ANALYZING DISPROPORTIONATE BLACK AND LATINO STUDENT DEBT AND ITS IMPACT ON THE RACIAL HOMEOWNERSHIP GAP

A CULMINATING PROJECT PRESENTED TO THE DEPARTMENT OF PUBLIC POLICY AND ADMINISTRATION AT CALIFORNIA STATE UNIVERSITY, SACRAMENTO IN FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF

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by

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Executive Summary

The American Dream is rooted in the ideology that every person in the United States has the freedom and opportunity to become upwardly mobile and obtain a better life. Two milestones of becoming upwardly mobile are graduating from and owning a home. However, college is becoming less affordable, causing student debt levels to rise. Research has shown that these high levels of debt may be preventing students from being able to purchase a home.

In this policy report, I used a Prospective Policy Analysis to analyze disproportionate Black and Latino student loan debt and its possible relationship to the Racial Homeownership Gap. Baum, Blagg, and Fishman (2019) convey that Black and Latino students not only take out more debt but because of this, will have a much harder time purchasing a home. Placing certain racial groups further behind when trying to achieve upward mobility. Kuebler (2013) indicates that racial minorities have not been allotted the same access as Whites to homeownership due to past discriminatory practices. Although these practices are not legally permissible anymore, their effects have been long lasting, which has been coined as the Racial Homeownership Gap. Since Black and Latinos both have a more difficult time purchasing a home due to past discriminatory factors, it is important to examine how being prone to more student debt can influence this relationship.

Although there is not a simple solution to this issue, I do believe that it is important to look at the efficacy of the current policies in place that are being used to lessen the effects of this issue. In this policy report I will be evaluating three policy

alternatives that are current programs in place that either help alleviate student loan debt, ease the racial homeownership gap, or both. These include Government Funded One-Time Student Debt Relief, California Dream for All Shared Appreciation Loan, and Maryland SmartBuy 3.0. To evaluate these three policy alternatives, I will be using a Criteria-Alternatives Matrix (CAM) to assess which policy provides the best intended results. To illustrate these results, I will provide both a quantitative and qualitative CAM for each policy alternative. While evaluating the three policy alternatives, I will use efficiency, equity, and political acceptability to assess each alternative. Ultimately, using this as guide to provide the results of my evaluation.

Based on my Criteria-Alternatives Matrix evaluation the recommendation that I would suggest is the Maryland SmartBuy 3.0. Not only does this policy offer alleviation to both issues, but it performed the best when using the three criteria as a guide through my evaluation. The only change I would urge policymakers to make is the $20,000 loan debt cap cancellation to be reassessed based on national average of minority student loan debt, to provide more equity. Also, although this is a Maryland State policy, I believe there should be a recreation of this policy at a state level or at a national level Even if it does not solve the issue completely, it does provide support for these disadvantaged communities who are vulnerable in the policy areas of student loan debt and homeownership. In all, they are also just simply trying to achieve their American Dream.

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I would also like to thank my brother for serving as a role model throughout my academic journey. As first-generation college students it can be difficult to believe that you belong to these academic institutions and succeed. He showed me it was possible.

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Introduction

In June 2023, the Supreme Court blocked a proposal from the Biden-Harris Administration to cancel more than $400 billion in student loan debt (New York Times, 2023). The Biden-Harris administration released data showing that 26 million people in all 50 states applied or were automatically eligible for their one-time student debt relief proposal (White House, 2024). The proposal's plan was to provide up to $20,000 in debt relief for borrowers earning less than $125,000 per year (White House, 2024). About 90% of eligible beneficiaries were making less than $75,000 per year (White House, 2023). One month in, 16 million out of the 26 million applications were fully approved until the Department had to stop due to a lawsuit (White House, 2024).

Student debt has quadrupled since 2003 from about $240 billion to $1 trillion in 2013. (Hiltonsmith. 2013). Since 1989, student debt levels have increased by 41 percentage points, where 2 out of every 3 college seniors graduate with an average of about $27,000 in debt (Hiltonsmith. 2013). In 2018, outstanding student loan debt reached more than $1.8 trillion, surpassing both vehicle and credit card loans (Federal Reserve Bank of Minneapolis, 2018). The Biden-Harris Administration proposal only proved the eagerness of Americans yearning for student loan debt relief with the millions of applications received in just one month.

