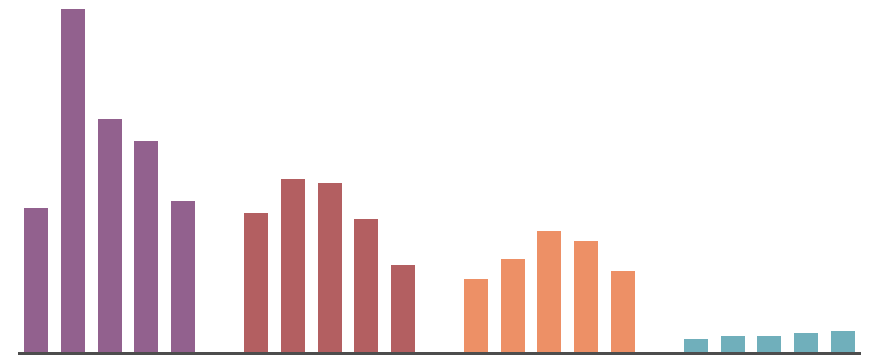
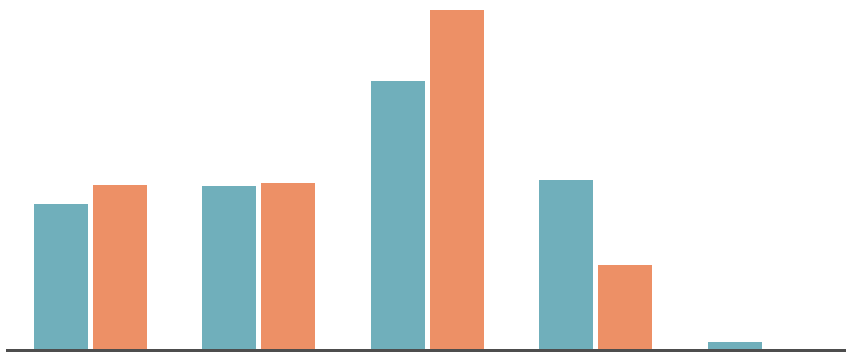
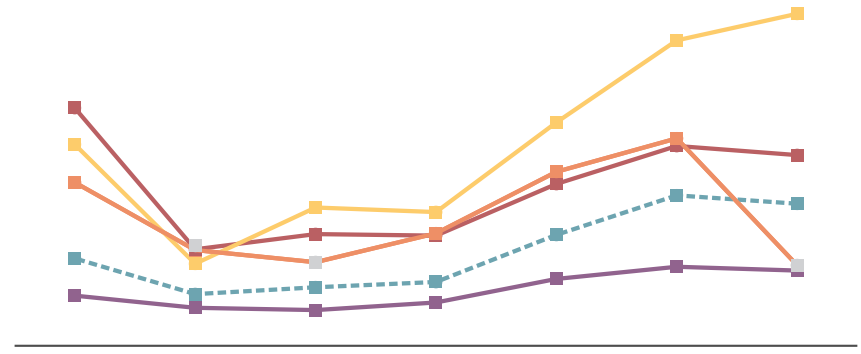
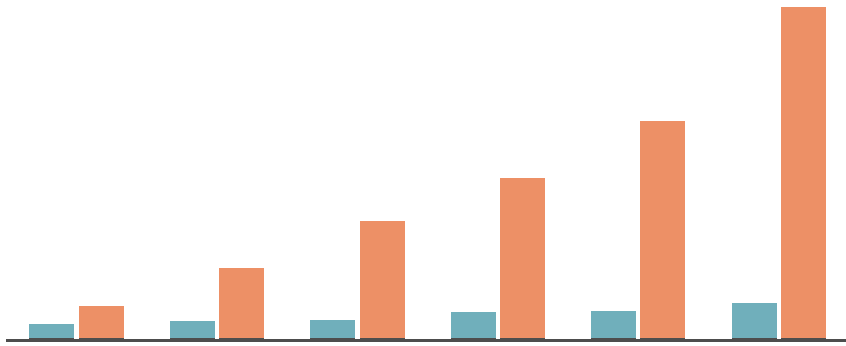
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## Introduction

Every year, millions of parents across the United States seek to support their children’s education and future well-being through funding their higher education using any means available. When dependent undergraduate students cannot cover their cost of attendance through available aid, parents are often left with one option for assistance: the Parent Loan for Undergraduate Students (Parent PLUS) loan program, the sole source of federal financial aid for parents. Due to poor policy design and compounded by structural inequalities, Parent PLUS creates immense debt for hundreds of thousands of parents with low incomes each year—debt that they will almost certainly struggle to repay.<sup>1</sup>

