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House of Representatives
COMMONWEALTH OF PENNSYLVANIA

HOUSE DEMOCRATIC POLICY COMMITTEE HEARING
Topic: Student Loan Debt
Cabrini University – Radnor, PA
October 16, 2019

AGENDA

10:00 a.m.	Welcome and Opening Remarks
10:10 a.m.	Panel One: • Rebecca Yacker, West Chester University Graduate • Shannon Bertoni, West Chester University Graduate • Ken Mash, President, Association of PA State College & University Faculties • Tom Foley, President, Association of Independent Colleges & Universities of PA
10:40 a.m.	*Questions & Answers*
11:00 a.m.	Nathan Hench Senior Vice President for Strategy and Public Affairs, PA Higher Education Agency
11:10 a.m.	*Questions & Answers*
11:30 a.m.	Panel Two: • Nick Smyth Assistant Director for Financial Consumer Protection, PA Attorney General's Office • Whitney Barkley-Denney Senior Policy Counsel, Center for Responsible Lending • Jim Tulskie, Business Development Manager for Mid-Atlantic Region, DebtHelper.com
12:00 p.m.	*Questions & Answers*
12:20 p.m.	Closing Remarks

APSCUF
ASSOCIATION OF PENNSYLVANIA STATE COLLEGE & UNIVERSITY FACULTIES

Testimony of Dr. Kenneth M. Mash
President, Association of Pennsylvania State College and University Faculties (APSCUF)
Before the Senate and House Democratic Policy Committees on:
"Student Loan Debt"
Wednesday, October 16, 2019
Grace Hall Atrium, Cabrini University

Chairman Sturla, Rep. O'Mara, and members of the committee,

Thank you for the opportunity to testify today about student debt in Pennsylvania. My name is Dr. Kenneth M. Mash, and I am the president of the Association of Pennsylvania State College and University Faculties (APSCUF). APSCUF represents about 5,500 faculty and coaches who work at Pennsylvania's state-owned universities.

Representatives, there is no longer any doubt: Pennsylvania has a student-debt crisis. Every day, my colleagues see it clearly. How did we get here? The root cause is the lack of adequate funding for public higher education. The 2011 cuts, which have never been restored, and the pre- and post-recession defunding have had horrible consequences. We continue to deny the American Dream to too many, and we are irresponsibly drowning a generation in a sea of debt.

The serial underfunding of public higher education necessarily leads to higher tuition and total college costs. Because costs continue to rise, enrollments decline at a rate that exceeds the drop in the number of college graduates. Because there are fewer students, fixed cost must be covered by fewer students, which requires additional tuition and fee increases, which leads to more debt. Because of the increased expense of public higher education, private institutions become more competitive. They reach down to some of those who might otherwise attend a public institution by discounting their tuitions. They pay for this by increasing tuition for those in the middle class, which leads to additional tuition and additional debt. Meanwhile, we underfund PHEAA, which cannot keep up with the demand for grants, and that leads to more borrowing and more debt.

I testified before a joint hearing of the Democratic Policy Committee on college affordability last March that billions of dollars — nearly $62 billion — was outstanding in student debt in Pennsylvania. That figure was an estimated from 2016. Based on estimates from the Student Borrower Protection Center out of Washington, D.C., the new estimate is $68.2 billion in outstanding PA debt, with more than 1.7 million borrowers. Unfortunately, $7.2 billion of that is delinquent, with more than 230,000 of PA borrowers in delinquency. This is money that will never be spent on new homes, on cars, on saving for retirement, or on shopping on your main streets. Perhaps even more concerning is, according to the data, PA seniors owing student debt increased 57% from 2012 to 2017. As parents worked to pay off their debt, we are seeing grandparents who just want the best for their grandkids take on crushing loans. You more than likely right now have numerous

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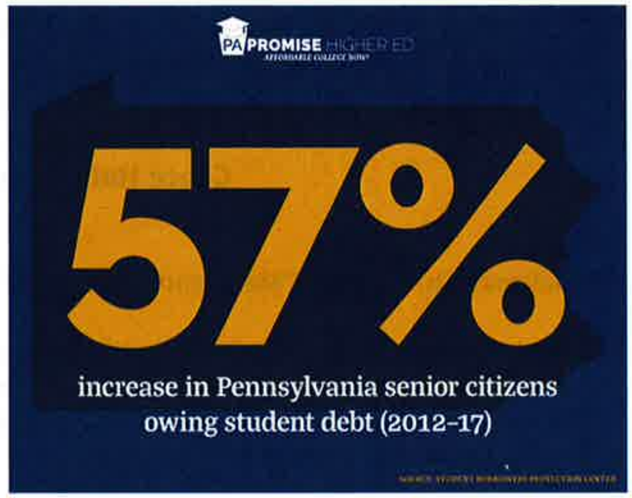
constituents over the age of 65 who are deciding between their property-tax payment, their medication bills, and their student-loan payments... Something is very wrong.



What would happen to the debt students are carrying if there were a major recession and there were major job losses? Currently, money that would otherwise be added to the economy is instead paid in interest to lenders. Employers who may want to move to Pennsylvania opt to go elsewhere because too many just cannot afford to go to college. It all begins with the underfunding of the entirety of public higher education.

Although we appreciate the recent reinvestment in PASSHE, is important to acknowledge that the Commonwealth has restored only about $64 million of the $90.6 million cut in 2011. That $26 million difference does not even account for inflation!

Pennsylvania's commitment to public higher education, when compared with other states, continues to be an embarrassment. As I told a public-policy class this past spring, choosing to do nothing is a policy decision. No matter where you look for data, Pennsylvania is consistently ranked 47th, 48th, or 49th in full-time equivalent (FTE) funding. Based on our FY 2017 calculations, Pennsylvania funds PASSHE students at 60% of the national average per FTE, receiving $5,100 per FTE compared with $8,546 nationally. We estimate our line item in the state budget would need to be just above $736 million, compared with the $477 million PASSHE received this year, to meet the national average. Funding at the national average would save an estimated $13,000 in debt for PASSHE students. For students from working-class families, that would be a game-changer. Funding at that level could move at least PA students from nationally ranked around 48th to about 17th in the nation, according to LendEDU.

The answer can no longer be for policymakers throw up their hands as if there is nothing that can be done.

When discussing affordability with some of our policymakers, I am often shocked that they will project their college experiences onto today's students. There is simply no comparison. As the table below shows, there is a direct correlation between state funding and tuition rates. In 1991–92, the state accounted for 55% of the cost for a full-time student (FTE). Since 2003, this percentage has steadily declined, and as of 2017 the state accounted for only 27% of funding per FTE. And that number has continued to shrink. Please let that sink in because it has been a policy choice. This Commonwealth decided that students should pick up 73% of the cost, and now more.

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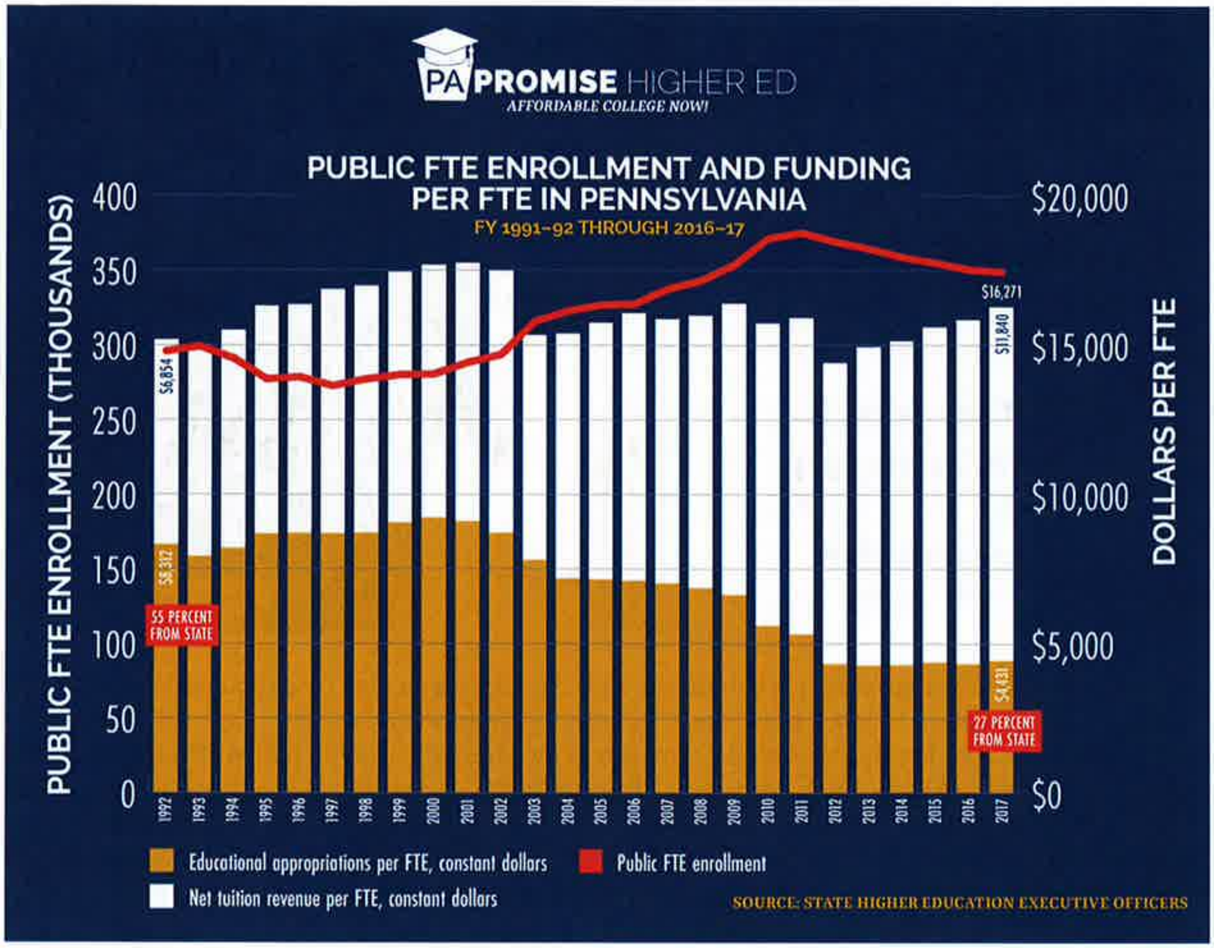
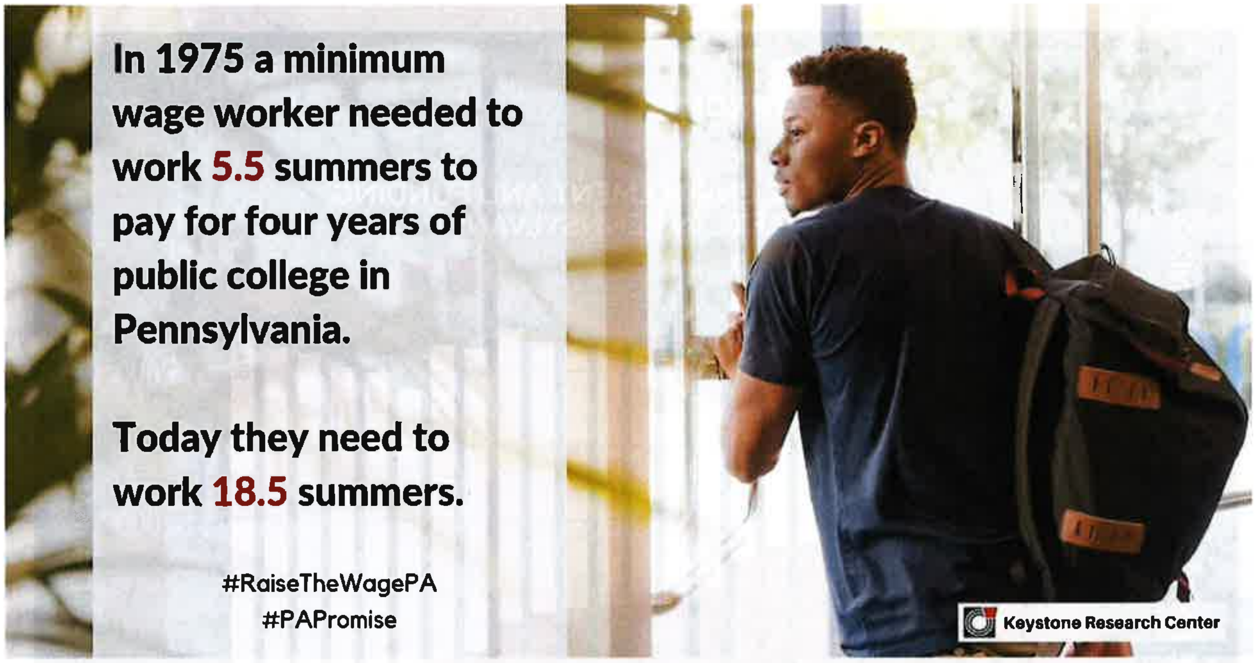