One possible consequence of high levels of student loan debt may be to foreclose the possibility of homeownership. Most student loan debt is held by adults ages 25 to 40, which also reflects prime homebuying years (Baum, Blagg, and Fishman, 2019). Younger debt-free households were able to purchase a home, purchase more expensive homes, put down larger down payments, and pay a lower mortgage rate compared to education indebted households (Hiltonsmith, 2013). In 2017- 2018, 2 out of 3 Black and Latino UC graduates took out student loans to fund their costly education (UCSA & TICAS, 2019). Black and Latino students take out more debt than their White counterparts and they will have a much harder time obtaining homeownership (Baum, Blagg, & Fishman, 2019). Black and Latino students (34% and 28% respectively) are more likely to borrow than their White counterparts (16%) (Xiang & Zhan, 2018). This disproportionate burden placed on Black and Latino borrowers can further affect homeownership for these borrowers. This issue can possibly show a relationship with the Racial Homeownership Gap.

Prospective Policy Analysis

In this policy report, I use a Prospective Policy Analysis to analyze disproportionate Black and Latino student loan debt and its possible relationship to the Racial Homeownership Gap. Linquiti (2023) details a 6- step prospective policy analysis model that's leads to a final policy recommendation that best fits the issue: characterize the policy problem, specify policy alternatives, identify evaluation criteria, create a criteria-alternatives matrix, and predict performance of alternatives, analyze trade-offs across alternatives, and communicate results. In doing so, I show that Black and Latino borrowers have disproportionate student debt and are less likely to be homeowners and argue that student loan debt may be one factor in explaining why. I then evaluate current programs with criteria of efficiency, equity, and political acceptability with a Criteria-

Alternatives Matrix. Finally, I recommend how policymakers can best mitigate these effects by implementing the best scoring program based on my evaluation.

Problem Definition

I. Black and Latino Borrowers Have Disproportionate Student Debt

Education is often viewed as the "great equalizer" (Growe & Montgomery, 2003). The implication of this well-known expression is using education to achieve upward mobility. This implies that those who want to be "equal" come from disadvantaged backgrounds, specifically low-income or impoverished ones. However, attaching student debt into this conversation can call into question its "equalizing" component. This educational investment can amount to thousands of dollars and is a huge financial burden. A college education remains the safest way to middle class life, yet it can be most harmful to the financial futures of low-income families and students of color (Hiltonsmith, 2013).

Over the past decade, college has become more expensive which has left low-income and minority students with an increase of affordability concerns (DesJardinds & Chen, 2010). Baum & Steele (2010) found that, Black graduates are more likely to have high levels of student loan debt (27%) than white graduates (16%), defining high levels as more than $30,500 of student loan debt. When looking at graduation rates by race, both Black and Latino students are disproportionately represented as the students that struggle to repay their student loans (Hiltonsmith, 2017). When it comes to repayment, Black students are 16% more likely to be in default or seriously delinquent and Latino students are 8% in comparison to White students (Hiltonsmith, 2017).

California has a similar pattern to national trends. There has been a 78% tuition increase in the last decade for California residents' undergraduates to attend the University of California (UC). In 2017-2018, about half of dependent UC students who received their bachelor's degree graduated with debt. Even though public four-year college graduates in California rank among the lowest in national debt, Latino and Black UC graduates are still disproportionately likely to borrow than their White counterparts (UCSA & TICAS, 2019). For example, 2 out of 3 Latino and Black graduates took out student loans (UCSA & TICAS, 2019). Which shows a 16-percentage point increase for Black and Latino UC students. 40% of White bachelor's degree recipients from the UC had student loan debt, a lower share than Latinos (66%) and Blacks (67%) respectively (The Institute for College Access & Success, 2019). It is also notable that graduates with the lowest family incomes were three times more likely to take on student loans in comparison to graduates with the highest family incomes (UCSA & TICAS, 2019).

II. Black and Latino Folks Are Disproportionately Less Likely to Own Homes

One of the central components of American economic well-being has been homeownership (Kuebler, 2013). Yet, minorities have not been allotted the same access as Whites (Kuebler, 2013). The National Housing Act of 1934 was one of the discriminatory housing acts which prevented African American, Latinx, and other people of color from owning a home (Coates, 2014). This significantly impeded racial groups from being able to accumulate wealth through this form and financially disadvantaged them. Homeownership is key for wealth accumulation, especially those on the lower side of the income spectrum which usually have fewer opportunities for alternative investments (Kuebler, 2013). Taking groups that already have a difficult time being able to accumulate wealth in other investments and obstructing them from being able to own homes at similar rates can obstruct their ability to progress.

