

Report: Defaulted Federal Student Loan Borrowers in Communities of Color Are Disproportionately Sued

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National Consumer Law Center contacts: Jan Kruse (jkruse@nclc.org) or Persis Yu (pyu@nclc.org); (617) 542-8010

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Boston — Today, the National Consumer Law Center released a report which paints a troubling picture of the efforts by the U.S. Departments of Education and Justice to pursue defaulted student loan borrowers through litigation. “Lamentably, the evidence suggests that communities of color are disproportionately impacted by lawsuits and thus are more likely to suffer the consequences of these judgments,” **said *Inequitable Judgments: Examining Race and Federal Student Loan Collection Lawsuits* co-author Margaret Mattes.**

“A federal judgment on a defaulted student loan can be devastating, especially for a low-income borrower,” **added co-author Persis Yu, National Consumer Law Center staff attorney and director of NCLC’s Student Loan Borrower Assistance Project.** “The concentration of lawsuits against defaulted student loan borrowers in areas with large communities of color increases the urgency of the Department of Education to address the systemic disadvantages faced by student loan borrowers of color.”

In addition to the government’s general collection authority (wage garnishment, loss of the Earned Income Tax Credit and other tax credits, and withholding of Social Security benefits), a judgment allows the government to put a lien on a borrower’s home and take funds from a bank account.

The authors’ analysis found that private debt collection attorneys are obtaining most of these judgments. The federal government’s use of private attorneys has allowed suits to be brought against borrowers who would not otherwise be the targets of litigation; while federal authorities only sue borrowers with minimum principal balances of \$45,000, this figure drops to an astonishing \$600 for private attorneys.

The authors found during the period between January 2016 and June 2018 (the time period analyzed):

- **Debt collection lawsuits brought against defaulted student loan borrowers are disproportionately concentrated in areas that are home to communities of color.** Specifically, the zip codes in which defaulted student loan borrowers who were sued live have Hispanic or Latino populations double the national average and triple the average black or African American population.
- **Debt collection lawsuits brought against defaulted student loan borrowers are more concentrated in Texas, Michigan, Pennsylvania, California, and Florida than other states.** This may be because all of the private law firms that pursued suits against more than 50 student loan borrowers between January 2016 and June 2018 are headquartered in four of these five states.

- **Approximately 85% of the cases filed against defaulted student loans borrowers were brought by private law firms that contract with the U.S. Department of Justice on behalf of the Department of Education.**
- **Almost 60% of cases resulted in a default judgment against the borrower.**

Key Recommendations

- The U.S. Departments of Education and Justice should track and make publicly available data in order to track racial disparities in student loans.
- The U.S. Department of Education and Congress should take steps to address and prevent racial disparities in student lending.
- The U.S. Department of Justice should review its guidelines for when to refer cases to litigation to avoid punitive lawsuits against borrowers with low balances and no ability to repay their loans.
- Congress should redefine the definition and consequences of student loan default to ensure that falling behind does not threaten the financial security of borrowers and their families.