We still hear from some lawmakers that "back in their day" they were able to work a minimum-wage job in the summer to pay for their education. I worked my way through college, too. But what we did just does not add up for today's students. According to the Keystone Research Center, if one attended one of our state-owned universities in the 1970s, they could work 5.5 summers at a minimum-wage job to pay off four years' tuition. Today, a student working a minimum-wage job would have to work 18.5 summers!



Worse yet, in another embarrassing national ranking, Pennsylvania was recently labeled the hardest state in the nation to work your way through college based on our minimum-wage and college costs. As textbookrush.com noted, "Students brave enough to try to pay for their tuition and housing in the Keystone State will have to work the equivalent of three full-time jobs on top of their schoolwork to break even." Using in-state tuition, average on-campus housing costs, and the minimum wage, the group found a PA student would have to work 119.60 hours per week to pay their way through college. So our students today would have just 48.40 hours per week to eat, sleep, attend class, do homework, volunteer in their community, and participate in campus activities.

In its 2019 "Best States" report, U.S. New and World Report ranked Pennsylvania 50th for higher education. No lawmaker or resident of Pennsylvania should be proud of this ranking. 50th in the U.S. News. What are we doing to this generation of young people?

The clear answer is increased funding, but there some other are things you as legislators can do. States across the country are taking action and introducing and moving legislation to address this problem. We know the PA Senate and the PA House Student Debt Caucus are also pushing ideas and proposals to help address this crisis.

Specifically, we would like to see the following –

Oversight in the form of –

- A Student Loan Ombudsman to produce educational materials for prospective students and families. This position could also receive complaints from borrowers (We estimate that more than 3,000 complaints over the past decade have been filed in D.C.) We think a statewide process would help us better understand issues.
- A Student Borrower Bill of Rights that protects borrowers and regulates lenders

Financial relief

- State tax credits for students with loans
- Refinancing plans at lower interest rates
- Business tax credits for businesses who assist with their employees' student debt

During that policy class I taught this past spring, one of the students thanked me for being one of the few people over age 30 to care about the future of his generation. In a few moments, you will hear from a panel of PASSHE alumni whose stories I fear could be echoed across this state. I ask that you listen closely to what we are doing to our future. On his behalf, I want to thank you again for bringing attention to this issue. I would further like to thank all of you for holding this hearing and those house members who have begun to tackle the problem of student debt. I look forward to the day when I can thank the governor and this legislature for finally tackling the problem of student debt.

Discovered in lawsuit joined by Pennsylvania Attorney General Josh Shapiro - A Navient 2010 memo stating - "Our battle cry remains *'forbear them, forbear them, make them relinquish the ball,'*

Complaint from 2018 in PA –
Dating prior to XX/XX/XXXX and prior even I was told my only option was forbearance that I was not eligible for any other repayment plan. XX/XX/XXXX I realized there were other options and the payments they claimed I had to make were outrageous. After more of my own research I called back in and explained how I was once again misinformed and wanted repayment options. I was given a repayment plan but even up until XX/XX/XXXX I was lied to about what the payments were going to be and never received any of the documentation on how or when or even how much the payment would increase causing late fees to accrue. Between the years of accumulated interest in forbearance that I didn't deserve and still inaccurate information resulting in more money I have to pay my loan amount will never seemingly go down remaining at XXXX in loans.

Complaint from 2018 (Montgomery County) -
I read about the class action suit against Navient, formerly XXXX XXXX. I would like to stay informed as I believe I am a victim of misinformation, deception around repayment options. I graduated from XXXX XXXX in 1995 ... yes 1995 - 23 years ago! I have paid my loans for years, however at various times ran into financial difficulty, job layoffs, had children and could not work and simply financial hardship. The interest charges have accumulated SO MUCH over the various forbearances that were suggested to me that as of today my balance due is MORE THAN the original loan amount! I owe more today than the amount I borrowed 23 years ago! Time after time I called to discuss financial hardships and was immediately pushed towards forbearance. At times I was told there was no option to lower my payments and I pushed and they were able to find a plan for me. I was told I am not eligible for any type of loan forgiveness & that as part of the income sensitive repayment plan even if I'm on it for 25 years that this program is not eligible for loan forgiveness. I had to claim bankruptcy about 10 years ago & was told i could not include my XXXX XXXX student loan. I will die someday with this student loan debt! I will never pay it off. I am currently on the income sensitive repayment plan that I have to renew yearly. Reading the article really hit home and I hope these thieves are ultimately the ones that lose out after they have contributed to stress and anxiety that so many suffer from due to debt that is suffocating them ... all while these executives collect XXXX dollar bonus checks comprised of hard working, bill paying American citizens!

Complaint from 2017 (Philadelphia County) –

I used Navient after they bought out my XXXX XXXX loans.

They pushed me into going into forbearance and did not explain that I would be paying the interest even though I was not making payments. Also they did not explain that I could be on income based repayments and would have had {$0.00} payments while in my first year of internship, since my previous year I was a student with no income. They did not properly explain all of my repayment options and pushed me into forbearance. Now, I have stared with income based repayments and I am on tract with the federal student loan forgiveness program. Because of them, I missed out on being in this program for 4 years (which would have qualified towards the forgiveness program).

Complaint from 2017 (Allegheny County) -
I was finally able to reach out to my borrower and set up payments. My payments were set at {$550.00} per month ... Steep but I agreed to pay. However each, time I would apply for income based repayment or the fact that I was working at a XXXX. My paperwork got lost or someone said it was never received. The next year I thought the {$550.00} per month would continue, but I was told I would have to pay {$250.00} more per month, even though I told them there was no way I could afford {$750.00} per month payment. They said it was not going any lower and the only way to avoid was to go into forbearance ... I feel I was forced into forbearance and I told them over and over that is not what I wanted ... I wanted to start paying. But I 'm in forbearance because they will not give me lower payments.

Complaint from 2015 in PA –
I have a private loan through Navient. I signed up for a payment reduction plan that would allow me to make my payments and keep me out of delinquency. Navient explained once I was approved they would start removing {$360.00} from my bank account on a monthly basis. I was not approved for this plan and they proceeded to take the money out of my account without notifying me *they never notified me that I was not approved and that they would be taking the money out). I do not have access to my Navient online account as it has been frozen and I do not know where the money is going or what it is paying off. I still don't know what plan I am on because they won't give me access to my account. Every time I call, the collection manager, " XXXX " threatens to sue me.

Complaint from 2016 (Philadelphia County) –
I have roughly $ XXXX of Student Loan debt, $ XXXX of which is Private through Navient. All of my loans are cosigned by my XXXX year old grandmother who lives on Social Security benefits month to month and makes a yearly income of - XXXX (she dips into savings every year). My mother has cosigned XXXX of these loans for {$11000.00}. She too makes little (she works for XXXX XXXX) and is currently fighting a foreclosure suit on our childhood home (my dad passed away in 2012 but prior to his passing, he took out a home equity loan for {$140000.00} - now my mom is stuck with this loan, even though she never signed the agreement and is a co-owner of the home - that's another story). She has a 401k.