McCabe (2008) explains that in models of place stratification structural factors such as racial discrimination housing and mortgage markets influence the opportunities for nonwhite racial groups to buy a home. After facing years of discriminatory housing practices Black and Latino homeowners and potential homebuyers have been left trying to play catch up with White homeowners. From 2004-2009, Wells Fargo was sued for over $175 million due to discriminatory mortgage practices where more than 30,000 homebuyers of color who had comparable credit to White homebuyers were denied (U.S Department of Justice, 2012). Comparable credit can be highlighted in this comparison because this is one of the forms that banks use to establish mortgage terms. Another notable feature in this lawsuit is the 30,000 homebuyers which is a very large number, affecting a sizeable number of potential homebuyers of color. In 2010, 72 percent of Whites, 47 percent of Latinos, and 44 percent of Blacks owned their homes which has contributed to intergenerational wealth differentials via homes (Kuebler, 2013). A decade later, we see rates stay about the same, showing hardly any substantial progress. In 2017, 73% of Whites own homes in comparison to African Americans and Latinxs at 42 and 46 (U.S. Census Bureau, 2022). Although they may not be using these discriminatory housing practices anymore, the effects of this past discrimination might still be affecting homebuyers of color.

Another very important attribute to homeownership is home equity, in which we also see a racial gap present. McCabe (2018) suggests that one of the most influential factors by which African Americans were unable to pass along wealth was due to their inability to build equity through homeownership. This stemmed from the past discriminatory lending practices, redlining, restrictive deeds, and overall limited opportunities for African Americans to buy homes. Home equity is calculated by subtracting the amount owed on mortgage loans from the home's value. If the home were to be sold, the home equity would be the amount the homeowner would receive, it is income that could be used for future investments to build wealth.

Specifically for minority homeowners, home equity represents a major part of total wealth (Kuebler, 2013). This same study goes further to add that homeownership is crucial to Black folks because they are less likely able to hold other investments that can accumulate wealth (Kuebler, 2013). However, it is important to note that African Americans and Latinos buying homes in neighborhoods with majority African Americans and Latinos contributes to their challenge in building home equity and wealth (McCabe, 2018). McCabe (2018) suggests that the number of racial minorities present in a neighborhood negatively impacts housing prices for African Americans and Latinos. Concurrently, Faber and Ellen (2016) also suggest that African American and Latino homeowners gained less home equity than whites and experienced less financial return on their homes.

III. How Student Loan Debt May Explain Why

There are three critical ways that student loan debt affects homeownership. First, a high student debt payment will affect a potential homebuyers' ability to accumulate the wealth needed to use as a down payment. Individuals who make persistent student loan payments are significantly impaired in their ability to save compared to those who do not (Mezza et al., 2016). Second, a high student debt payment increases a potential homebuyers' debt-to-income (DTI) ratio, a critical variable in mortgage underwriting. Mortgage underwriting includes student loan debt, which is not differentiated from other types of debt (Park & Miller, 2023). Blagg et al. (2022) suggests that student loans make it more difficult to be able to make payments on home since income is being diverted to student loans and debt-to-income ratio is affected which makes mortgage loans less accessible. The third critical way is credit scores. A high student debt payment can potentially lead to delinquencies and defaults which affects credit scores and impedes mortgage access (Mezza et al., 2016). An inability to repay debt, which in turn leads to difficulty in building wealth through homeownership, is a key factor in exacerbating the racial homeownership gap (Blagg et al., 2022).

Even when we bring educated homebuyers into the discussion, the racial homeownership gap is still very prevalent. After graduating from college many graduates may have the goal of purchasing a home to be able to start accumulating wealth and starting their life's journey. However, their student loans may create an obstacle to being able to take this financial step. In Mezza (2016) a study based on graduates between 1997-2005, a 10-percentage point increase in student loan debt causes a 1 to 2 percentage point drop-in homeownership rate of student loan borrowers for the first 5 years after graduation. Bleemer et al. (2014) estimate that a $10,000 increase in average student loan debt leads to a 0.81 percentage point increase in the likelihood of moving back in parent's household and a 2.63 percentage point decrease in moving out of parent's household. Together, these studies demonstrate that a certain incremental increase in student loan debt can make it more difficult for graduates to invest in buying a house and can increase the likelihood of them moving back into a parent's household.

Research has demonstrated a racialized link between student loan debt and homeownership rates. In 2013, White graduates without student loan debt had the highest homeownership rate at 72 percent, while African American and Latinx graduates had homeownership rates of 53 and 45 percent (U.S Census Bureau, 2014 as cited in Gray, 2020). This shows that there is a difference of 19 percentage points in the comparison between White and Black graduates with no student debt. As for a difference of 27 percentage points in the comparison between White and Latino graduates with no student debt. Although when we add student debt into the equation a gap still exists, it may be slighter, but it is still there. In 2013, White graduates with student loan debt still have the highest homeownership rate at 54 percent, while African American and Latinx have homeownerships rates of 47 percent and 41 percent (U.S Census Bureau, 2014 as cited in Gray, 2020). However, in both cases White graduates with or without student debt hold the highest homeownership rates, with Black and Latino graduates still trailing behind.