Parent PLUS distributes often unrepayable debt disproportionately by income level, race and ethnicity, geography, and higher education sector. Understanding this uneven distribution of debt is vital to any efforts by policymakers, higher education administrators and staff, researchers, and advocates to effectively envision an equitable higher education system for parents and students. This chartbook explores critical features of the Parent PLUS loan experiences of parents and students from low-income households—experiences that are obscured by aggregated loan statistics. Figures in this chartbook present original analyses showing that:

- Parent PLUS burdens parents with low incomes with debt levels that are extremely high in proportion to their earnings (see Figure 1);
- Current program design collides with racialized economic inequality and disproportionately harms borrowers of color (see Figure 2);
- Geographic trends may affect the likelihood of people from low-income backgrounds incurring Parent PLUS debt (see Figure 3); and
- Both private for-profit and nonprofit four-year colleges disburse Parent PLUS debt to lower-income parents at higher rates than to higher-income parents (see Figure 4).

## Parent PLUS Sells Low-Income Families of Color College Access for an Unrepayable Price

*Systemic, racialized gaps in wealth and access to higher education drive negative impacts of Parent PLUS's current, one-size-fits-all policy design*

Over the last four decades, policymakers have stretched the Parent PLUS program's use outside its initial scope, resulting in a regressive system of debt that disproportionately burdens low-income borrowers. The program, established in the 1980 Higher Education Act reauthorization, lends parents of dependent college students federal loans up to the full amount of the student's cost of attendance (COA) with minimal borrowing guardrails.<sup>2,3</sup> Parent PLUS evolved from capped-amount loans with no financial eligibility requirements to uncapped loans with a minimal adverse credit history check. These loose eligibility standards do not consider income or ability to repay loans, and absence of credit history does not constitute adverse credit history.<sup>4</sup>

Policymakers originally designed Parent PLUS to assist high-asset families in need of liquidity to meet their expected family contribution (EFC).<sup>5,6</sup> In expanding eligibility and removing loan limits for borrowers across the income spectrum, policymakers intended to widen the range of financing choices available to middle-income students and families.<sup>7</sup> However, as of 2018, nearly a quarter of all Parent PLUS undergraduate participants were at 200 percent of the Federal Poverty Line or under.<sup>8,9</sup> Policymakers and colleges using the same debt-financing option for parents of nearly all income levels has created two polar realities within the PLUS program: parents with higher incomes and assets are afforded opportunities to optimally leverage their resources while parents with low incomes—often incomes too

low to repay their debt—face significant burdens such as ballooning balances due to accumulated interest, social security and wage garnishment, and tax refund withholding.<sup>10,11</sup>

Further, the payoff and terms Parent PLUS borrowers face makes the loans fundamentally different from—and in some ways riskier than—federal student loan debt. Parent PLUS loans pose less favorable terms from a loan's start through repayment with higher origination fees and interest rates than standard federal student loans.<sup>12</sup> The incomes of Parent PLUS borrowers are not expected to increase as much as direct student loan borrowers', which makes Parent PLUS loan repayment more difficult. Additionally, borrowers may face further income and wealth decline due to retirement. Parents who borrow using Parent PLUS loans are also ineligible for most federal income-driven repayment plans, creating additional barriers to repayment.<sup>13,14</sup>

Systemic, racialized gaps in wealth and access to higher education drive negative impacts of Parent PLUS's current, one-size-fits-all policy design. Centuries of government and private wealth-stripping and racially exclusive wealth-building policies, such as federally sanctioned housing discrimination, unequal access to G.I. Bill benefits, and racially targeted predatory lending, have targeted households of color while creating favorable terms for white households.<sup>15,16,17</sup> Between 1983 and 2013, white families' wealth increased at three times the rate of the wealth of Black families.<sup>18</sup> White families

are also more likely to possess assets that are more liquid and transferable—they can more easily pass on wealth to later generations than Black families.<sup>19</sup> Even in the case of wealthy Black families, their assets are not as fungible across generations, which suggests that wealth may not as effectively shield Black students from student debt.<sup>20</sup>

The adverse effects of Parent PLUS loans on borrowers with fewer economic resources are inextricably linked with racialized disparities in wealth and education.

The continuation of Parent PLUS's negative impacts

maintains and exacerbates gaps in economic opportunity and access to higher education.<sup>21</sup> Families with less accumulated—and less transferable—wealth must rely on debt to fund postsecondary education, which impedes further wealth accumulation in a vicious cycle.<sup>22</sup> Using parent debt as the vehicle for students' access to college pushes many parents to trade their future financial security and retirement income for their children's collegiate futures.