Navient will not let me lower my monthly payments because both of my cosigners show as eligible to pay the full amount of the loan. I am on a XXXX year plan right now but I need to extend to at least XXXX. After pestering and talking to the supervisor at Navient, I found that my cosigners are deemed eligible to make payments on the loans because they have assets - they are both homeowners and have retirement savings. I applied with XXXX XXXX to consolidate my loans and they will not work with me because I have too much credit out currently, even with a cosigner. I feel trapped and scared and horrified and I don't know what to do. Do you have any advice?

House Democratic Policy Committee
Hearing on Student Loan Debt
Testimony of Tom Foley, President
Association of Independent Colleges and Universities of PA
October 16, 2019

Good morning, Mr. Chairman and distinguished members of the committee. My name is Tom Foley and I spent 8 years as President of a small college in this state, a place where 60% of our students were first generation to college and fully 50% qualified for needs-based Pell and PHEAA grants (one of the highest rates for any institution in the state). The vast majority of our students (over 90%) were in career-directed majors; the College had one of the highest pass rates in the state for 6 straight years in the PA NCLEX nursing exams; and it was named by the White House one of four "Engines of Opportunity" in the country in 2015 for our success at graduating low income students.

I am here today to testify on behalf of AICUP, the Association of Independent Colleges and Universities in Pennsylvania whose board I once chaired and whom I now serve as President. AICUP is a statewide association composed of ninety-plus independent non-profit colleges and universities, from Peirce, Cabrini, Wilkes and Drexel in the East to LaRoche, Allegheny, Waynesburg and Robert Morris in the West.

I came to my assignments in the field of higher education the old fashioned way. My grandparents immigrated to Philadelphia with little in the way of formal education. My parents were proud high school grads who were even more proud that 11 of their 12 children achieved a college degree. Spending this last portion of my career in higher education seems the best way to repay the extraordinary benefits that higher education has bestowed on my entire family.

Although I have not had the privilege of serving this legislature, I have a sincere appreciation for the challenges you face every day. I spent time in Washington working for then-Senator Joe Biden and two US Labor Secretaries, Robert Reich and Alexis Herman. And I spent most of a decade in Harrisburg, serving in two Cabinet-level positons, the last as Secretary of Labor and Industry under Governor Casey.

The 90+ institutions AICUP represents enroll over 291,000 students—fully 51% of all degree seeking students in the Commonwealth. A just released study (copies are in your folders) confirms that these schools generate $24B in economic impact each year--that is $1 of every $30 in our economy and 1 of every 32 jobs in PA. These schools support and sustain over 195,000 jobs in this Commonwealth, they spend $3.4B in local communities each year and they pay $1.1B in state and local taxes. According to this study, you can double all those numbers if we include the hospital systems affiliated with these schools. Most importantly, with an average age of 134 years, they buttress 60 communities across this state--anchoring cities, towns and boroughs across the Commonwealth--historically, culturally, economically, and educationally.

A number of these institutions trace their founding to the very creation of Pennsylvania, almost 250 years ago. Some of them were founded over 150 years ago by religious communities of every denomination so that they might provide a values-based higher education to their members, because no one else was doing so. Though most of these schools have since moved to a more secular approach, they remain the economic bedrock and community pillars in the towns, boroughs and cities where they began. And with more than 5,000 years of collective experience in PA and with current students from every one of our 67 counties, these independent non-profit schools are an integral part of the story of this Commonwealth. Frankly, we are very fortunate in PA to have such a vast and high-quality network of both private and public colleges and universities.

Thank you for the opportunity to address this hearing on student debt. I would like to first briefly underline some interesting facts about student debt that may help to frame solutions, and secondly, to underline programs that are already working and some potential additional solutions.

Fact Number One: What is Average Student Debt in PA

The institute for College Access and Success is the group that ranks PA 49th in average student debt. That same group also ranks debt by type of institution. They tell us that over the last five years students at public 4-year colleges in PA graduated with an average debt of $35,862 while those from independent 4-year nonprofit colleges and universities graduated with an average debt level of $34,983 (**Chart 1**). That always surprises people, because the general assumption is that so called private college costs way more. It doesn't surprise me because 10 of the 11 Foleys with college degrees got them from private colleges, because that is who offered us the financial aid to get through.

In the most recent year, students graduating from publicly funded institutions graduated with average debt that went up almost $1,000 to $37,698 while students from AICUP schools average debt dropped over $1,000 to $35,951.

It is important to note that the 18 Public Colleges in Pennsylvania receive roughly $1.4 billion a year in General Fund appropriations, while the 90+ private non-profits in the state share $168.1 million (all of it going directly to aid lowest income students). It is also essential to unraveling the student debt conundrum to recognize that (and contrary to widely held public perception)--the independent non-profit colleges serve the largest portion of Pennsylvania's low income students, enrolling 43% of all PA Pell eligible students and 41% of all PHEAA grantees (**Chart 2**). The AICUP schools also graduate fully half of all minority students who receive a bachelors degree (**Chart 3**) from both its public and independent four year institutions.

The lower average student debt graph has held true even as these AICUP schools have educated more and more of our lowest income students, now at the 43% Pell and 41% PHEAA levels noted above, more and more of our minority students (53%) and the highest percentage of our non-traditional students (at 48% of all those between 25 and 64 who are at college to reskill and upskill) (**Chart 4**).

Fact Number Two: Education is an Investment in an Appreciating Asset

The New York Federal Reserve is the source of the $1.6T debt figure that headlines every report on this issue. The US Department of Education says that almost 40% of that $1.6T debt is for graduate school, and most of that is for MBA's, JD's and MD's. In that same study, the NY Fed also told us that student loan debt is almost exactly equivalent to car loan debt in America (**Chart 5**), in both dollar amount and percentage of total household debt. And while a car loan buys you an automobile that you hope will last ten years, a college education lasts a lifetime, can enhance dramatically one's quality of life and pays a widely documented million dollar dividend as well. In accounting terms, investment in education is investment in an appreciating asset, while our cars depreciate the minute we take them off the lot. One lasts a lifetime, one about ten years, if you are lucky.

Paying for a college degree is often described as an investment in the future -- students incur costs now and reap the benefits later. But does this type of investment really pay off? As argued by one education analyst, "The decision not to attend college for fear that it's a bad deal is among the most economically irrational decisions anybody could make" (Leonhardt 2014).

Fact Number Three: Education Pays, Especially Higher Education

Don't take my word for it. A March 2019 report from the United States House Committee on Education and Labor, *Don't Stop Believin': The Value of a College Degree*, found that a college degree is well worth its cost, noting that a wide range of studies have concluded that bachelor's degree holders earn up to $1 million more than high school graduates during their work lives. In other words, unlike *consumer* loans for cars and appliances, *student* loans can be an investment in one's quality of life (and life choices) and produce a large monetary return on investment as well.

For example, a 2019 report by the U.S. Bureau of Labor Statistics notes that the typical worker with a bachelor's degree has weekly earnings of $1,198 compared to weekly earnings of $730 for workers with only a high school diploma. The New York Federal Reserve noted that this wage premium from a college degree has been rising over time and is currently at an all-time high. Over a lifetime, the typical bachelor's degree holder will earn about $1 million more than the average high school diploma holder (Hershbein and Kearney 2014, Webber 2018).

The benefits of a college degree extend beyond just wages; the Pew Research Center (2014) reports that college graduates outperform their peers with less education on virtually every measure of economic well-being and career attainment. See **Chart 6** for additional research on this point.

Fact Number Four: Small Debt can be as Problematic as Large Debt

Chart 7 shows Borrowers by the Size of Outstanding Student Loans. This chart reflects loan amounts by all college graduates in Pennsylvania. As you see, most students borrow reasonable levels of debt. In fact, 35% of graduates have less than $10,000, 56% have less than $20,000 and 77% have less than $40,000 of debt; only 6% of borrowers actually borrow more than $100,000 to attend college/grad school. These heaviest borrowers includes business, medical and law school graduates, who borrow against their higher capacity to repay these loans. Please note that about 1/3 of those who graduate do not have any debt at all.

But we can't assume that the debt problems are concentrated at the upper levels of debt. Some of it clearly is. 32% of all students who attend a for profit institution owe more than $50,000, and even though they represent only 9% of the market, they represent fully 34% of all the student loan defaults in this country.

The problem is just as concerning for those at the lower end of the debt spectrum if you are a student at one of these for profit schools. Tens of thousands are leaving those programs with less than $10,000 in debt, but with no degree and increasing interest rates. They have no new skills with no degree to help pay for that loan. It can be as big a nightmare for them as for those who owe much more.

Fact Number Five: Net Tuition at Independent Non-Profit AICUP schools in PA is Competitive with Publicly Funded Schools

AICUP institutions have responded to stagnant family incomes since the great recession by substantially increasing their institutional grant aid, implementing numerous cost saving measures and keeping net tuition constant. Indeed, while the sticker price increased from $30,036 to $35,804 between 2011 and 2016 (most recent available data from US Department of Education), the actual net tuition—what families actually paid to attend one of these Schools in PA--only increased by $498 in five years. A small percentage of students will pay the sticker price, but the vast majority are paying closer to the average net price.

These approaches are a big part of the reason that the 90+ AICUP schools' average net tuition and fees has been so stable--currently at $13,089--over the past five years (lower than at some publicly funded institutions, even though AICUP schools receive only a fraction of the state financial support).

Independent non-profit colleges must do a better job of getting the word out about how affordable they actually are and that their average debt load is actually lower than that from publicly-funded institutions.

Understanding what is behind these five facts will be critical to finding solutions that are realistic, comprehensive and responsive to the actual root causes.