In 2013, White graduates without debt held $115,000 in home equity, while Black and Latinx held $60,000 and $58,000 in home equity without student debt (U.S Census Bureau, 2014 as cited in Gray, 2020). This shows that there is a difference of $55,000 in home equity between White and Black graduates without student debt. As for a difference of $53,000 in home equity for White and Latinx graduates without student debt. In 2013, White graduates with student debt held $40,000 in home equity, while Black and Latinx held $39,000 and $23,000 in home equity with student debt (U.S Census Bureau, 2014 as cited in Gray, 2020). When student debt is added into this equation the gap between White and Black extremely narrows with only a $1,000 difference. As for a difference of $17,000 between White and Latinx graduates with student debt. The important thing to note is the impact that student debt has on these amounts. Black graduates without student debt versus with student debt had a $21,000 difference in home equity, while Latinx graduates without student debt versus with student had a $35,000 difference in home equity. Thus, showing the possible correlation between the burdening effect that student debt has on home equity values, even on more privileged demographics.

Policy Alternatives

I will be evaluating three policy alternatives that are current programs that are in place to help alleviate student loan debt, can ease the racial homeownership gap, or both. The first program is the Government Funded One-Time Student Loan Relief falling under the first category, which is in place to help alleviate student debt. The second program is the California Dream for All Shared Appreciation Loan falling under the second category, which is in place to ease the racial homeownership gap. The third program is the Maryland SmartBuy Program 3.0 falling under the third category, which is in place to potentially be able to both alleviate student debt and ease the racial homeownership gap.

I. Government Funded One- Time Student Loan Relief

In August 2022, the Department of Education announced a one-time student loan debt relief policy. This policy was a way to address the financial harms of the COVID-19 pandemic, specifically targeting the cancellation of student loan debt for low- and middle-income borrowers for up to $20,000 per student loan borrower. The policy's first specific guideline was relief for up to $10,000 for those who have an adjusted gross income less than $125,000 or $250,000 for married couples. The policy's second specific guideline was relief for up to $20,000 for student loan borrowers who met the income criteria and received at least one Pell Grant (White House, 2023). The Department of Education estimated that 8 million borrowers would have been eligible for the full $20,000 and over 40 million for $10,000 under this policy. Additionally, an estimated 27 million student loan borrowers would have been eligible for the $20,000 and 20 million borrowers would have had their full loan balance of their loans canceled (White House, 2023). However, in June 2023 the Supreme Court ruled this policy unconstitutional (Supreme Court, 2022).

II. California Dream for All Shared Appreciation Loan

The California Dream for All Shared Appreciation Loan is a down payment assistance program for first-time homebuyers, to be used with the Dream for All Conventional first mortgage. This program offers up to a 20% down payment or closing costs, but it cannot exceed $150,000. The homebuyer must register for a voucher and a randomized drawing will decide who will receive the voucher. To be eligible one borrower must be a first-generation homebuyer, all borrowers must be first-time homebuyers, and income limits must be met depending on the county that the home will be purchased in. If the homeowner decides to sell the home, the homeowner will have to repay the original down payment loan with a share of the appreciation in the value of the home. The first phase was launched in March 2023 and helped 2,182 homeowners purchase a home with 55% of the homeowners self-identifying themselves as belonging to communities of color (Maryland Department of Housing and Community Development, 2023).

III. Maryland SmartBuy 3.0

The SmartBuy 3.0 program enables qualified student loan borrowers to purchase a program-eligible home in Maryland. The homebuyer must have a minimum student loan balance of $1,000 up to a maximum of 15% of the home purchase price or $20,000. Homebuyers with student loans greater than 15% of the home's value or $20,000 are not eligible. The student loan may be either in repayment or deferment status at an eligible educational institution. In the process, the homebuyer will sign two loans. The first one will be the mortgage to finance up to 97 percent of the purchase price. While the second one will be a 5-year forgivable loan that will be 15 percent of the purchase price but to not exceed $20,000. The homebuyer’s student loan must be fully paid off with this loan. In shorter terms, once the homebuyer lives in the house for 5 years, the student loan will be fully paid off. Forgiveness is assessed at a 20 percent rate per year, which means if the homebuyer were to sell before the 5 years, they would have to pay the remaining amount. Although this is not a federal or California-specific solution, it might be applicable to the California context because Maryland is typically a democratic leaning state, which could favor the program to be more likely to be accepted in the California's democratic political climate. Therefore, making it a considerable program to include in my evaluation.

