Veil of Loans: An examination of student loans behind John Rawls' Veil of Ignorance

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Abstract:

By applying the Veil of Ignorance as a heuristic device to evaluate the United States financial aid system, I have presented solutions that can begin to address the issues caused by student loan inequality faced by African American degree seekers. The cost of higher education is rising annually. Many students must use student loans to afford the rising cost of attending post-secondary institutions. Students' reliance on student loans to finance their college education has contributed to a surge in borrowing of student loans. Given, the influx of student loans, it is important to understand the impact student loans may be having on certain demographics. Many studies have found that African Americans have been disproportionately negatively affected by a national increase in student loan borrowing. To better understand and solve the issue of student loan inequality facing African Americans, I have enlisted ideals from John Rawls' Veil of Ignorance.

Introduction

In 2014 President Obama stated, "higher education is not a luxury. Earning a post-secondary degree or credential is a prerequisite for 21st century jobs, and one that everyone should be able to afford (Joann 2014, pg.1). Obama's assessment is correct, a college degree is a ticket to financial prosperity or stability in America. In 1999, the average lifetime earnings of a person with a bachelor's degree was 75 percent more than a high school graduate and increased to 84 percent by 2009 (Oreopolous, 2013). Another 2013 study, shows that young adults with a bachelor's degree earned double the amount of income than those with who only earned a high school diploma (NCES, 2015). The U.S. federal government encourages college enrollment by publishing data indicating the income disparity in favor of college degree holders versus only high school graduates. In addition, state governments have adopted completion goals for students that incentivize attempting a college education (Hillman, 2014). As a result, college enrollment rates have gradually increased over the past two decades. Between 2002 and 2012 college enrollment increased by 24 percent from 16.6 million to 20.6 million (NCES 2015).

However, efforts to encourage the earning of a college degree have led to an "expansion of students' reliance on loans to fund their educations" (Hillman, 2014, pg. 170). For many aspiring college graduates, there are few options to afford a college education. The U.S. government, in the form of student loans, provides the most common method students utilize. In 2010, two-thirds of college students graduated with student loan debt, at an average of $25,250 (Jackson, 2013). Even more alarming, the average amount of debt students accumulate is increasing annually. A study done by the Institute for College Access and Success showed that nearly 70 percent of college seniors graduated with an average of $28,400 in student loan debt in 2013 (US News, 2014). The total amount of U.S. student debt is now well over one trillion dollars and may exceed two trillion by the 2020 (Best, 2014). According to the Consumer Financial Protection Bureau (CFPB), "Student loans have surpassed credit cards as the largest source of outstanding consumer debt, outside of mortgages; forty percent of American households headed by someone under 35 have student loan debt" (2012, pg.1). Students increased reliance on student loans is a result of many different factors. One reason is the federal government's shift away from a grants-based financial aid system to one that relies more on loans. Another reason is the rising price of attending college, which has outpaced inflation rates and median family income levels for at least a decade (College Board, 2011b). For example, in

2015, the University of Arizona raised its tuition more than one thousand dollars from $10,390 a year to $11,403 (Tucson News, 2015). Nationally, the average tuition for college has increased by nearly 80 percent over the past decade (Godet, 2015).

Current enrollment trends in the for-profit higher education sector have also put upward pressure on the student loan system. In 1990, only 343 for-profit institutions existed in the U.S., by 2009 there were 1,199 (Mettler, 2015). Students that attend for-profit institutions disproportionately accumulate student loan debt than those that attend public colleges and universities (Cellini, 2015). In recent years, for-profit students accounted for roughly 10 percent of students in college, however they received nearly 20 percent of subsidized loan disbursements (Cellini, 2015). One study indicates, in 2014 87 percent of for-profit students' borrowed money, while only 48 percent of students of public four-year universities did (Cellini, 2015). 81 percent of those for-profit students, borrowed student loans (Cellini, 2015). Between 1996 and 2008 borrowing of student loans by for-profit students increased 30 percent compared to just nearly 15 percent for students attending other post-secondary institutions (Cellini, 2015). Most studies claims the reason for increased borrowing amongst for-profit students, is because they typically are from traditionally disadvantaged backgrounds than students that attend public colleges and universities (Cellini, 2015).