Now let me turn our focus to approaches to student debt that are already working, but of which we need more, and to other solutions that hold great promise. Let me outline quickly ten ideas. There is much more detail on each in my prepared statement.

First, fully fund PHEAA's Direct Student Grant Program. PHEAA dollars are the only dollars in the $1.7B state budget lines for higher education that follow PA students (as opposed to going directly to institutions). PHEAA dollars track students who share three qualities—they are PA residents, they want to pursue higher education and they have demonstrated financial need. **Chart 8** shows the decline in state support over the last few years for what was once one of the best student grant programs in the country. This is despite the unprecedented 13% General Fund PHEAA increase proposed by the Governor and adopted by the legislature for the current year. That increase in General Fund dollars was critical because it helped offset some of the declining contributions from PHEAA itself. The bottom line is shown in **Chart 9**. **Consequently, low and moderate-income Pennsylvania students have lost significant purchasing power over the last decade as Chart 9 shows**. The *maximum* grant (for those with the most need) and the *average* grant have not been fully funded since 2007-2008 when the maximum grant was $4,700 per student. In the current year, the maximum grant award is actually down to $4,123. It would be even lower without this year's largest ever percentage increase in state appropriation. This means that the average student must now come up with more than $5,000 in funds over four years to replace the value lost since 2007-08--lost because not only were the PHEAA grants not inflation-adjusted over the last ten years, but they were actually cut. **Chart 9** shows the numbers.

And here is the rub—PHEAA funded students graduate faster and at a higher rate than non-PHEAA funded students. And as **Chart 10** shows, PHEAA students attending independent nonprofit AICUP colleges have the highest graduation rate of all sectors--at 71%--which makes it even more imperative that these students have the resources needed to get to the finish line. For all these reasons, increasing PHEAA funds should be the top priority if you want to decrease student debt.

Second, fully fund PHEAA's Ready to Succeed Scholarship (RTSS) Program. This program is for the middle income families with a maximum income up to $110,000 and was specifically established to address the debt issue. The maximum award under this program is $2,000 and a student can receive it three times. This program is funded at $5.5 million for 2019-2020 and received its first increase, since inception, this year. Last year, only one-third of 3.25 minimum GPA, financially eligible students and their families received an RTSS grant.

These dollars were provided to help keep students and their families from assuming additional debt. Financial aid officers have relayed that students who receive an RTSS scholarship will swap out loans with the RTSS funds.

Increasing support for Pennsylvania's current programs will increase college affordability and lower student debt. The PHEAA state grant program and RTSS are programs with proven track records and they are the best mechanisms for getting resources to Pennsylvania students who have demonstrated the financial need and academic progress to merit state support.

Third, encourage all higher education institutions to engage in collaborative approaches that promote efficiency. AICUP schools work together to control costs and pass savings on to students. At AICUP, we sponsor over 30 different efficiency programs that have saved our schools literally billions of dollars. This is one reason AICUP schools have been able to keep net tuition increases below a five year total of $500 and that our students average debt is lower than publicly funded institutions. These 90+ schools participate in over 30 efficiency programs where they save time, money and resources.

- ✓ For example, 10 of our schools in western Pennsylvania bonded together to hire one ***cyber security*** expert. None of them are major research universities and none of them can justify or afford a cyber security wing in their IT department. Yet, all of them need some protection from those types of encroachments, and they wisely bonded under one umbrella to secure the services of one cyber security professional.

- ✓ In another example, our member colleges choose to borrow for major construction projects by participating in a ***bond market program*** created by AICUP, through which $1.24 billion has been invested in these schools over the last 22 years. At the school which I served as President, this AICUP program saved us almost a million dollars in upfront costs and several millions of dollars in the long term with a reduced interest rate that we would not have realized without AICUP's help.

- ✓ Similarly, almost 80 of 91 member AICUP colleges participate in our ***software consortium*** with Adobe Microsoft VMware. This $7 million dollar program yields 18% savings—almost $1.2 million annually.

- ✓ More than 70 of our members participate in our ***aggregated group purchasing program*** with an annual total volume growing well past $120 million per year and savings that is roughly 5-10% depending on commodity.

- ✓ Almost half of our members participate in an AICUP board-endorsed ***purchasing card program*** with a total spent going beyond $125 million achieving a rebate to those institutions not less than $1.8 million annually.

- ✓ In addition, AICUP works with ***15 for profit organizations*** (that have been vetted and approved by our Board) that engage member institutions to leverage cost savings on such items as campus safety, professional liability insurance, local health insurance procurement, workers compensation insurance and other office products and services. (See pages 53-59 of AICUP's business efficiencies manual in your materials).

- ✓ AICUP has enlisted more than ***100 corporate affiliates*** who are currently developing additional efficiency programs in areas such as retirement aggregation, new cyber security offerings and other services designed specifically for non-profit colleges and universities.

I include a two page summary of some of these efforts that show greater efficiency and collaboration between institutions at opposite ends of the state who share needs—and a joint commitment to keep costs low for their students. These approaches are a big part of the reason that the 90+ AICUP schools' average net tuition and fees has been so stable--currently at $13,089--over the past five years (lower than at some publicly funded institutions, even though they receive only a fraction of the state financial support).

Fourth, invest in college's financial literacy efforts aimed at their students and parents, but especially at their students. Forty-three percent of all low-income students enrolled at a four-year college or university in Pennsylvania are attending an AICUP institution. While our colleges and universities are committed to making college affordable for Pennsylvania families, the reality is that many college students may need to take out loans to help finance some part of their undergraduate education. For young people just out of high school, the idea of taking on even a small amount of financial debt can be frightening and confusing.

In answer to these concerns, AICUP institutions have developed a variety of initiatives focused on helping students to understand and manage existing student loan debt and to limit the amount of future student debt. For example, some AICUP schools require every freshman student to enroll in a financial literacy course while other AICUP institutions have mandatory workshops on budgeting, borrowing, and loan repayment designed for undergraduates who have taken out student loans. At one school, every student is required to take a financial literacy credit upon entering the institution. In a lecture delivered by their President, who has put three daughters through college, they are reminded that student loans are not for pizza and travel, they are for tuition, books, room and board, etc. They are taught the difference between loans and grants.

Many of our schools offer financial wellness programs – with names such as HawkSense, LAFinancial, and CommonCents – where students have the opportunity to learn about personal finance and debt management before they graduate and enter the workforce.

An increasing number of AICUP institutions are even helping students to manage student loan debt after they graduate, through initiatives such as the loan buyback program at one school and the Income Share Agreements offered now at six AICUP schools, after groundbreaking work by Lackawanna and Messiah Colleges.

There are numerous existing US Department of Education and other federal programs designed to increase financial literacy. I encourage you to review them so we don't duplicate what is already out there, and don't replicate what in the case of some programs is clearly not working. I append examples of these at **Charts 11-12**.

Fifth, change interest rate accumulation policies at the national level. Especially for money that is loaned by the government at any level, change the requirement that interest accumulates immediately. And go one better--add a period of time after graduation where interest is also waived. It simply does not make sense that at least at the Federal level we are making money off of loans made to students who are in a very difficult position when they first enter the employment market and work to pay them off. When I had the chance to make this point to a legislative leader in Washington recently, he immediately agreed and described it as "a national disgrace" that the federal government is making money off student loans.

Sixth, offer lower interest loans or other strategies that lessen the burden. For many students, it is not the amount of the loan that is hurting them, it is the interest rate. Encourage employer repayment plans (such as are widely available for doctors and lawyers), implement reasonable deferment options and proposals that forgive interest for lower income graduates and/or professions. There are bills at the state and federal level to accomplish this goal. Some would cap their monthly loan payment at a percentage of their earnings, with the remaining balance forgiven after 20 to 25 years. Others would require borrowers to pay nothing until their income exceeds 250 percent of the federal poverty line, about $31,225 for an individual in 2019.

Seventh, don't ignore the role that for profit institutions play in the student debt world. In **Chart 13**, you will see that 32% of all students who attend a for profit owe more than $50,000, and even though they represent only 9% of the market, they represent fully 34% of all the student loan defaults in this country. The problem is just as concerning for those at the lower end of the debt spectrum if you are a student at for profit schools. Tens of thousands are leaving those programs with $10,000 or more in debt, with no degree and therefore no new skills to help pay for that loan.

Eighth, use the power of the current budget allotments to incentive better behaviors by institutions on student debt. Link some portion of state funds to graduation rates, completion rates, and default rates. If you economically incentivize best behaviors in those areas, results will dramatically improve. In the independent college market, we have no choice but to work hard for our students to get them to stay in school, graduate on time, pay their loans, and I believe you could provide a similar incentive by attaching these levers to existing state funding.

Ninth, invest in programs that allow students to obtain college credits while in high school, especially through dual enrollment. Allowing students to accumulate college credits prior to high school graduation also allows them to need fewer credits which – in turn--reduces their college costs and need to incur debt. One of these programs – dual enrollment – sometimes called concurrent enrollment, combats future student debt by allowing a student in high school to obtain college credits prior to graduation. These credits can then be transferred into a future program, reducing the amount of credit hours needed at a postsecondary institution. Currently, many high schools and higher education institutions participate in these programs, but the cost is either on the student's family, high school or college. In many cases the colleges and universities discount the rate per credit hour. In the past, the legislature and governor provided funding for dual enrollment programs. This funding went to high schools and was used to pay for their students to take classes at higher education institutions. At its peak the program was funded with $10 million of General Fund dollars. Reinstating funding for dual enrollment programs would give more students the opportunity to take part in this type of program, allowing them to acquire college credits prior to graduation and therefore allowing them to reduce the cost overall.

Tenth and finally, include independent non-profit colleges in any proposals to address student debt, whether it is free college or any other initiatives. Let me suggest four reasons why their inclusion is imperative.

- ✓ AICUP schools educate 43% of all need eligible students in the state. If you don't include these schools, it in effect penalizes these students. Don't exclude them.