Evaluation Criteria

I. Efficiency

Social efficiency works in a way that resources that are being distributed benefits society. To begin, the status quo being changed is that people with student loans will have supplemental support by a policy so they can purchase a home. There are a few potential ways that implementing policy to do so would benefit society. There is research that shows that homeowners tend to move less often than renters, which makes it so that they are more invested in the communities that they live in (National Association of Realtors, 2012). This implies less crime, better property maintenance, residential stability, and even a correlation with increased civic participation (National Association of Realtors, 2012. All of which can make society a better place for people to live in, specifically in their residential communities. Making it easier for a certain amount of the population to be able to pour back into society in ways that will make it equally beneficial. Specifically, in the sense of whether prospective homeowners with student loan debt will be alleviated from the debt completely, have a certain percentage alleviated, or they will have more financial freedom in some sense. This can possibly influence the future financial burden that these potential homeowners will have to continue to face while owning their home. Depending on this level, they might still feel burdened to a lesser degree, depending on the policy that is potentially implemented.

II. Equity

Some people may be incentivized to work hard towards socially beneficial outcomes when personal recognition or rewards are not offered to everyone due to our meritocratic society (Linquiti, 2023). However, it is also important to note that not everyone has equal access to an opportunity to achieve the same results. People fall into several social categories such as race, income, and gender. These social categories can often have two divides: privileged and minoritized categories. The privileged often consist of White, male, and high income. As for the minority, we see people of color, women, and low-income. The way that society uses these categories can often make it so those who possess certain characteristics can be disadvantaged with respect to some of the best opportunities. Which makes it so some people need extra support that is configured to meet their disadvantage(s).

An important aspect in this paper is that it is analyzing both student debt and the homeownership gap in a racialized aspect. This paper investigates the fact that people of color are being discriminated in both areas of policy, specifically Black and Latinos. When analyzing a policy on its level of equity, a way to do this is looking into how each policy is offering communities of color extra support to meet their disadvantage. This can be seen in way such as policies that cater to communities of color, cater to categories that communities are more likely to fall into (such as low-income and/ or first-generation), and if communities of color are benefitting at a greater rate than non-communities of color. The approach that the equity analysis will heavily be influenced upon is Black and Latino Folks.

III. Political Acceptability

According to Bardach and Patashnik (2020), a feasible policy must be politically acceptable, not too much opposition and/ or too little support for proposal to be implemented. The key to gauging political acceptability on a policy is to take note how groups of power feel about a certain policy. This can be done in three ways. First, by conducting thoughtful research on the policy to be able to identify the relevant actors involved in the policy arena. This can include elected and appointed officials, businesses, professional societies, advocacy groups, and ideological organizations that take a stand to either approve or oppose a proposal (Bardach and Patashnik, 2020).

A very relevant idea that Bardach and Patashnik (2020) relay is that actors are more likely to get involved with a policy proposal that infringes their interests, ideology, and if they believe they are bearing a sizable loss. Second, list the resources that each influential actor has in policy area, specifically what makes them "powerful," such as authority, expertise, financial resources, and the ability to mobilize or advocate for others (Bardach and Patashnik, 2020). Lastly, identify the institutional venues in which the decision to approve or oppose the policy will be considered, the rules and procedures involved and type of claims that the venue permits to be heard (Bardach and Patashnik, 2020). This policy report reflects policy alternatives that can be considered federal or California solutions.

Criteria- Alternatives Matrix

A Criteria-Alternative Matrix (CAM) consists of defining a problem, identifying policy alternatives, and evaluating each policy alternative based on criteria to assess the pros and cons of each alternative (Linquiti, 2023). Linquiti (2023) highlights that the

Criteria-Alternatives Matrix is the most important feature of the classical model of policy analysis. The author also mentions that although a CAM by itself will not explain what to do on a policy issue, it helps people keep focused on what matters most, it brings clarity to the issue. The author also makes an important point that when one is unable to quantify a policy outcome, a CAM allows for cobbling together evidence and logic to draw conclusions, careful judgement is better than no information at all (Linquiti, 2023).

This analysis will use two CAM's, both quantitative and qualitative. One of the ways to quantify the performance of each criterion for each policy alternative is using a scale. In this paper, when configuring the Quantitative CAM, a 1-5 Likert scale will be used to quantify each criterion for the policy alternative. It will go in the Likert Score order: 1 is equal to very unlikely, 2 is unlikely, 3 is equal to neutral, 4 is equal to likely, and 5 is equal to very likely. Another key element to this CAM is the weight attributed to each criterion. In this paper 3 different criteria will be used to evaluate each policy alternative: efficiency, equity, and political acceptability. The weights are based on a ranking system of which criteria should be considered the heaviest (most important) to lightest (least important) when making a policy recommendation. In this paper I allocate weights as follows: Efficiency (30%), Equity (50%), and Political Acceptability (20%). This translates to equity should be considered most important with a 50 percent weight, efficiency should be moderately important with a 30 percent weight, and political acceptability being least important with a 20 percent weight. In this analysis, equity is weighed more because this policy report revolves around the notion that equity is very important to bring minorities closer to the starting line of the privileged. It is also very important to note that sometimes extra support is needed to make success more accessible. This includes taking full advantage of your education and lessening the effects of discriminatory housing practices that are still influencing homeownership today. The Likert Score and criterion weight will be multiplied together within each criterion and to bring a total score, add together each total score per criterion, and be given a score out of 5 to evaluate its overall performance. As for configuring the Qualitative CAM, key words will be used to translate these numbers into a brief explanation. Then to be followed by evaluation summaries per policy alternative to bring better clarity to why each alternative scored the way that it did.