## Policymakers Can Increase Economic & Racial Equity in Higher Education Financing

Policymakers must redesign the Parent PLUS program with the needs of its most marginalized borrowers in mind or replace it with improved alternatives. Simply restricting eligibility to Parent PLUS loans could harm both the students who rely on the program for increased college access and the institutions they disproportionately attend—with clear implications for racial equity.<sup>23</sup> For example, after a program change in 2011 in which the U.S. Department of Education corrected the way it checks the credit histories of parent borrowers, the number of Parent PLUS loans dropped by 46 percent at Historically Black Colleges and Universities (HBCUs) during the 2012-13 academic year, which was accompanied by a drop in enrollment.<sup>24</sup>

<sup>25</sup> Future changes to the program must be bolstered by

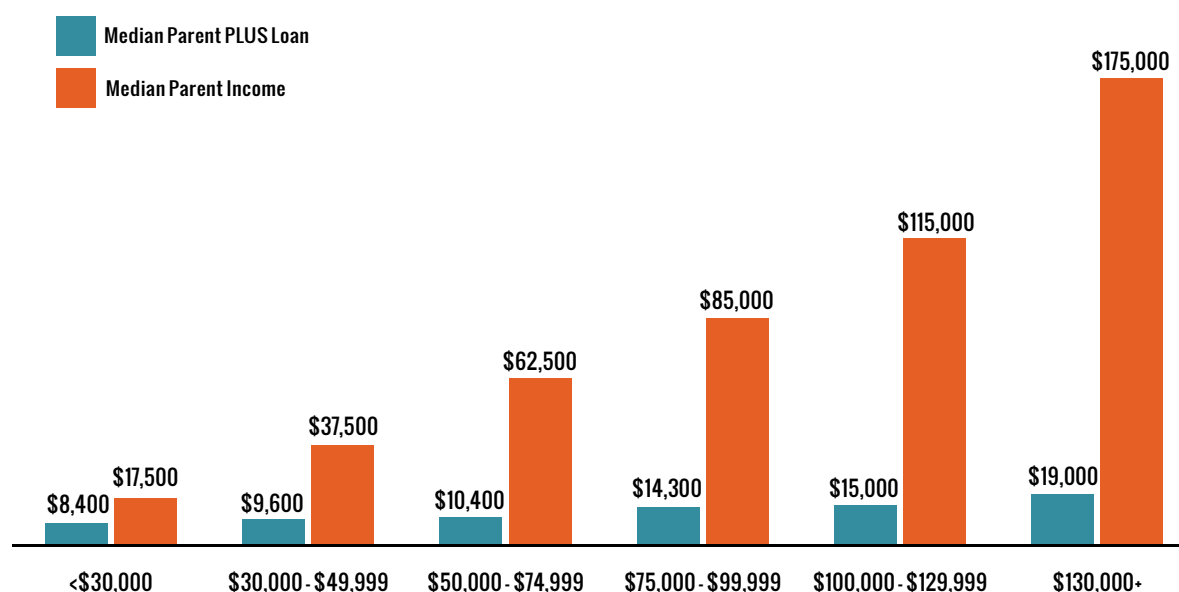
a system of financial and programmatic supports for the students, families, and institutions who most depend on Parent PLUS for broadened higher education access.

Any strength of Parent PLUS resides in its potential to give families more options to fund their children's educations. However, while Parent PLUS may technically enable access to college for low-income students, that access is not truly equitable if it comes with the high price of unrepayable, intergenerational debt. To ensure equitable access to affordable education for all, policymakers must maintain equitable pathways to higher education institutions and prioritize borrowers with limited economic resources for whom Parent PLUS is one of few suboptimal choices.

# Parent PLUS Debt Disproportionately Burdens Lower-Income Borrowers

Parent PLUS's lack of regard for parents' financial resources produces debt volumes that regressively burden borrowers with low incomes (see Figure 1). The median Parent PLUS loan for parents with incomes of \$130,000 or greater is just over twice the size of the median PLUS loan for parents with incomes less than \$30,000. Yet, the median income for the highest income bracket is 10 times greater than the median income for the lowest-income bracket. For the median income earners in the lowest parental income bracket (less than \$30,000 a year), a Parent PLUS loan represents around six months of income. For the median income earners in the highest parental income bracket (at least \$130,000 a year), a loan represents about one and a half months of income. While these data reflect a single year of college, many parents take out multiple PLUS loans over the course of a student's college career, increasing the burden further.<sup>26</sup>

**FIGURE 1. Median annual federal Direct PLUS loan to parents & median annual income for parents of dependent students by income bracket, 2018**



**Note:** The sample consists of dependent undergraduate students who attend Title IV postsecondary institutions in the United States and whose parents borrowed Parent PLUS loans during the 2017-2018 academic year. Income represents parents' income in 2015 for dependent students as indicated on the Free Application for Federal Student Aid (FAFSA). Of note, the 2017-2018 academic year was the first year in which the FAFSA implemented prior-prior-year income reporting. Both median income and borrowing amounts are rounded to the nearest hundreds place. For further information about the median income values used in this figure, see the "Methods & Data" section.