- ✓ AICUP schools have the highest graduation rates for all sectors (**Chart 14**) and for all minority students **(Chart 15)**. This avoids those extra fifth and six year loans and keeps overall student debt lower.
- ✓ AICUP schools have the lowest default rates, by far, of all sectors. That is because they are getting jobs that permit them to repay their loans. And our default rates for AICUP schools in PA are almost 30% lower than the national average and 22% lower than for publicly funded institutions. **Chart 16**.
- ✓ AICUP schools' net tuition is competitive with publicly funded institutions here (**Chart 17**) and nationally. That is the case even though they receive only about 10% of all the dollars PA commits to higher education (while serving 51% of all PA's bachelor degree seeking students). **Chart 18.**

The independent non-profit sector in PA educates:

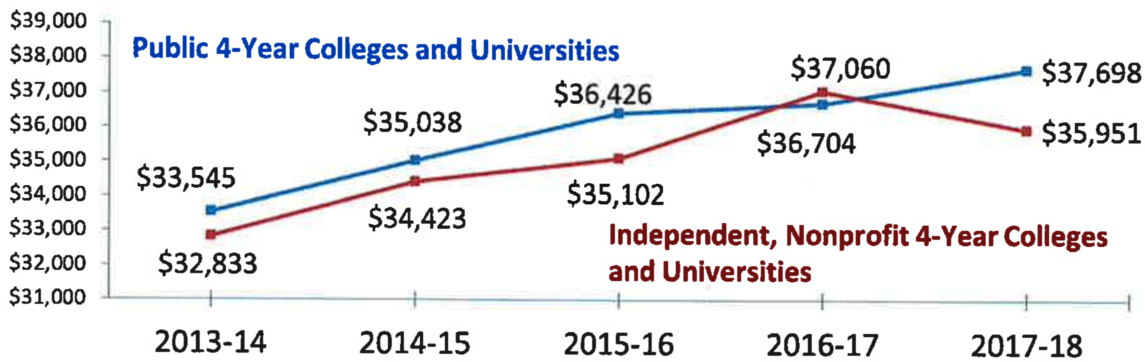
- ✓ Over 50% of all bachelor degree seeking students
- ✓ Over 50% of all minority students seeking BA degrees
- ✓ 48% of all mature students (25-64)
- ✓ 49% of STEM degree students
- ✓ 43% of all Pell eligible students
- ✓ 41% of all PHEAA eligible students.

These students have earned the right to be part of any legislative solution to address student debt. It would be wrong to exclude them.

Thank you for your attention and if I can answer any questions, I will be happy to do so.

CHART 1

Average Student Loan Debt of Undergraduates in Pennsylvania By Higher Education Sector



Source: Data on student loan debt compiled by The Institute for College Access and Success and available from http://college-insight.org. Numbers are the average total education loans taken out by undergraduates receiving a degree from a 4-year college or university in Pennsylvania during the specified academic year.

CHART 2

Pell Grant Recipients by Higher Education Sector, 2016-2017

Higher Education Sector	Total	Percent of Total	Excluding Community Colleges
Community Colleges	58,198	31%	
Independent, nonprofit colleges and universities	54,449	29%	43%
State-Related Universities	39,595	21%	31%
State System Universities	32,533	18%	26%
Total	184,775	100%	

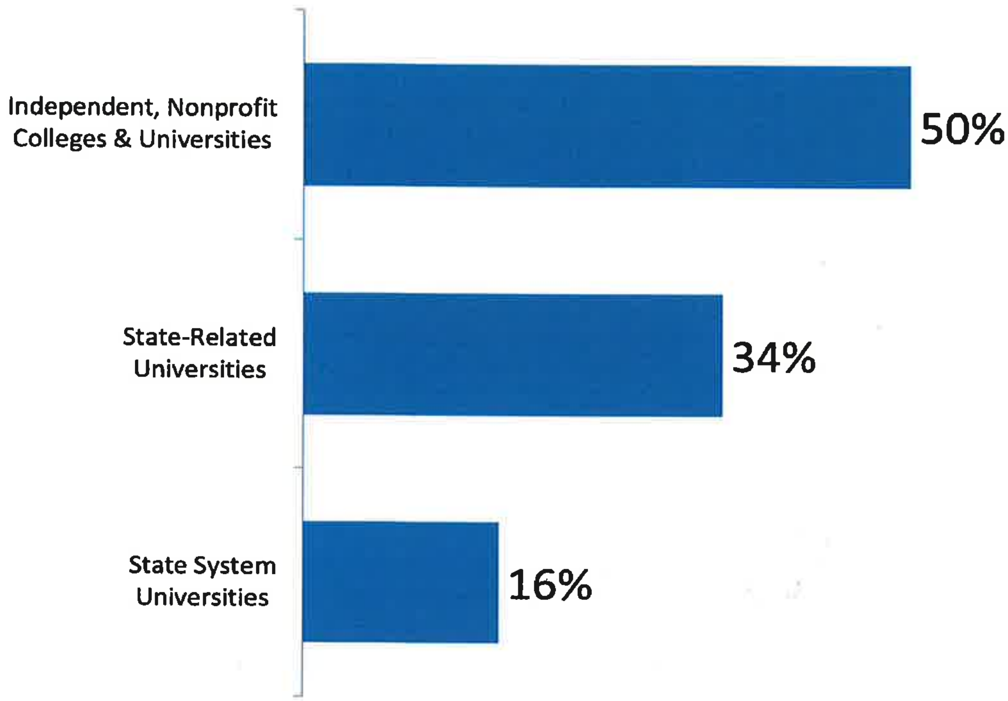
Source: U.S. Department of Education, Office of Financial Aid, Pell Distribution by Institution.

PHEAA Grant Recipients by Higher Education Sector, 2016-2017

Higher Education Sector	Total	Percent of Total	Excluding Community Colleges
Community Colleges	22,398	18%	
Independent, nonprofit colleges and universities	40,704	33%	41%
State System Universities	29,184	24%	29%
State-Related Universities	30,004	25%	30%
Total	122,290	100%	

CHART 3

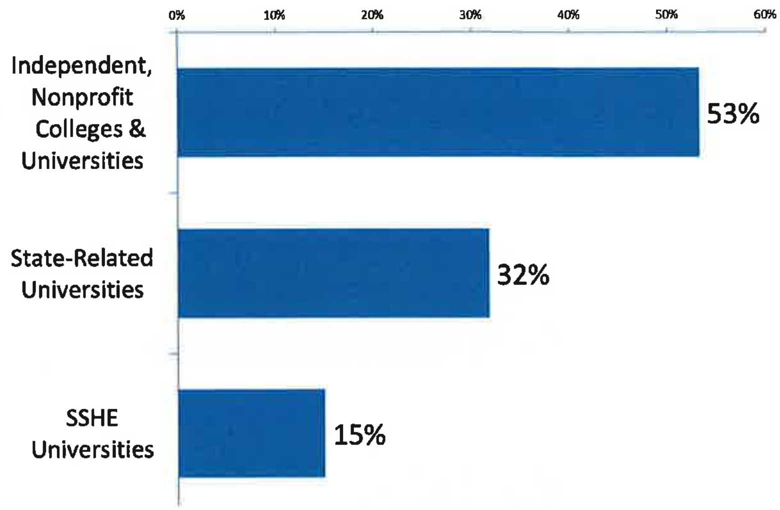
**Minority Students Awarded Bachelor's Degrees, 2016-2017
Percentage by Higher Education Sector in Pennsylvania**



Source: U.S. Department of Education, Integrated Postsecondary Education Data System (IPEDS) Completions Survey.

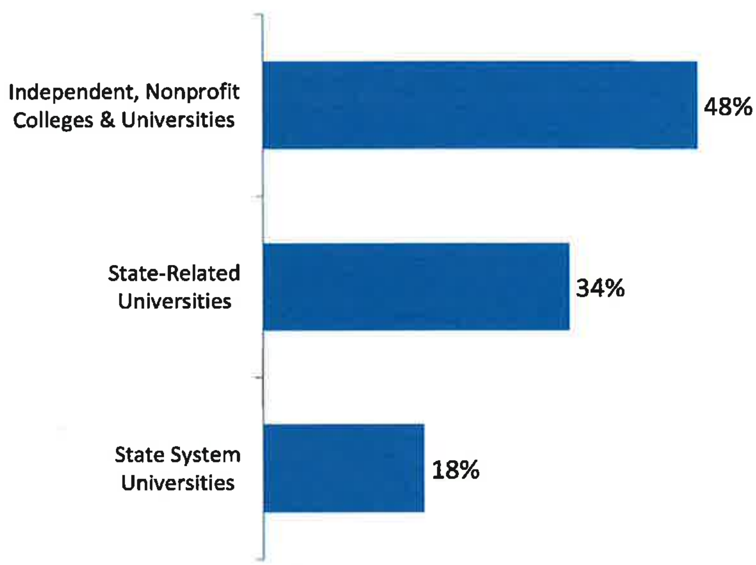
CHART 4

Enrollment of Minority Students (Undergrad + Graduate) in 4-Year Colleges or Universities in Pennsylvania Share by Higher Education Sector, Fall 2017