Figure 1: QUANITATIVE AND QUALITATIVE CAM FOR ALTERNATIVE I

LIKERT SCORE: (1) VERY UNLIKELY – (5) VERY LIKELY

CRITERIA ALTERNATIVE	EFFICIENCY (30%) DOES IT BENFIT SOCIETY?	EQUITY (50%) IS IT EQUITABLE ON BLACK AND LATINOS?	POLITICAL ACCEPTABILITY (20%) HOW LIKELY IS IT TO BE ACCEPTED BY THOSE IN POWER IN CA?	TOTAL SCORE /5
GOVERNMENT FUNDED ONE-TIME DEBT RELIEF	LIKERT: 3 WEIGHT: 0.3 TOTAL: 0.9	LIKERT: 5 WEIGHT: 0.5 TOTAL: 2.5	LIKERT: 1 WEIGHT: 0.2 TOTAL: 0.2	3.6

CRITERIA ALTERNATIVE	EFFICIENCY (30%) DOES THIS BENEFIT SOCIETY?	EQUITY (50%) IS IT EQUITABLE ON BLACK AND LATINOS?	POLITICAL ACCEPTABILITY (20%) HOW LIKELY IS IT TO BE ACCEPTED BY THOSE IN POWER IN CA?
GOVERNMENT FUNDED ONE-TIME DEBT RELIEF	How much they would pour back into society is quite unmeasurable. Less debt = more wealth = more spending = better for the economy. Tax burden.	There is an income limit set. Also, students who received the Pell Grant, usually students of color, have additional funding. Black & Latinos have higher levels.	The Department of Education was quickly sued by loan companies and deemed unconstitutional by the Supreme Court. Cannot be implemented state level, federally funded loans.

Figure 2: QUANITATIVE & QUALITTATIVE CAM FOR ALTERNATIVE II

LIKERT SCORE: (1) VERY UNLIKELY – (5) VERY LIKELY

CRITERIA ALTERNATIVE	EFFICIENCY (30%) DOES IT BENEFIT SOCIETY?	EQUITY (50%) IS IT EQUITABLE ON BLACK AND LATINOS?	POLITICAL ACCEPTABILITY (20%) HOW LIKELY IS IT TO BE ACCEPTED BY THOSE IN POWER IN CA?	TOTAL SCORE /5
CA DREAM FOR ALL SHARED APPRECIATION LOAN	LIKERT: 3 WEIGHT: 0.3 TOTAL: 0.9	LIKERT: 3 WEIGHT: 0.5 TOTAL: 1.5	LIKERT: 5 WEIGHT: 0.2 TOTAL: 1.0	3.4

CRITERIA ALTERNATIVE	EFFICIENCY (30%) DOES IT BENEFIT SOCIETY?	EQUITY (50%) IS IT EQUITABLE ON BLACK AND LATINOS?	POLITICAL ACCEPTABILITY (20%) HOW LIKELY IS IT TO BE ACCEPTED BY THOSE IN POWER IN CA?
CA DREAM FOR ALL SHARED APPRECIATION LOAN	Promotes staying at a home by requiring the homebuyer to pay back the original loan plus 20% of any appreciation value of the home if the homebuyer decides to sell or transfer the home.	55% belong to communities of color. First-generation homebuyer and first-time homebuyers. Home equity issues upon selling or transferring.	It is currently in place, and it is in its second phase. The first phase was launched in March 2023 and the second opened in April 2024. CA State Policy.

Figure 3: QUANITATIVE & QUALITTATIVE CAM FOR ALTERNATIVE III

LIKERT SCORE: (1) VERY UNLIKELY – (5) VERY LIKELY

CRITERIA ALTERNATIVE	EFFICIENCY (30%) DOES IT BEENFIT SOCIETY?	EQUITY (50%) IS IT EQUITABLE ON BLACK AND LATINOS?	POLITICAL ACCEPTABILITY (20%) HOW LIKELY IS IT TO BE ACCEPTED BY THOSE IN POWER IN CA?	TOTAL SCORE /5
MARYLAND SMARTBUY 3.0	LIKERT: 4 WEIGHT: 0.3 TOTAL: 1.2	LIKERT: 3 WEIGHT: 0.5 TOTAL: 1.5	LIKERT: 4 WEIGHT: 0.2 TOTAL: 0.8	3.9