**Source:** Georgetown Center on Poverty and Inequality, 2022. Data are from the 2017/18 National Postsecondary Student Aid Study, Undergraduate, and can be accessed using the following table name: "flxhvc." Available at <https://nces.ed.gov/surveys/npsas/>.



Families with low incomes already face financial barriers to accessing and completing higher education,<sup>27,28,29</sup> and Parent PLUS loans can exacerbate barriers to economic security. In 2018, nearly a fifth of all undergraduates using Parent PLUS were from low-income backgrounds (with less than \$30,000 in annual parental income).<sup>30</sup>

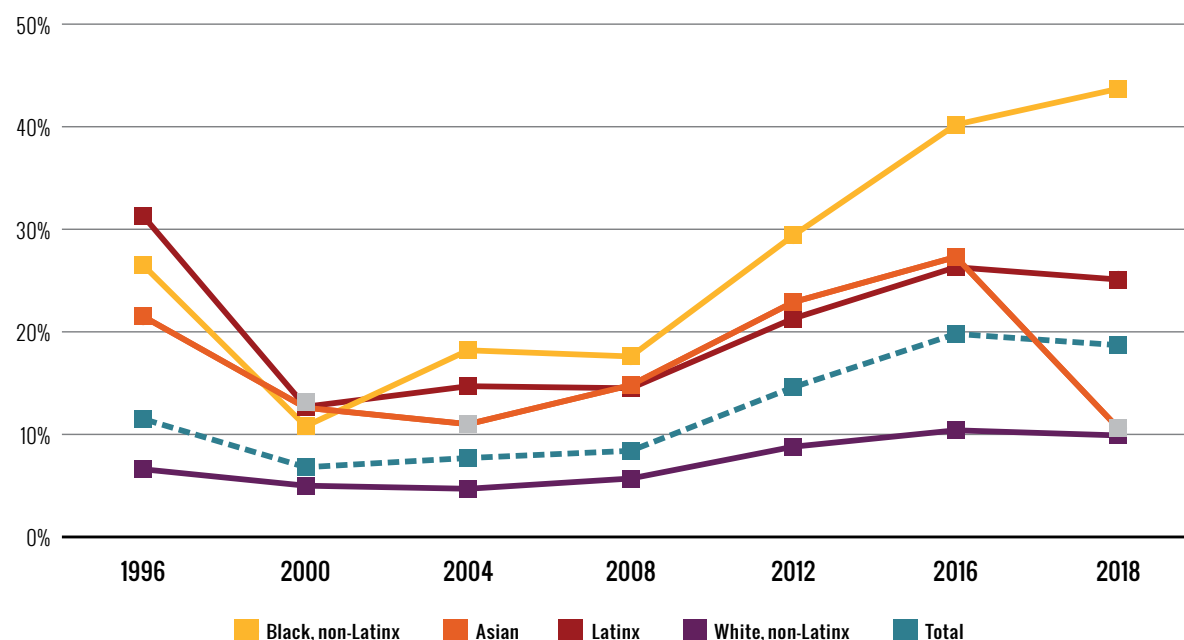
<sup>31</sup> Parent PLUS loans have higher fees and interest rates

than standard federal student loans,<sup>32</sup> offer limited repayment plans,<sup>33</sup> and if parents default on their loans, the federal government can garnish wages and Social Security checks to force repayment.<sup>34,35</sup> These policies can perpetuate financial hardship for lower-income borrowers causing them to face difficulties accumulating wealth, contributing to emergency funds, and more.<sup>36,37</sup>

# Students of Color From Low-Income Backgrounds Are an Increasingly Larger Share of Parent PLUS Users

The share of Black, Latinx, and Asian students using Parent PLUS loans whose parents' annual income is less than \$30,000 increased sharply in the last decade of available data (see Figure 2). While middle- and higher-income households make up a larger share of Parent PLUS borrowers overall,<sup>38</sup> a sizable share of students of color using Parent PLUS loans come from households where their parents have annual incomes less than \$30,000. In 2018, 44 percent of Black students and 25 percent of Latinx students using Parent PLUS loans came from very low-income backgrounds (an annual parental income of less than \$30,000) compared to 10 percent of white students using Parent PLUS loans. While the share of Parent PLUS users from very low income backgrounds increased substantially for all race and ethnicity groups for most of the 2008-2018 decade, the rate of change was exceptionally high for Black students. From 2008 to 2018, the share of Black students using Parent PLUS loans whose parents' annual incomes are less than \$30,000 nearly tripled.