Many students whom attend for-profit institutions are new to higher education and are attracted to them for their convenience, due to online programs and flexible class scheduling (Hillman, 2013). In 2009, the largest for-profit institution, the University of Phoenix, enrolled 395,361 students, nearly eight times more students than the largest traditional four-year public university, Arizona State University (Mettler, 2015). Additionally, the tuition of for-profit institutions is on average three times more than the price of public four-year institution (Mettler, 2015). For-profit institutions have the lowest rates of graduations and account for nearly half of student loan defaults (Mettler, 2015). For-profits allow individuals from disadvantaged backgrounds to gain practical training or just the skills necessary to gain employment in areas such as criminal justice, health, and technology (Mettler, 2015). However, many students do not reap the benefits of for-profit colleges as advertised. (Mettler, 2015, pg.30) Public institutions invest on average $9,418 per student in instruction, while for-profit institutions only invest $2,659 per student (Mettler, 2015). For-profit institutions tend to focus on enrolling as many students as possible. According to investigations conducted by the Government Accountability Office (GAO), discovered these institutions use deceptive practices and fraud to increase enrollment numbers (Mettler, 2015). 13 of 15 for-profit institutions investigated by the GAO were found to have used deceptive information that implied guaranteed jobs upon graduation or published exaggerated earnings to lure in students (Mettler, 2015).

The growing cost of college will undoubtedly affect all students; however, minority groups are not only more dependent upon student loans to fund their college education, they are likely to be the most adversely impacted by the influx of student loans. Due to systemic discrimination, socioeconomic inequality, and predatory practices for-profit institutions African Americans are disproportionately burdened by student loan practices. Thus, I enlist philosophy to reframe how we understand the loaning practices of the US government. In particular, I reevaluate the U.S. Financial Aid (FA) program for Higher Education using a heuristic device, namely John Rawls' Veil of Ignorance (hereafter Veil).

Financial Aid

First, I would like to present the most common types of student financial aid. There are four different types of federal student loans, Stafford direct subsidized, direct unsubsidized, Perkins, and PLUS loans available for undergraduate students. While a student is enrolled at least half time in school and during a six-month period after they graduate The U.S. Department of Education pays the interest on subsidized loans (StudentAid.gov, 2012). Unsubsidized loans begin accruing interest as soon as the loan is disbursed (Avery, 2012). Dependent undergraduate students can be offered up to $23,000 of unsubsidized loans while attending college. Independent, undergraduate students can be offered up to as much as $46,000 in Stafford loans. The interest rates of Stafford loans can change annually and differs by type. In 2012, subsidized loans carried an interest rate of 3.4 percent, while the interest rate for unsubsidized loans was 6.8 percent (Avery, 2012). However, the interest rates for Stafford loans cannot exceed 8.25 percent (Types of Aid, 2012). In 2009, 43 percent of student loans were subsidized and 40 percent were unsubsidized (Avery, 2012).

Perkins loans are offered to students by the college or university they choose to attend (StudentAid.gov, 2015). The funding of Perkins loans is derived from both the federal government and the respective institution of higher education (Avery, 2012). The Perkins loan is also subsidized by the repayment of loans by students who have accepted the loans prior. Nearly 520,000 students utilized Perkins loans during the 2009-2010 academic year at an average amount of $2,125 (Avery, 2012). Perkins loan can be a better option than Stafford loans because their interest rate is capped at 5 percent (Samuel, 2005). PLUS loans are available for parents of undergraduates to take out for their student’s financial aid (Austin, 2013). The interest of parent PLUS loans is usually above 6 percent and it begins accruing interest as soon as it disburses (Austin, 2013).

In order to receive federal financial aid, a person must complete a Free Application for Federal Student Aid (FAFSA). Once completed, the application determines a student's “financial need” after assessing all the data entered by the applicant. Depending on financial need, a student may be offered one or more types of federal loans. Once a student exhausts their federal loan options, they have can also acquire private student loans (Austin, 2013). In 2013, roughly 2.9 million students used private student loans to afford an education. Interest rates on private student loans are typically higher than those of federal student loans. Some private student loans can have interest rates as high as 15 percent (Austin, 2013). In an article titled *The Many Pitfalls of Private Student Loans* by New York Times columnist Tara Bernard (2015) states, “Lenders made $6.7 billion in new private loans in the 2014-15 academic year, which is up about 14 percent from $5.87 billion in 2009-10.” (pg.1).