CRITERIA ALTERNATIVE	EFFICIENCY (30%) DOES IT BEENFIT SOCIETY?	EQUITY (50%) IS IT EQUITABLE ON BLACK AND LATINOS?	POLITICAL ACCEPTABILITY (20%) HOW LIKELY IS IT TO BE ACCEPTED BY THOSE IN POWER IN CA?
MARYLAND SMARTBUY 3.0	Borrowers are required to purchase a house with this. Specifically required to stay at a house for 5 years so that their student debt of up to $20,000 is paid off. Alleviates student debt up to $20k.	Targets first-time homebuyers. 6% AMI Down payment assistance. $20k cap does not reflect CA Black graduate debt levels. Latino graduate debt is about the same.	It is already implemented in Maryland. However, Maryland is a small state which may make it harder to implement in larger states or more populated ones (CA).

Evaluation Summaries

I. Government Funded One-Time Student Debt Relief Evaluation

After evaluating Government Funded One-Time Student Debt Relief as illustrated in Figure 1, the policy alternative received a 3.3 out of 5. The first criteria this alternative was evaluated with was efficiency where it received a 3 out of 5 on the Likert scale. This translates to that it is neither unlikely nor likely for it to benefit society, it is stuck in the middle. This is because the student loans would be alleviated completely, and they would no longer have to be using a portion of their income towards their student loans. It would just be under the economic assumption that people tend to spend more when their wealth increases even if their income does not. So, since they no longer have this debt, they have more wealth, so one would assume that they will pour more into the economy. However, the measurement of how much they would pour back into society is quite unmeasurable.

Also, since it is federally funded taxpayers will find themselves paying for this relief. According to McBride, Gurudatt, and Watson (2023) student debt that has been forgiven is treated as if the borrower earned additional income in the previous tax year equal to the amount of forgiven debt.

The second criterion this alternative was evaluated with was equity where it received a 5 out of 5 on the Likert scale. This translates to that it is very likely to be equitable on communities of color. This is because there is an income limit to apply for this relief which is set for an adjusted gross income less than $125,000 or $250,000 for married couples (White House, 2024). Also, students who received a Pell Grant, which are usually low-income students of color (UCSA & TICAS, 2019, are eligible for additional relief funding. Which is very important within this policy realm since it focuses in on Black and Latino folks and their higher levels of student debt.

The third criteria this alternative was evaluated with was political acceptability where it received a 1 out of 5 on the Likert scale. This translates to that it is very unlikely for it to be accepted by those in power. This is because the Supreme Court already deemed this policy unconstitutional, and currently republicans hold a big weight on this decision. Another factor is that the loan companies who prevented the policymakers that tried to implement this policy (BIDEN, J. & NEBRASKA 2023) are very well versed and well-resourced in this policy arena, which makes it very unlikely that this will become policy. Also, specifically in California, Governor Newsom was very supportive of this policy since he publicly urged California lawmakers not to tax forgiven federal student loans (LA Times, 2022). But it is important to note that the reason this did not affect political acceptability is because CA would not be able to forgive federal loans, which was the focus of this policy.

II. CA Dream for All Shared Appreciation Loan Evaluation

After evaluating the CA Dream for All Shared Appreciation Loan as illustrated in Figure 2, the policy alternative received a 3.4 out of 5. The first criteria this alternative was evaluated with was efficiency where it received a 3 out of 5 on the Likert scale. This translates to the fact that it is neither unlikely nor likely for there to be societal benefits, it is stuck in the middle. For one, this policy does not alleviate student loans that may be preventing homeownership, they will still be there. Which could be impacting the ability for homebuyers to make timely payments on their mortgage. The policy alternative promotes home ownership by offering up to 20% as down payment assistance that can benefit the homebuyer. This policy did not receive an unlikely (1-2) or very unlikely (4-5) because it helps promote homeownership, which has shown many more social benefits over renting.

The second criterion this alternative was evaluated with was equity where it received a 3 out of 5 on the Likert scale. This translates to that it is neither unlikely nor likely to be equitable on Black and Latinos, it is once again stuck in the middle. This is because there is information about the policy from the first phase that states that 55% of the homeowners that used this policy self-identified themselves as belonging to communities of color (CalHFA, 2023). Yet, Black or African Americans used this program the least percentage when they are the most affected by the racial homeownership gap (CalHFA, 2023). There are also guidelines that tend to favor minority and disadvantaged groups such as targeting first-generation homebuyers and first-time homebuyers. Another important factor I would like to highlight is the 20% shared appreciation that would have to be paid back if the home is transferred or sold. As previously mentioned, specifically for minority homeowners, home equity represents a major part of total wealth (Kuebler, 2013). The share appreciation means they must pay the state 20% of their home equity they built up which may negatively affect minority wealth.