**FIGURE 2. Among dependent students using Parent PLUS loans, percentage of the student body whose parents have annual incomes below \$30,000 (in 2015 constant dollars) by student's race & ethnicity from 1996-2018**



**Note:** The sample consists of dependent undergraduate students who attend Title IV postsecondary institutions in the United States and are children of parents with incomes of less than \$30,000 (adjusted to 2015 dollars) who borrowed Parent PLUS loans during each specified academic year. Incomes represent parents' income in 2015 as indicated on the Free Application for Federal Student Aid (FAFSA). Of note, the 2017-2018 academic year was the first year in which the FAFSA implemented prior-prior-year income reporting. The races/ethnicities specified pertain to that of the dependent student, not their parent. Latinx includes people of any race, whereas all other categories exclude people identifying as Latinx. Estimates for students who identify as American Indian and Alaska Native, Native Hawaiian and Pacific Islander, More than one race, or Other are not available due to insufficient sample sizes. Data points where standard errors represent more than 30 percent of the estimate are shaded light gray.

**Source:** Georgetown Center on Poverty and Inequality, 2022. Data are from the National Postsecondary Student Aid Study, Undergraduate, from 1996-2018 and can be accessed using the following table names (in chronological order): "sykbfy," "idwmc," "vuarsx," "qbykof," "oacnbw," "qmfwy," and "epbstc." Available at <https://nces.ed.gov/surveys/npsas/>.

This racialized trend of increasing representation of students from low-income backgrounds among Parent PLUS borrowers may be at least partially explained by a complex combination of higher education sector changes and broader demographic and economic trends. Reasons likely include the cost of college well out-pacing inflation<sup>39</sup> and increasing college enrollment among students from low-income backgrounds and students of color.<sup>40</sup> Economic changes following the

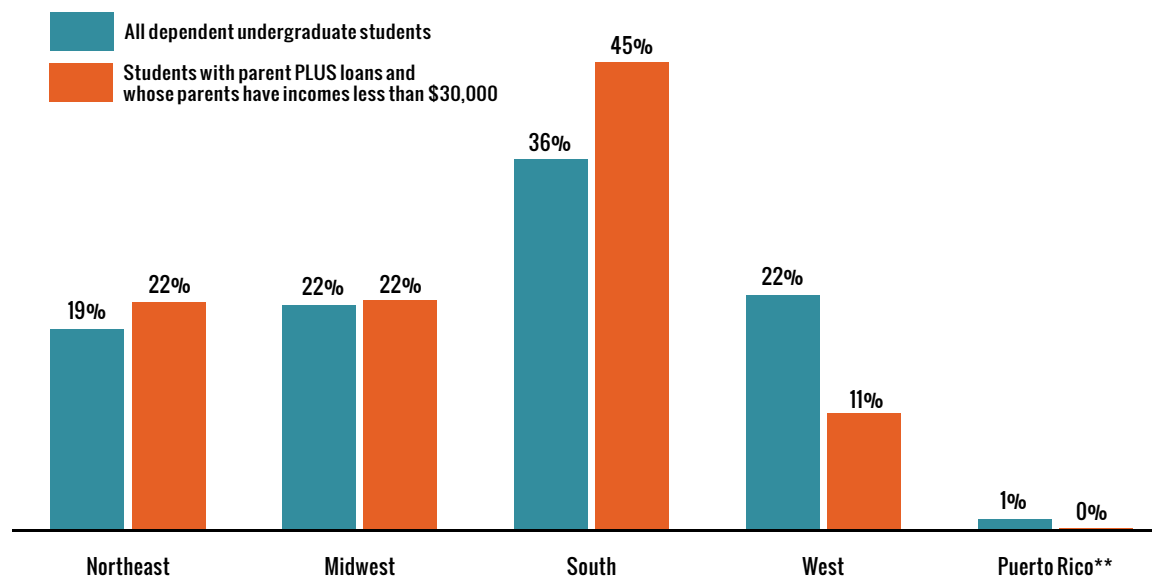
2008 financial crisis also resulted in fewer resources available to students and colleges through state higher education spending,<sup>41</sup> rising unemployment, and depletion of wealth among U.S. households, especially among workers and families of color.<sup>42</sup> Additionally, while the maximum amount of federal Pell Grants has increased over the last decade, the purchasing power of Pell Grants relative to the cost of college has generally decreased over time.<sup>43</sup>

# Students From Low-Income Backgrounds Whose Parents Borrow Parent PLUS Loans Disproportionately Attend College in the South

Dependent students whose parents have Parent PLUS debt and low incomes (less than \$30,000 per year) disproportionately attend college in the South census region of the United States (see Figure 3).<sup>44</sup> While 36 percent of all dependent undergraduate students attend institutions in the South, 45 percent of students whose parents have an annual income of less than \$30,000 and Parent PLUS loans for the 2017-18 academic year attend institutions in the South.<sup>45</sup> The South's high share of low-income Parent PLUS borrowers may be related to students from low-income families overall disproportionately attending colleges in the South and high concentrations of minority-serving institutions (MSIs) in the South.<sup>46</sup>