Source: U.S. Department of Education, IPEDS Fall Enrollment Survey 2017

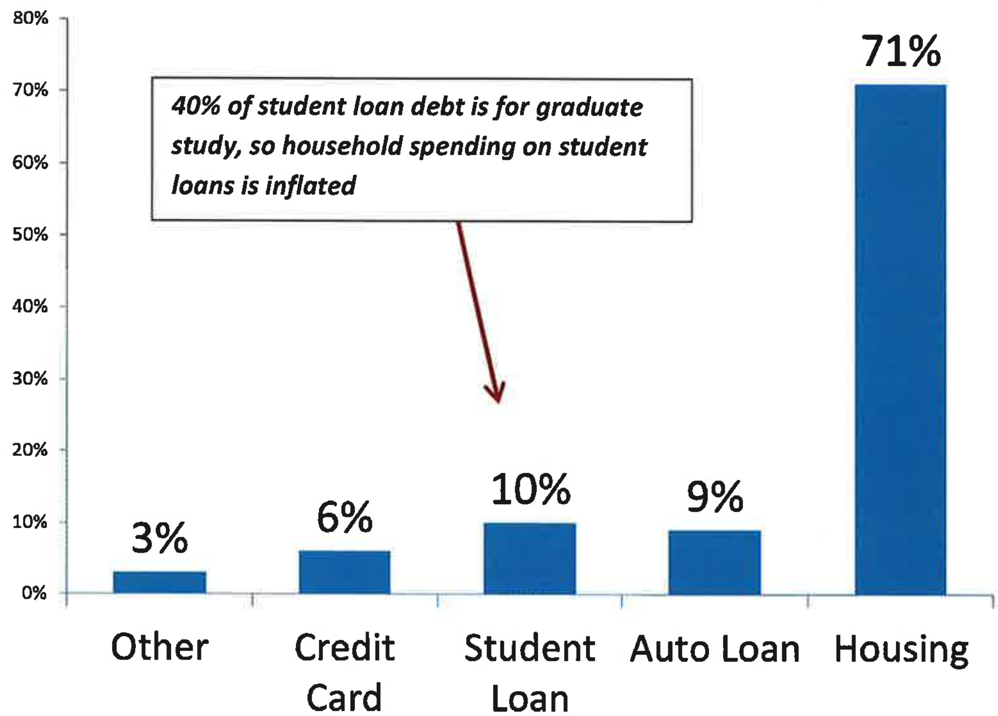
Nontraditional Students Enrolled in 4-Year Colleges and Universities in Pennsylvania Share by Higher Education Sector, Fall 2017



Note: Nontraditional students refer to individuals ages 25 to 64 enrolled in an undergraduate program. Data source is U.S. Department of Education, National Center for Education Statistics, IPEDS Fall Enrollment Survey, 2017.

CHART 5

Proportion of Total Household Spending on Debt
By Type of Loan



Total sum of student loans (as of 2016) = $1.3 trillion
Total sum of auto loans (as of 2016) = $1.2 trillion

Source: Federal Reserve Bank of New York. *Household Borrowing, Student Debt Trends, and Homeownership, 2016*. April 3, 2017. Source website: https://www.newyorkfed.org/press/pressbriefings/household-borrowing-student-loans-homeownership

CHART 6

Data Sources

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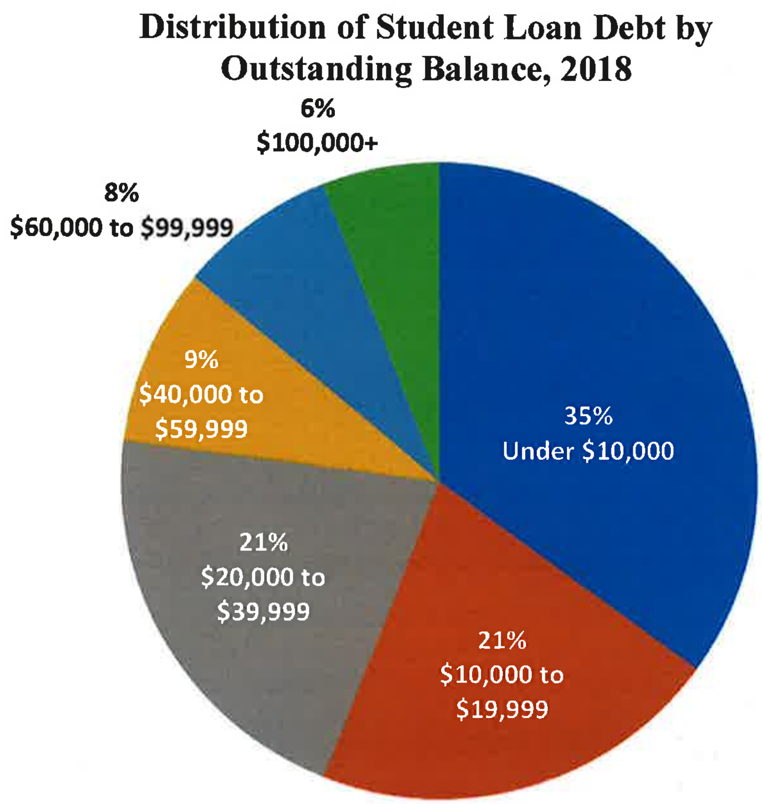
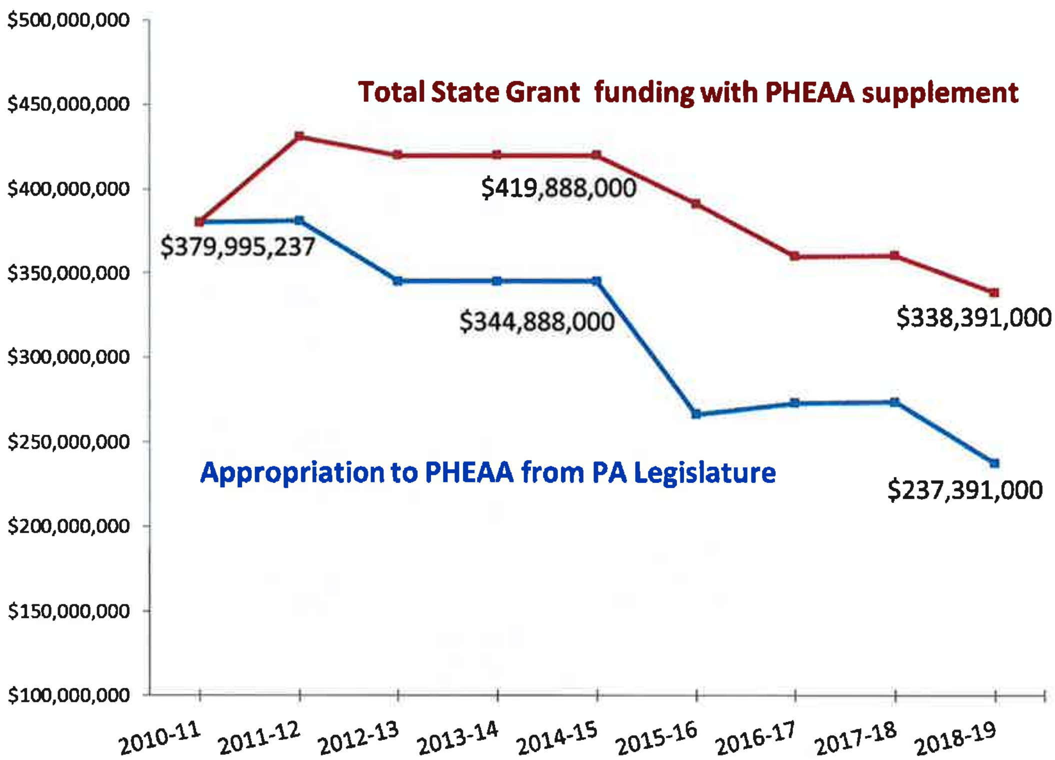
CHART 7



Source: Baum, Sandy, Jennifer Ma, Matea Pender, and CJ Libassi (2018), *Trends in Student Aid 2018*, New York: The College Board. Figure 11, page 19.

CHART 8

Legislative Support for Student Aid, 2010-2018
Value of PHEAA Grant Funds Including Agency Supplement



Source: *2017-18 Pennsylvania State Grant Program, Year-by-Year and Institutional Statistics Report*. Pennsylvania Higher Education Assistance Agency. Table 1.

CHART 9

Decreases in PHEAA Grant Funding Linked to Increased Costs for Students

Academic Year	Year	Actual Maximum PHEAA Grant	Grant Amount Needed to Keep Pace With Inflation	Additional Cost Transferred to Low-Income Students Each Year
2007-2008	2007	$4,700	$4,700	$0
2008-2009	2008	$4,120	$4,932	$812
2009-2010	2009	$4,120	$4,869	$749
2010-2011	2010	$3,541	$4,924	$1,383
2011-2012	2011	$4,348	$5,115	$767
2012-2013	2012	$4,348	$5,217	$869
2013-2014	2013	$4,363	$5,278	$915
2014-2015	2014	$4,011	$5,366	$1,355
2015-2016	2015	$4,340	$5,364	$1,024
2016-2017	2016	$4,378	$5,443	$1,065
2017-2018	2017	$4,123	$5,564	$1,441
2018-2019	2018	$4,123	$5,691	$1,568
2019-2020	2019	$3,856	$5,700	$1,844

Source: *2017-18 Pennsylvania State Grant Program, Year by Year and Institutional Statistics Report*, Table 1, and *Pennsylvania State Grant 2018-19 Program Manual*, page 7. Numbers for 2019-2020 are estimated.