Consequence of Increased Student Indebtedness

The rise of individual student loan debt has led to a surge of student defaults (Hillman, 2014). According to a report done by the U.S. Department of Education in 2012, “one in every 10 federal student loan borrowers now defaults on his or her loan within three years of entering into repayment” (Hillman, 2014). In 2009, 8.8 percent of borrowers that entered repayment the year prior had defaulted by the end of 2010; an increase from 7 percent for borrowers that entered repayment in 2008. (Austin, 2013). Nearly 14 percent of all student borrowers default on their loans within the first three years after graduation (Austin, 2013). In 2011, an analysis by the Federal Reserve Bank of New York demonstrated that 27 percent of student loan borrowers had a past due balance and 21 percent were delinquent or had defaulted on their payments (Austin, 2013). Student loans become delinquent if a student is 60 to 120 days late on their monthly payment (Elliot, 2015). Default is the worse outcome for a student loan. A default in loan terms defines a failure of repayment. Defaults on student loans cost taxpayers, borrowers, and colleges and universities additional time and money to manage the risk of default with student loans (Elliot, 2015). A study published by the Department of Education in 2010, outlines how the federal government spent approximately $9.2 billion on “rehabilitating,” servicing, and monitoring defaulted loans in 2009.

Once a person defaults on their student loans, they can have their tax refunds seized, their wages garnished, collection cost imposed, face litigation, and can be restricted from other borrowing opportunities. (Hillman, 2014). Those who default can also have their credit scores significantly diminished further restricting their opportunities for taking on other forms of credit (Hillman, 2014). There is evidence that diminished credit caused by student loans have delayed borrowers’ attempts to purchase homes or contributed to higher interest rates when they do (Elliot, 2015). Due to higher interest rates, it is more difficult for students with loans to gain equity on house they purchase (Elliot, 2015). For the average individual with student loans, their mortgage payment and student loan payment would account nearly half of their monthly income (Elliot, 2015). Additionally, a survey conducted in 2013 by the American Student Assistance Group (ASAG) found that, 73 percent of students with substantial debt claimed they delayed saving for retirement and other investments because of their student loan debt (Elliot, 2015). Students with significant amounts of student loan debt will find it more difficult to finance new business endeavors due inability to access certain markets caused by their debt (Ambrose, 2015).

Which Demographics Depends on Student Loans the Most

African Americans from low to middle income brackets are two times more likely to acquire to student loan debt than Whites within the same parameters (Grinstein-Weiss, 2016).

These students are incurring more risk, by taking student loans, despite the uncertainty of the job market. Students are not able to estimate potential future earnings accurately and take into consideration to the extent there will be differences in expectations (Avery, 2012). A 2010 survey by the Pew Research Center found that households with poor wealth at $8,562 and below were 58 percent likely to hold student debt compared to students with household wealth between $8,562 and $79,739 at just 17 percent (Fry, 2012). Another study by Sandy Baum, a Senior Fellow at the Urban Institute indicates that in 2012, 28 percent of African-American graduates had accumulated at least $40,000 in debt (Baum, 2015). In comparison, 16 percent of Hispanic students and 14 percent of white students graduated with at least the same amount. Baum (2015) states, its "unsurprising that even within income categories, black bachelor's degree recipients have higher debt levels than members of other racial/ethnic groups" (pg. 29). The disparity in the amount and frequency that African-Americans accept loans could be attributed to the fact black families usually have less assets than other families with similar income levels (Baum, 2015).

A study by Caroline Ratcliffe, a senior fellow and economist for the Center on Labor, Human Services, and Population at the Urban Institute, titled, *Forever in Your Debt: Who Has Student Loan Debt, and Who's Worried?* also found that blacks and are two times more likely to have student loan debt than whites are. According to Ratcliffe (2013), "While 16 percent of whites have student loan debt, 34 percent of African Americans and 28 percent of Hispanics do so" (pg.2). Ratcliffe also claims family wealth to be the main contributing factor of loan inequality between blacks and other races. Student from middle-income families, with low socio-economic backgrounds accrue debt exceeding the national average (Houle, 2013). Although, white and black families may earn the same income, there are historically systemic issues that have led to such a disparity in net worth (Coates, 2014). For example, The Servicemen's