Racial inequality in higher education financing, such as low funding for MSIs, may affect low-income families' reliance on Parent PLUS in the South. Parents of students at MSIs, including HBCUs and Hispanic Serving Institutions (HSIs), are much more likely to take out and struggle to repay Parent PLUS loans than their non-MSI counterparts.<sup>47,48</sup> MSIs serve more

**FIGURE 3. Distribution of total dependent student population as well as dependent student population using Parent PLUS & whose parents have annual incomes below \$30,000 across U.S. census regions & Puerto Rico, 2018**



**Note:** The sample consists of dependent undergraduate students who attend Title IV postsecondary institutions in the United States. Students of parents with incomes of less than \$30,000 (in 2015 dollars) who borrowed Parent PLUS loans are compared to all undergraduate students during the 2017-2018 academic year across U.S. Census Regions and Puerto Rico. Income represents parents' income of dependent students in 2015 as indicated on the Free Application for Federal Student Aid (FAFSA). Of note, the 2017-2018 academic year was the first year in which the FAFSA implemented prior-prior-year income reporting. Standard errors for Parent PLUS borrower data in Puerto Rico represent more than 50 percent of estimates (denoted above with two stars).

**Source:** Georgetown Center on Poverty and Inequality, 2022. Data are from the 2017/18 National Postsecondary Student Aid Study, Undergraduate, and can be accessed using the following table names: "aietwz" and "etrbhn." Available at <https://nces.ed.gov/surveys/npsas/>.

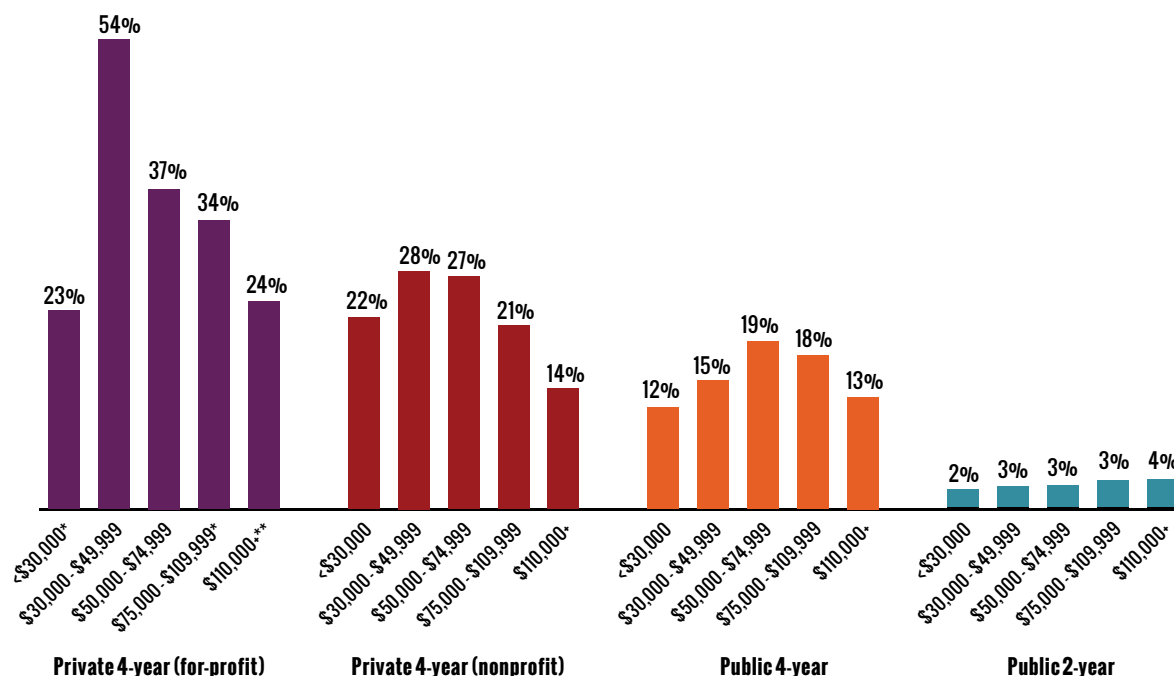
low-income students than most other colleges while often facing significant underfunding and smaller endowments,<sup>49</sup> and thus have less aid to offer their students. One 2014 study found that government funding to just four predominantly white four-year institutions exceeded the combined funding to 89 four-year HBCUs.<sup>50</sup> Similarly, in 2016, HSIs received 68 cents for every dollar non-HSIs received from all federal funding sources.<sup>51</sup>

State funding decisions over the last three decades also partially contributed to economic and racial inequality in higher education financing and higher reliance on Parent PLUS among low-income families. For example, politicians in Southern states pivoted from focusing on need-based aid for public higher education institutions to merit-based scholarships.<sup>52</sup> Merit-based scholarships are disproportionately awarded to wealthy, white students,<sup>53</sup> leave less funding for low-income students,<sup>54</sup> and contribute to significant gaps in financial aid resources, benefiting wealthy white students over low-income students.<sup>55</sup>