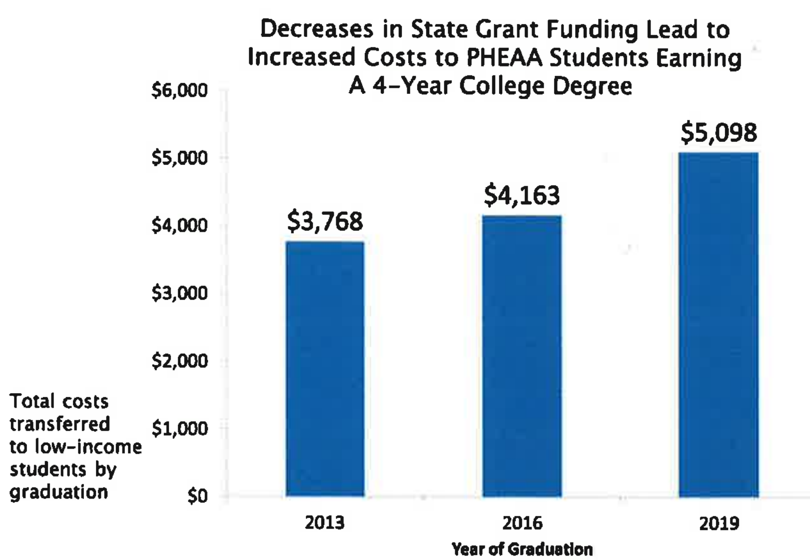
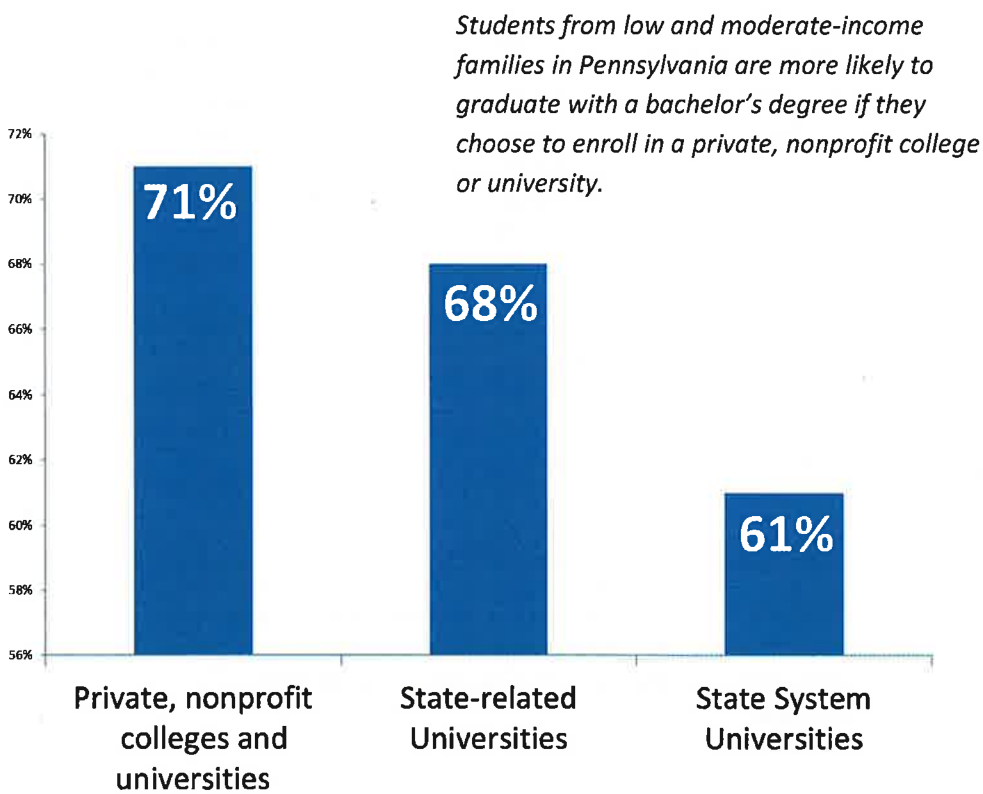


CHART 10

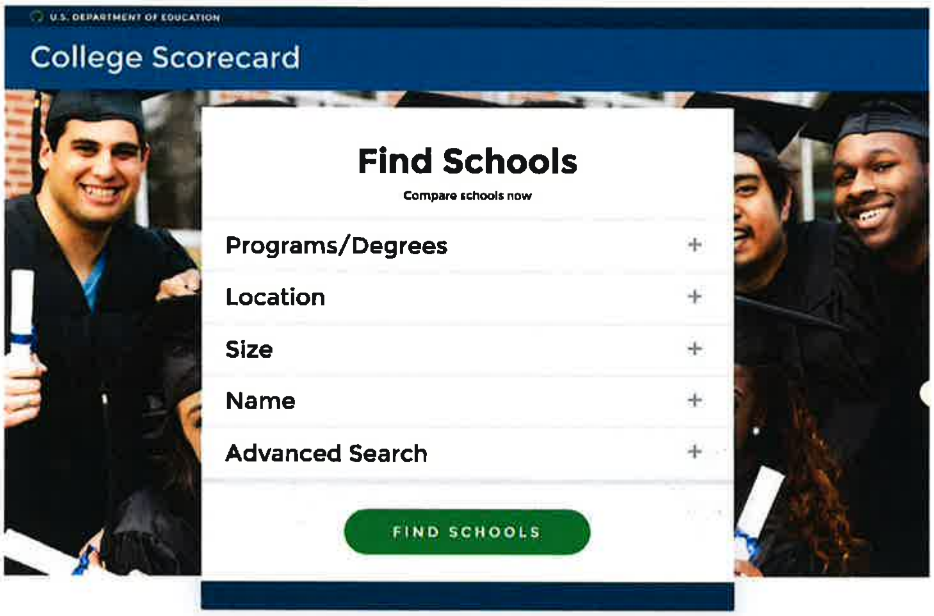
Independent, Nonprofit Colleges and Universities Provide A Graduation Advantage to Low and Moderate-Income Students Participating in the PHEAA State Grant Program



Source: Pennsylvania Higher Education Assistance Agency. *The Pennsylvania State Grant Program: A Six-Year Analysis of the 2010-11 State Grant Cohort*. February 2018.

CHART 11

U.S. Department of Education College Scorecard



U.S. Department of Education College Scorecard Summary of Financial Aid, Debt, and Earnings

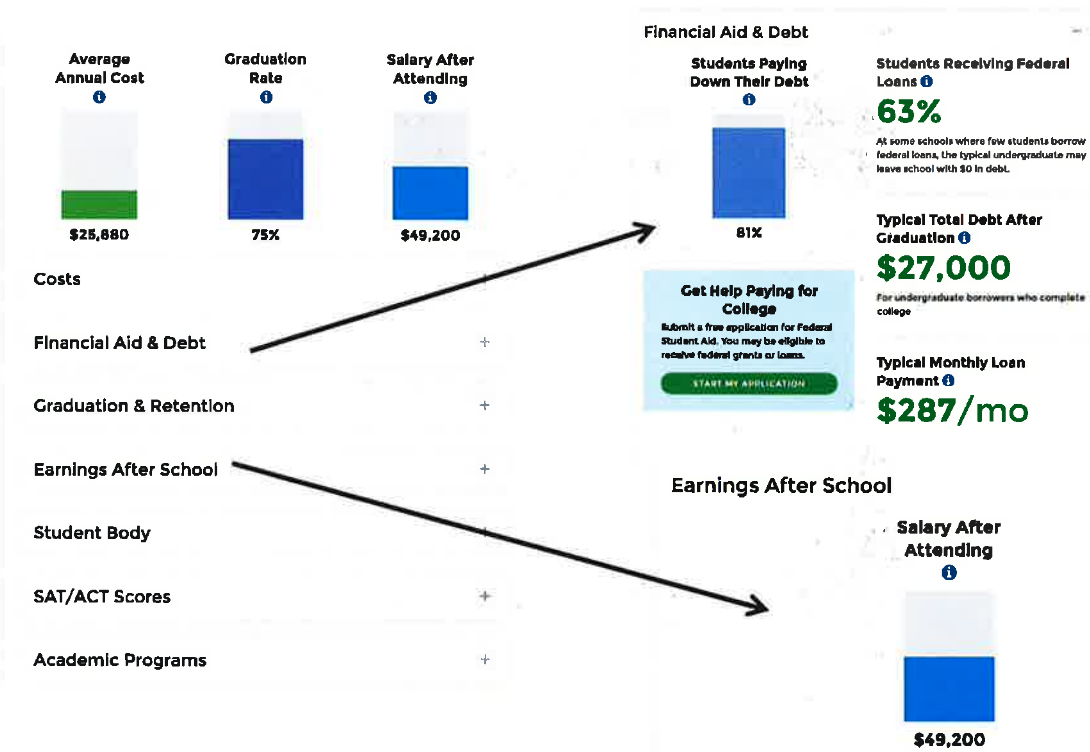
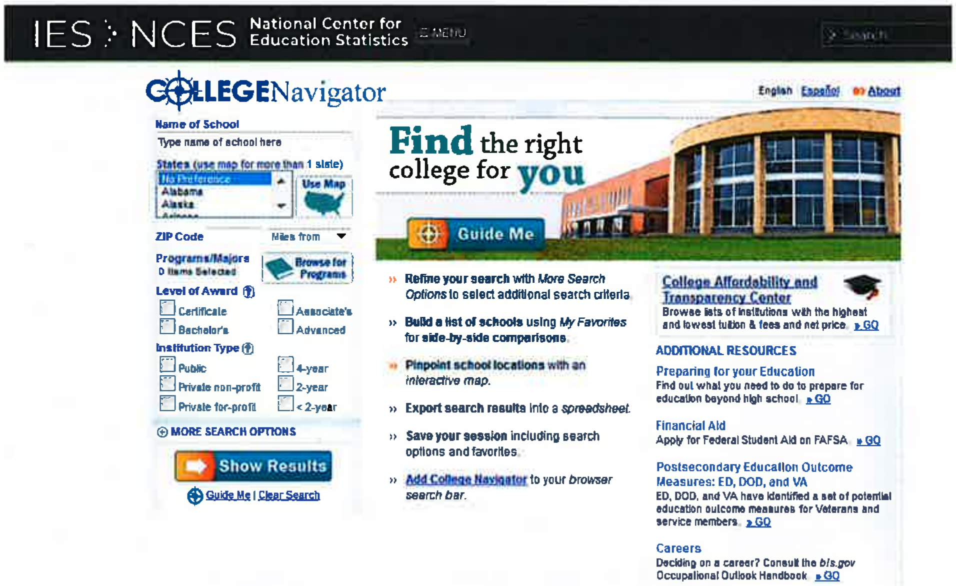


CHART 12

U.S. Department of Education College Navigator



National Association of Independent Colleges and Universities University & College Accountability Network (U-CAN)