Readjustment Act of 1944 (SRA), also known as the GI bill contributed to the gap in wealth between African American and White families. The GI bill allotted military veterans funding for higher education in exchange for their military service. The GI bill contributed to the crucial link between education and level of socioeconomic status. While the SRA did allow for people from lower income backgrounds to afford an education, discriminatory practices hindered the opportunities available to African American veterans. Historically black college were not given the same funding as other public universities at the time and as a result could not accommodate the increased enrollment demand. One study indicates that during the 1946-1947 school year, HBCUs had to deny 20,000 Black veterans enrollment due to a lack of resources (Lewis, 2015). Other universities and institutions during the time were still struggling with segregationist policies and practices that made it very difficult to impossible for African Americans to enroll. As a result of the aforementioned practices, only 1 percent of African-Americans completed college after the 1946-1947 Academic Year (Lewis, 2015). Thus, the GI Bill, which is noted as one of the most substantial transfers of wealth and opportunity in United States history was deliberately skewed to be less beneficial for black Americans than their white counterparts. White families tend to gain more wealth in a lifetime than African Americans and the gap widens with increases in age group (Lei, 2015). Whites in their 30s on average are $140,000 wealthier than African Americans within the same age group (Lei, 2015). In their 60s, whites typically have more than $1,000,000 in average wealth compared to their black counterparts; and as I have reasoned such disparity is a result of systemic discrimination. In the following section I will examine the effect loan inequality is having on African American students.

Higher Stakes for African American Students

In 2013, only 28 percent of White Americans ages 25 to 55 had student loan debt, compared to 42 percent of African Americans within the same age group (Lei, 2015). According to the Pew Research Center, the average African American family has a total net worth of $10,000, which is a huge difference in contrast to the average Caucasian family at a total net worth of $141,900 (The Atlantic, 2015). Middle-income students with low socioeconomic backgrounds are more likely to use student loans to finance their education, however they are also more likely to default on their loans compared to other races as well (Houle, 2013). This too is a result of the wealth of African American families compared to other demographics. (Jackson, 2013). One study by the Urban Institute found that in 2009, the average wealth of white families was over $500,000 more than the average wealth of African American families (Lei, 2015). African Americans are five times less likely to receive gifts or monetary aid from their families than whites (Lei, 2015) Default rates show the difference of student loan debt on students from disadvantaged backgrounds compared to students that are more privileged. Studies have shown African American student loan borrowers are 1.4 more times likely to default on their student loans than other races (Hillman, 2013). One study found that ten years after graduation, black student loan borrowers' still owed 22 percent more on their loans than, 16 percent had entered repayment, 11 percent had defaulted, and 6 percent were more likely to default than whites were (Hershbein, 2015). The type of institutions African-Americans attend compared to whites is another contributing factor to disproportionate rates of default compared to whites (Jackson, 2013). Black students tend to enroll in for-profit institutions, which places them at disadvantage for finishing their degrees and increases their risk of defaulting on loan payments (Jackson, 2013). Also due to complications regarding employment, African Americans face higher risk of repayment on student loans. According to a report from the Center for Economic and Policy

Research (CEPR), by John Schmitt, "In 2013, the most recent period for which unemployment data are available by both race and educational attainment, 12.4 percent of black college graduates between the ages of 22 and 27 were unemployed. For all college graduates in the same age range, the unemployment rate stood at just 5.6 percent (Schmitt, 2014)." The study indicates that African Americans are significantly more likely to end up unemployed once graduated, compared to other demographics. Schmitt makes clear that he does not want the study to imply that college is a bad investment. He states, "college degrees do have value. but what we are trying to show here is that this is not about individuals, or individual effort. There is simply overwhelming evidence that discrimination remains a major feature of the labor market." (Schmitt, 2014, pg. 7).