# Rates of Parent PLUS Use Appear Largely Regressive at Private Four-year Colleges

Aggregate Parent PLUS loan incidence and volume statistics paint a picture of a program primarily used by relatively few families who tend to be wealthier,<sup>56</sup> but disaggregating Parent PLUS borrowing rates by parents' income level and type of college a student attends adds complexity to this image (see Figure 4). At both private nonprofit and for-profit four-year colleges, Parent PLUS borrowing rates tend to be highest for students whose parents earn \$30,000 to \$49,999 per year in income, and borrowing rates subsequently decrease as parent income increases. Higher Parent PLUS borrowing among students whose parents earn \$30,000 to \$49,000 may be caused by students falling just out of reach of receiving sufficient Pell Grants and increasingly relying on Parent PLUS loans to fund their education. At four-year colleges across the public, private nonprofit, and private for-profit sectors, higher-income students have a relatively low prevalence of Parent PLUS use compared to most other income brackets within each college sector. All income brackets at four-year colleges exceed the overall prevalence of Parent PLUS loans among all dependent students (9 percent).

**FIGURE 4. Share of dependent student population whose parents have accumulated PLUS debt by college sector & parent income level**



**Note:** The sample includes dependent undergraduate students who attend Title IV postsecondary institutions in the United States and whose parents have borrowed Parent PLUS loans during and prior to the 2017-2018 academic year (at any time that the student was a dependent undergraduate). Income represents parents' income of dependent students in 2015 as indicated on the Free Application for Federal Student Aid (FAFSA). Of note, the 2017-2018 academic year was the first year in which the FAFSA implemented prior-prior-year income reporting. The following institutional categories were omitted from the sample due to insufficient sample sizes or standard errors representing greater than 30-50 percent of the estimates: Private for-profit less-than-two-year, Private nonprofit less-than-two-year, Public less-than-two-year, Private nonprofit two-year, and Private for-profit two-year. Income brackets with one or two stars indicate that standard errors represent more than 30 percent or 50 percent of the estimate, respectively.

**Source:** Georgetown Center on Poverty and Inequality, 2022. Data are from the 2017/18 National Postsecondary Student Aid Study, Undergraduate, and can be accessed using the following table name: "zqthpx." Available at <https://nces.ed.gov/surveys/npsas/>.

The relatively lower prevalence of Parent PLUS borrowing among students from the lowest-income backgrounds (parents with annual incomes under \$30,000) may have to do with access to resources such as Pell Grants, as well as PLUS eligibility rules that deny parents with sufficiently poor credit.<sup>57</sup> Though borrowing rates for this income group are lower than the \$30,000 to \$49,999 income bracket, the vast majority of the less than \$30,000 income bracket have zero expected family contributions.<sup>58</sup> So, these incidence levels of Parent PLUS borrowing still merit attention.

Nearly one-third (30 percent) of students whose parents have Parent PLUS debt attend four-year private nonprofit colleges.<sup>59</sup> High cost of attendance and resource inequality among colleges may contribute to the inverse relationship between Parent PLUS borrowing rates and income bracket observed for students whose parents earn \$30,000 or greater in annual income within the private four-year nonprofit sector. Students who attend these schools receive more aid in scholarships and institutional grants yet still tend to spend about twice as much on net tuition and fees than those at public four-year schools.<sup>60</sup> Further, students from low- and middle-income backgrounds tend to attend schools which have fewer resources and thus may be more likely to be dependent on revenue and less able to offer students aid. Public and nonprofit four-year colleges operate within a highly stratified system. Institutions with the most resources typically enroll the smallest share of students from low-income backgrounds.<sup>61</sup>

Though a smaller share (16 percent) of four-year for-profit college students are dependent than public and private nonprofit sectors and only 4 percent of Parent PLUS borrowers attend private four-year for-profit colleges,<sup>62</sup> borrowing rates among dependent students from low-income families are particularly high—and particularly risky—at these for-profit institutions. For-profit colleges tend to have high costs of attendance, charging 30 to 40 percent more for the same credentials offered at nonprofit public institutions.<sup>63</sup> For-profit institutions also have a long history of predatory, aggressive recruiting practices, which exploit existing racial, gender, and economic disparities.<sup>64, 65, 66, 67</sup> For-profit institutions tend to focus their recruitment efforts on students who qualify for the maximum amount of direct student aid.<sup>68</sup> This focus on people who are most likely to be from lower-income backgrounds may help explain how borrowing rates are so high among the lower-middle-income brackets in the four-year for-profit sector. Such high rates raise concerns in light of data from the Education Department's College Scorecard showing that many of the colleges with high Parent PLUS default rates are for-profit.<sup>69</sup>



## Conclusion

To alleviate the often unrepayable debt that Parent PLUS loans disburse to families with lower incomes, policymakers need to redesign higher education financing policy, and colleges need to prioritize the most marginalized borrowers' needs, beginning with but not limited to the PLUS program. Four decades of policy design that failed to proactively address structural racial and economic inequalities led to the Parent PLUS program's inability to support all families in their efforts to pay for their child's cost of college attendance.