The third criterion this alternative was evaluated with was political acceptability where it received a 5 out of 5 on the Likert scale. This translates to that it is very likely for it to be accepted by those in power. This is because it is already in place, and it is currently in its second phase.

III. Maryland SmartBuy 3.0 Evaluation

After evaluating the Maryland SmartBuy 3.0 as illustrated in Figure 3, the policy alternative received a 3.9 out of 5. The first criteria this alternative was evaluated with was efficiency where it received a 4 out of 5 on the Likert scale. This translates to that it is likely benefiting society. First, the program is designed to alleviate $20,000 student debt. This is supposed to cancel the student debt in its totality which is paid by staying in the home for 5 years. Second, this policy promotes homeownership which has shown to have many more social benefits over renting especially by requiring the 5-year mandate (Maryland Department of Housing and Community Development, 2023). This program also promotes stable homeownership by offering a 30-year fixed rate mortgage which offers better financial security in the long run (Maryland Department of Housing and Community Development, 2023). Homebuyers will not fear inflation, where their interest rates and mortgage payments will not suddenly increase, and they will have less money to work with. It rules out the effect that student debt is supposed to have on purchasing a home by alleviating it completely once the mortgage is signed.

The second criterion this alternative was evaluated with was equity where it received a 3 out of 5 on the Likert scale. This translates to that it is neither unlikely nor likely to be equitable for Black and Latino homebuyers, it is once again stuck in the middle. This policy tis limited to first time homebuyers, who are more likely to be minorities, and it is waived if there is a home purchased in a targeted area that needs equitable development. The program also gives an option for an additional 6% down payment assistance for homeowners who are lower income or very low income according to area median income run (Maryland Department of Housing and Community Development, 2023), instead of paying it back through equity it will just be added into the mortgage.

However, the reason this policy did not receive a higher score is because of the $20,000 cap on student loan debt alleviation. Data from the Century Foundation reveals that average student loan debt for California's Black graduates is about $33,100 (2015), compared to the nationwide average of about $20,000, which California's Latino/a graduate's match in debt levels (Century Foundation, 2015). So, it may only meet one targeted racial group's debt levels. The third criterion this alternative was evaluated with was political acceptability where it received a 4 out of 5 on the Likert scale. This translates to that it is likely to be accepted by those in power. This is because the program is up running, however it is Maryland specific. I assume there may be some controversy about implementing it nationwide or statewide. Once again, although this is not a federal or California solution, it might be applicable to the California context because Maryland is typically a democratic leaning state. This could help the program to be more likely to be accepted in California's democratic political climate. Therefore, making it a considerable program to include in my evaluation.

Recommendation

Based on my Criteria-Alternatives Matrix evaluation the recommendation that I would suggest policymakers follow is the Maryland SmartBuy 3.0. It received the highest score which is a 3.9 out of 5. This policy alternative addresses both residential stability and student loan debt. However, one of the crucial issues with this policy is how it performed under the equity criteria, the $20,000 student debt is not aligned with the average student loan debt of a California Black graduate. As mentioned before, the obvious downside of this policy is that it is currently a Maryland specific policy, so getting to become policy in California may not happen. If it did, there would have to be some reevaluation of the student debt cap. On an additional note, a few months before the current version of Maryland SmartBuy 3.0, the student debt was capped at $50,000 which was much more equitable. This version seems much more effective than the current version and would have made the policy score higher on the equity criteria. This past version better reflects the debt that Black folks need to be alleviated, as well as other communities of color. However, it is not the most recent policy in place, so I used the current policy in place to evaluate.

Conclusion

The important takeaway of this policy report is that something must be done. Specifically with the greatest consideration to equity, it is important to keep those in mind who are prone to the shorter end of the stick when it comes to things such as social stability and homeownership. Student loan debt is just another obstacle that may be weighing down the chances of minorities, specifically Black and Latino folks, from upward mobility. It is important that policy makers implement policies to ease the gaps. To implement policy to address the needed additional support that vulnerable populations require.

Programs like Maryland SmartBuy 3.0 address a policy issue, graduates fear the accomplishment of homeownership because it is another debt accumulated to the student debt they struggle with. Although the policy may not be perfect and there are ways to make it more efficient, equitable, and politically acceptable it is a good start. It is a start to alleviate communities that are susceptible to higher levels of student debt that is preventing them from reaching social stability. It is also a start to investigate the effects of student loan debt on homeownership. It nudges policymakers into addressing how this could be another obstacle that communities of color face when it comes to homeownership. As a society it is step closer to helping address and making progress on the effects of past discriminatory policies that are still burdening communities of color today.

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