According to Schmitt (2014), many studies have found that "when trained sets of black and white testers with identical resumes are sent on interviews, white men with recent criminal histories are far more likely to receive calls back than black men with no criminal record at all" (pg.7). Even when controlled for black college students in majors with traditionally high demand such as science, technology, and engineering, and mathematics majors, the unemployment rate is still much higher compared to all other demographics. CEPR's study also shows that amongst African Americans that graduated between the years 2010 to 2012 with degrees in engineering, the unemployment rate is 10 percent and the underemployment rate is 32 percent, both figures are significantly higher than for any other race. (Schmitt, 2014). One study titled, *Discrimination in the Credential Society: An Audit Study of Race and College Selectivity in the Labor Market* by University of Michigan graduate, Michael Gaddis, has found significant evidence of discrimination in the U.S. job market. Gaddis (2015) claims, "The opportunities that arise upon graduation from an elite university are not equal between whites and blacks. Although there is clearly a premium to a degree from an elite university over a less selective university for both white and black candidates, black candidates still lag behind white candidates in employer responses" (pg. 1472). His study shows, African American graduates face double the discrimination once they enter the job market. Not only are black candidates less likely to receive a response from employers, the offers do receive were on average 10 percent below the starting salary of jobs within their respective majors (Gaddis, 2015). 56 percent of African American college graduates face "underemployment" (Schmitt, 2014). In comparison, 45 percent of all other college graduates dealt with underemployment (2014). Those categorized as underemployed can be defined as a person with a job that does not require a four-year degree. Underemployment can be detrimental to a worker's potential lifetime earnings (Schmitt, 2015). Over the last 50 years overall black unemployment has remained at double the white unemployment rate and during times of economic distress, such as recession, the disparity has only increased (Schmitt, 2014). The previous statistics show how African-American families are not only economically disadvantaged by their family's lack of wealth, but even upon completing their college degree, attaining financial stability has shown to more difficult for African-Americans than for other demographics. Thus, it is clear that African American degree seekers face more risk and uncertainty in dealing with student loans than other races.

Now, I would like to bring attention to a 2005 study from the University of Nebraska titled *the influence of student loan debt burden on the life choices of African-American bachelor's degree graduates: A phenomenological study of selected graduates of a Midwest University* by graduate Bryan Samuel. Although the data Samuel draws from is dated back to the late 1990s through mid-2000s, I believe Samuel provides the extensive data necessary to account for measuring how the burden of student loan debt can affect a person over a lifetime. Another point for integrity in citing this study is, at the time the surveyors were questioned; their average loan debt was $18,000. I consider the average loan debt of those included in this study as comparable to the $26,000 average of student loan debt for modern students. Finally, the direct purpose of Samuel's study was to "understand the influences of student loan payments on the life choices of African American bachelor degree graduate"; given this is a goal of my essay, I think I would be amiss to not include some of his findings.

His study begins with a national student loan survey done in 1997. His findings indicate that 60 percent of African American borrowers had wished they had borrowed less and 59 percent felt extremely burdened by student loan payments. The study also shows that 48 percent of African American borrowers felt that student loans were "extremely or very important in preventing continuing on to graduate school". However, the most alarming stat indicated that 69 percent of African American with student loans were "Non-degree holders who said loans prevented them from staying in school and completing their degree". The previous stats provide some insight into how crippling the burden of student loans can be for African American students their families. However, Samuel's study provides an overwhelming amount of information, giving an in-depth perspective of the plight of African American student loan borrowers.

Samuel's study considers 11 African American graduates of the University of Nebraska who have accumulated federal student loan debt ranging from $9,000 to $40,000. All of the participants received a baccalaureate degree. In 2005, the year the study was published, only 2 of the 11 participants had enrolled in graduate school. Three of the participants failed to acquire employment within their field of study upon graduation. Monthly payments on loan debt ranged from $89 dollars to a peak of $490. However, Samuel's clarifies "But because of consolidation, the average monthly payment for the participants was $196. The average monthly payment would have been much higher without consolidation". Consolidation is a substitution of loans from one or more lenders with a single loan from one lender; it usually leads to a lower monthly payment, but with a longer repayment period (Rendelmen, 2014). Monthly payments on student debt accounted for an average of 9 percent of income between the participants. Only two of the participants stated they were able to "consistently designated a portion of their monthly income to savings" (Samuel, 2005).

Samuel found that eight of the 11 participants said, "student loan debt influenced their decisions and life choices on a daily basis". The same participants also reported that most of their financial decisions were greatly affected by their monthly loan payments (2005). One participant named Yolanda, states:

> Student loan debt influences my choices on the daily basis...Loan payments are always going to be a big chunk of my income, as a teacher, so it is going to play a huge role . . . I'm a teacher so I have to continually supplement my income so that I can stay above water just for basic living expenses" (pg.62).