Policymakers need to understand that Parent PLUS has disproportionately distributed debt by income level, race and ethnicity, geography, and college sector.

Reforms should focus on equitable postsecondary education pathways that provide equal opportunity for students and their families in their efforts to achieve security and upward mobility, and thoughtfully consider institutions that have depended on and continue to depend on PLUS loans to serve low-income students and students of color.

This chartbook is part of the Georgetown Center on Poverty and Inequality Economic Security and Opportunity Initiative's ongoing research and policy development aimed at strengthening the Parent PLUS program, with a focus on advancing racial and economic equity.



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# Methods & Data

Parent PLUS loan amounts and borrowing rates are measured using National Postsecondary Student Aid Study (NPSAS) data from 1996 to 2018. The NPSAS is conducted every 3-4 years and provides nationally representative data on characteristics of postsecondary education students with a particular focus on education financing. The online National Center for Education Statistics (NCES) DataLab PowerStats tool was used to extract NPSAS data.

The universe for all figures consists of dependent undergraduate students who attend Title IV

postsecondary institutions. Median Parent PLUS loan amounts are calculated without zeros. Most statistics on Parent PLUS loans use the NPSAS variable for Parent PLUS loans students used in the academic year reflected in the survey (PLUSAMT) across various dimensions, such as income, race, and U.S. census region.

Parental income is measured using the DEPINC and DEPINC2 NPSAS variables for datasets from 1996-2016 and the 2018 dataset, respectively. Using the CPI-U, all years are harmonized to the same nominal dollar with a base year of 2015 since income in the

most recent dataset, 2018, is recorded from 2015. Of note, data quality of DEPINC for 1996, 2000, and 2004 NPSAS datasets is inconsistent. NPSAS assigns values for the variable using the following different sources: adjusted gross income, total income, student income estimates, and income imputations. The 2018 variable DEPINC2 is ordered categorical, motivating us to estimate median income for given income brackets in the following manner: First, a median parent income range is determined as the mid-most range within each broader income bracket (e.g., <\$30,000, \$30,000 - \$49,999, \$50,000 - \$74,999, etc.). Second, a midpoint for each median parent income range is determined by calculating the midpoint of the upper and lower bounds of each income category. Third and finally, each resulting midpoint is used to represent the median parent income range for each broader income bracket (i.e., a median income value within each income bracket). This method yields comparable results to calculating median incomes for each bracket with the continuous DEPINC variable available in 2016. Income brackets are inspired by prior Parent PLUS research,<sup>70</sup> with the lowest-income group (i.e., <\$30,000) informed by 2022 federal poverty thresholds for families of four, which is the average family size for our sample ( $M = 3.98$ ,  $SD = 1.31$ ).

When investigating Parent PLUS loans across racial/ethnic groups over time, we were limited to only those that were consistently available in NPSAS from 1996 to 2018 (i.e., white, Black, Latinx, and Asian). Using the NPSAS RACE variable, data from the following races/

ethnicities are not included due to insufficient sample sizes from 1996 to 2018: American Indian and Alaskan Native, Native Hawaiian and Pacific Islander, Other, and More than one race. Additionally, data for Asian students during the 2000, 2004, and 2018 academic years are cautionary since standard errors represent greater than 30 percent of the estimates.

We use the NPSAS variable CENSUSDIV to study regional concentrations of Parent PLUS borrowers. We further condense the nine CENSUSDIV subregions into the following four U.S. Census Regions: Northeast, Midwest, South, and West.

We categorize postsecondary education institutions in Figure 4 as follows using the SECTOR1 NPSAS variable: Public four-year, Public two-year, Private nonprofit four-year, and private for-profit four-year. We omit the following institutional categories from the sample due to insufficient sample sizes or standard errors representing greater than 30-50 percent of the estimates: Private for-profit two-year, Private for-profit less-than-two-year, Private nonprofit less-than-two-year, Public less-than-two-year, and Private nonprofit two-year.

Finally, Figure 4 is the only chart with a universe that includes dependent students whose parents have borrowed Parent PLUS loans at any time while the student was a dependent undergraduate. Specifically, this figure uses the PLUSCUM NPSAS variable, which includes dependent students whose parents borrowed parent PLUS loans during *and prior to* the 2017-2018 academic year.

# Endnotes

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