Yolanda earned a gross monthly income of $1,750. Yolanda's statement accurately captures the consensus amongst most of the participants in regards to how student loan debt has affected their lives. Even, Starbuck, the most prosperous of the participants struggled with their debt. After Starbuck graduated, he eventually went on to start his own business and earned a gross monthly income of $9,600 at the time of the study. However, he expresses how burdening student loans were when he first graduated. Starbuck claimed, "When we first graduated, student loan debt influenced our choices and decisions a lot…" (pg.62). While, he did concede that there is some leeway (deferments on payments) allotted for student loan borrowers, he still felt overall "it was a big burden". It is worth nothing that the average time of loan repayment has grown from 7 years in 1992 to roughly 13 years in 2010 (Lewis, 2015). Given, the increasing amount of student loan debt being accrued by students, I would not be surprised if the average is more than 15 years by 2016.

Concerning the three of 11 participants that reported that student loans did not influence their life choices, their sentiment always coincided with a caveat (Samuel, 2005). These participants held this opinion because they considered repayment of student loans as unavoidable and inevitable. One participant in particular named, Susan, stated:

> Loan payments do not influence my choices. I just pay them off. My reason for paying it off is because I want to be out of debt, I want to buy a house in a couple of years, and I know those come back to haunt people. They are student loans they never go away, so just pay them off.

However, Samuel rightfully challenges the validity of the previous sentiments of the three participants are challenged by alluding to various times in which they faced financial hardship. For example, according to Samuel one participant, named Slim, “paid less than $100 per month, once had an expensive apartment and automobile problems that made even $89 a month payment a bit burdensome” another dubbed Long, “has never attempted balancing loan payments and competing priorities because he has always been in deferment” (pg.74). Samuel (2005) states, “Susan who now earns more than $45,000 a year, was at one time working various part-time jobs that totaled less than $30,000 a year. During this time, making her monthly payments and balancing competing priorities were more challenging” (pg.76). The previous examples show that at some point student loan debt did affect their life-choices. As a result of disproportionate student loan debt, African American families are less likely own homes and invest in retirement than white families (Lei, 2015). In 2013, roughly 20 percent more white families owned their home compared to African American families and had an average retirement savings with 11 times more than blacks had (Lei, 2015).

I have discerned that an issue with inequality is plaguing student loan debt; how due to their family's lack of financial assets, the African American population is overly burdened and disadvantaged by acquiring student loans compared to other races. Now, I will expound upon how John Rawls' ideal of the Veil of Ignorance relates to this issue and how its ideals can contribute to American policy alleviate the burdens disproportionately experienced by African American degree seekers.

The Veil of Ignorance

The renowned philosopher, John Rawls, first introduces the Veil of Ignorance in his book *A Theory of Justice*. Rawls' considers the Veil as an interpretation of impartiality; to him impartiality is at the core of justice (Rawls, 2009). Rawls equates justice with equality or fairness; these words are synonymous to impartiality. Justice as equality or fairness equates to a desirable state or "original position" in the traditional theory of creating a social contract. For Rawls, the "original position" is derived from a hypothetical view or ideal that he believes will be indicative of a conception of justice. Rawls claims, "Among the essential features of this situation is that no one knows his place in society, his class position or social status, nor does anyone know his fortune in the distribution of natural assets and abilities, his intelligence, strength, and the like. I shall even assume that the parties do not know their concepts of the good or their special psychological propensities. The principles of justice are chosen behind a Veil of Ignorance" (pg.11).

In the book *Behind a Veil of Ignorance,* authors Louis Imbeau and Steve Jacob accurately portray the meaning of John Rawls' account of the Veil of Ignorance. Jacob describes the Veil as a "thought experiment that could show how rational decision-makers should attend to the preferences of the least advantaged group in society when they are ignorant of their actual and future positions in society" (Imbeau, 2015). When students acquire student loans, most "are ignorant" of maybe not their actual position in society, but definitely of their future's. In this sense, student loans deal a lot with risk and uncertainty. However, the risk of failure on student loan payment is higher for African Americans, as I have demonstrated in this essay; due to many complicated reasons, enrollment trends favoring for-profit institutions, lack of access to affluent social networks and discrimination in job hiring.

One could argue against my application of the veil of ignorance, by claiming that student loan payment burdens are a normal consequence of our society, and repayment of them still do not discredit the benefit loans are for disadvantaged members of a society (Hudon, 2013). However, the previous notion must be retracted if one is to consider the disparity in risk as I have presented in this essay. It is clear that groups with few assets take on more risk when utilizing student loans (Hudon, 2013). This is my justification for use of the Veil, because an ordinary person in the "original position" after considering the relationship between wealth, risk, and repayment of student loans as I have presented, would seek to implement policy beneficial for students that will incur a disproportionate amount of risk (Hudon, 2013). Rawls claims that people are increasing exploited by market imperfections. The reason Rawls thinks people become exploited is that the price systems of markets begin to become outdated and inefficient (Rawls, 2009). Rawls, in *Theory of Justice* states:

> The sense in which persons are exploited by market imperfections is a highly special one: namely the precept of contribution is violated and this happens because the price system is no longer efficient. But as we have just seen, this precept is but one among many secondary norms, and what really counts is the working of the whole system and whether these defects are compensated for elsewhere. (pg.272)

Rawls thinks the inefficiency of markets contributes to issues of injustice, although, he claims it is the infringement upon equal opportunity or lack of compensation to mitigate negative effects (I have argued this is inequality caused by student loans) as the main contributor (Hudon, 2013). Thus, for Rawls the root of exploitation is in the absence of basic rights or liberties that contribute to equality of opportunity (Hudon, 2013). If one were just to consider the rigorous requirements for claiming bankruptcy on student loans compared to other forms of credit, as I will discuss later, then the exploitative nature of student loans is apparent. In order to reduce exploitation or inequality created by student loans I insist the United States implement policy that will help mitigate the inequality of risk that exist for African American students. Additionally, the research I have presented in this article discerning the existence and effects of institutional disadvantaging of African American, one could claim the federal student loan exchange has been plagued with market inefficiencies or imperfections since its conception. Federal student loan policy is derived from ideals that are not favorable for the least advantaged group of society. In its inception, the student loan program was built to provide “loans of convenience” for “middle-income families” (Samuel, 2005, p.32). Instead the most susceptible to acquiring student loans, African American families, have less assets compared to other races; as a result, student loans have proven to be more of a financial burden upon this demographic. Given the conflicting context of student loans, federal financial aid policy that attends to the least advantaged demographic is must be implemented if the United States wishes to remain a country committed to the equal opportunity of its citizens.

Recommendations

I do not think federal student loans are all bad, however I think policy concerning student loans needs to be more cognizant of the disadvantages or increased risk facing minority groups. One suggestion is that America move toward a more exclusively grant based financial aid system to address the financial needs of aspiring college graduates. In a study titled, *Financial aid, persistence, and the status of the under-represented in higher education: Exploring the relationships between financial aid, persistence, and degree attainment among African-American, Hispanic, and low-income students,* by Mercer University graduate, Shannon Chancellor outlines the benefits of reforming the U.S. financial aid system to provide more grant aid to students. Chancellor's study found that "current research suggest that need based funding like Pell Grant and subsidized Stafford loans are more often associated with improved year-to year persistence and timely degree attainment among African-American, Hispanic, and low-income students" (McGhee, 2011). Since Pell Grants do not require repayment and the interest of subsidized loans is paid by the government until the student graduates, an increase in this type of aid would be ideal for African Americans as they are dispositioned to struggle with the burden of repaying student loans (McGhee, 2011).

Ideals put forth by Elizabeth Warren (D-MA) seemingly suggest a more practical solution than the latter, "Washington lawmakers have two options: They can give existing borrowers some debt relief, and they can use federal dollars as a lever to bring down the cost of college" (Quinton, pg. 1, 2015). Recently, Warren has proposed programs allowing students to refinance their loans at a low interest rate. Federal income-based repayment programs can help mitigate risk for African Americans and other races by making their loan payments more manageable once they graduate. For example, U.S. President Obama has already put forth an executive order that goes in effect after December 2015 that expands the federal Pay as You Earn (PAYE) program. PAYE allows for those with student loan debt to better consolidate their loan payments in line with their income if they qualify. (U.S. News, 2014). PAYE program caps monthly student loan payments at 10 percent of the student's income. After 20 years of payment, the student loan debt is forgiven (Wu, 2015). If you happen to be employed by the government or public sector, your loan debt is forgiven after 10 years. This program could potentially give the average student loan borrower $3,000 dollars in loan forgiveness over time (Wu, 2015). According to U.S. News, the executive order will help an additional five million borrowers of student loans (2014).

Another compelling way to help those who rely on student loans the most would be to address the strenuous and difficult process of claiming bankruptcy on student loans. Currently, student loan borrowers have the same discharge stipulations as those who avoid paying child support and tax evaders (Rendleman, 2014). It is very difficult for a student to claim bankruptcy and have their debt discharged. According to an article, titled *Collection of Student Loans: A Critical Examination* by Doug Rendleman a professor from the Washington and Lee Law School, "qualifying most creditors' rights are the debtor's contract defenses, the debtor's exemptions, the statute of limitations time bar, and the bankruptcy discharge" (pg.232). Rendleman (2014) continues, "The student loan exception stands out in the bankruptcy code. Most exceptions to discharge target wrongful or punishment-worthy conduct or domestic relations obligations like child support and alimony" (pg.232). Since, African Americans rely on student loans the most; this is a glaring example of student loan policy not being for the betterment of the most disadvantaged members of our society. Supporters of the bankruptcy exception for student loans argue, "student borrowers are deadbeat debtors undeserving of discharge, or because the debts to the government should be more difficult to discharge than debts to other creditors" (Rendleman, 2014, pg. 294). Supporters also claim the bankruptcy exception helps to maintain the financial integrity of federal student loans. However, there is no evidence that student loan debtors are likely to commit fraud by filing bankruptcy shortly after graduating (Rendleman, 2014). Additionally, under current law statutes discharge of fraudulently obtained debt is prohibited (Rendleman, 2014). Rendleman (2014) ask, "If the bankruptcy law's fresh-start policy is strong enough to justify excusing the income tax delinquent or failed SBA (Small Business Association) borrower from repaying their debts, is it not strong enough to warrant forgiving the defaulting student loan borrower as well?" (pg. 294). Both borrowers must consider a great deal of risk and uncertainty, why are the bankruptcy stipulations different? For a student to have their student loans discharged they must demonstrate "undue hardship". One example of undue hardship as presented by Student Loan Borrower Assistance.org is as follows:

> A 50-year-old student loan borrower earning about $8.50/hour as a telemarketer was granted a discharge. The court agreed that the borrower had reached maximum earning capacity, did not earn enough to pay the loans and support minimal family expenses and appeared trapped in a "cycle of poverty." (2015)

In 2013, Senator Elizabeth Warren proposed that student loan borrowers should have the same bankruptcy stipulations as home mortgages and medical debts, which do not require the same show of "undue hardship" as required by student loans (Rendleman, 2013). Rendleman suggest allowing student loan debt to be as dischargeable as credit- card debt (2013). His solution is derived from an analysis that compared educational debts to credit-card debts. Proving "undue hardship" to discharge federal student loans is too difficult and is overly based off anecdotes and overgeneralization (Rendleman, 2014). I must agree if students must demonstrate the same financial stress as the 50-year-old man in the example given earlier.

Recently, due to a nationwide settlement between the U.S. Attorney's Office and Education Management Corp (EMC), which is the second largest for-profit college institution in the United States, will pay 95.5 million to resolve accusations that its recruiting practices were illegal (Johnson, 2015). The corporation illegally based the pay of their staffers to the number of students they enrolled in their institutions (Johnson, 2015). Attorney General Loretta Lynch has been quoted saying that, "the high-pressure recruiting operations resembled a 'boiler room' in which prospective students were targeted regardless of their abilities to succeed" and "the company's actions represented a betrayal of trust and violation of federal law" (Johnson, 2015). According to the allegations of 40 attorneys, the EMC used false claims of accreditation and pseudo job placement data to mislead aspiring college students (Woolworth, 2015). The settlement is the largest False Claim Act settlement a for-profit institution has been forced to pay in U.S. history (Johnson, 2015). 90 percent of the EMC's revenue is from federal student aid (Johnson, 2015). Nearly 2,000 Arizonans students of EMC institutions will receive $2.7 million in student loan forgiveness because of the settlement (Woolworth, 2015). The EMC has four institutions in Phoenix and two in Tucson (Woolworth, 2015). Given that for-profit institutions contribute to the loan inequality, by targeting recruitment of students from disadvantaged backgrounds, settlements such as this provide relief for African American students and students of other races with student loan debt African American and other races.

Conclusion

In this essay, I have explained why African Americans students rely loans more than their peers do. Then I explained how the disproportionate amount of student loan debt acquired by African Americans contributes to higher rates of delinquency and defaults for this demographic of students. Then, I presented the relevance of the Veil of Ignorance; in how it is applicable to the issue of inequality created by student loans. Finally, I have introduced ideals and examples of solutions that could be put forth to cure the institutional inequality that is a result of the U.S. government's federal student aid system's reliance on student loans to support the acquisition of a college degree.

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