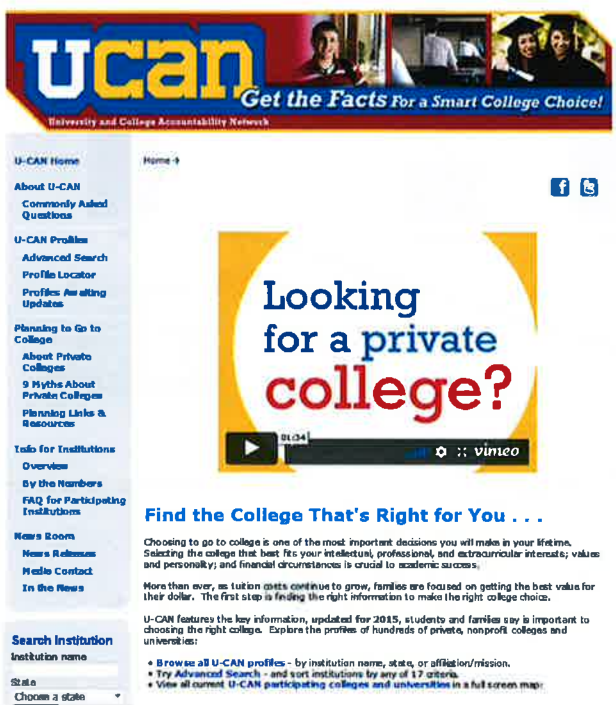
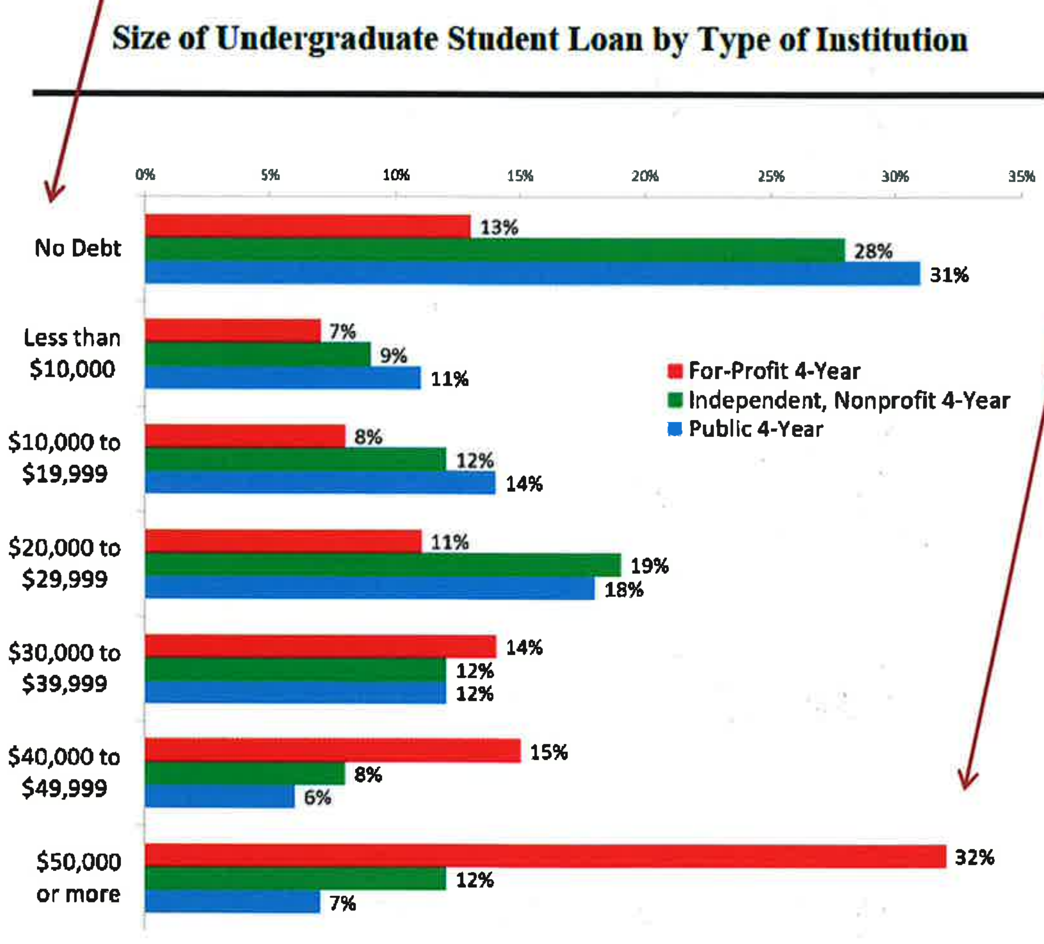


CHART 13

About 3 of every 10 students who graduate with a bachelor's degree from a 4-year, independent nonprofit college or university have no student loan debt.

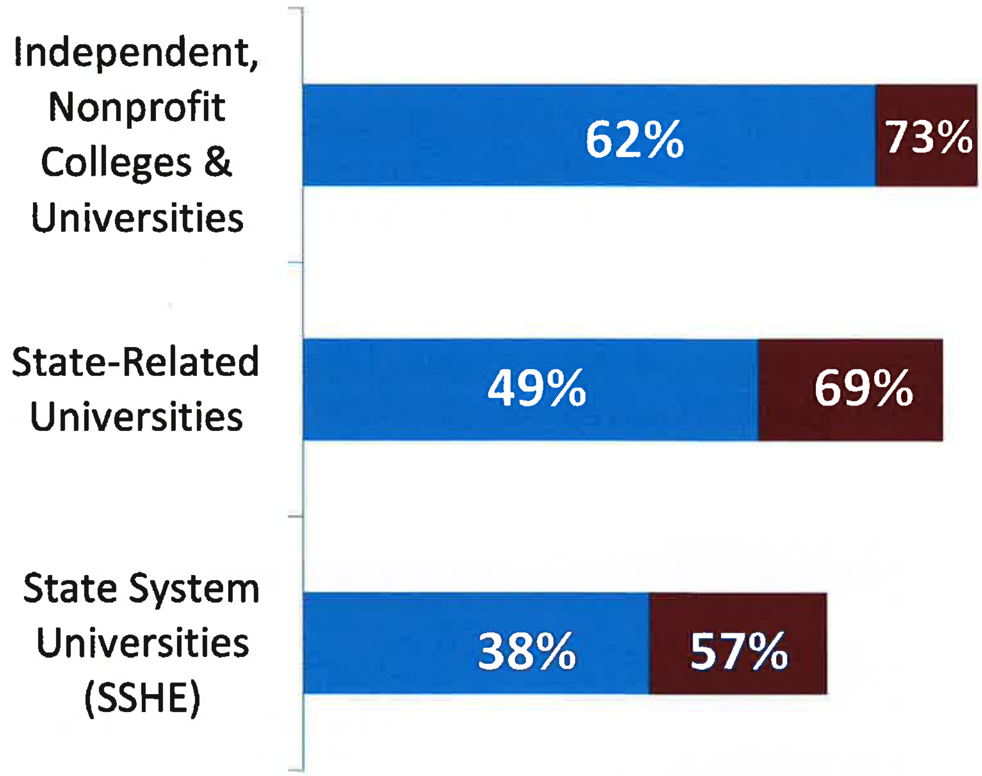
Students attending a 4-year for-profit institution are significantly more likely to graduate with a student loan of $50,000 or more.



Source: The College Board. *Trends in Student Aid, 2018*. Figure 15. Available from: https://trends.collegeboard.org/sites/default/files/2018-trends-in-student-aid.pdf

CHART 14

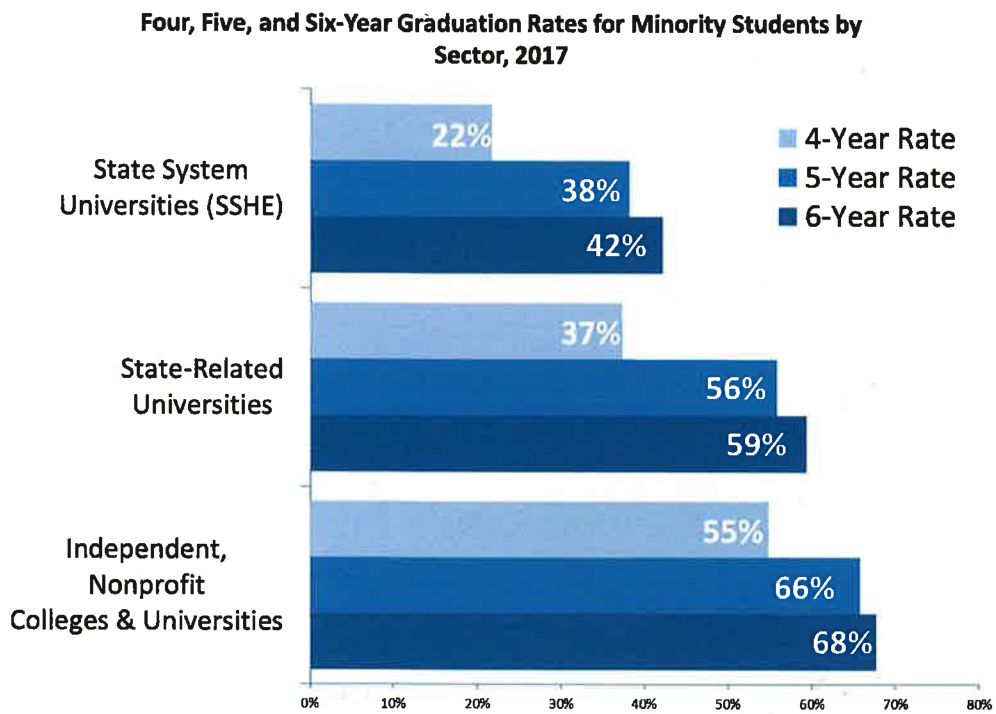
4-Year and 6-Year Bachelor's Degree Graduation Rates by Higher Education Sector in Pennsylvania, 2017



Source: U.S. Department of Education, National Center for Education Statistics, IPEDS Graduation Rate Survey.

CHART 15

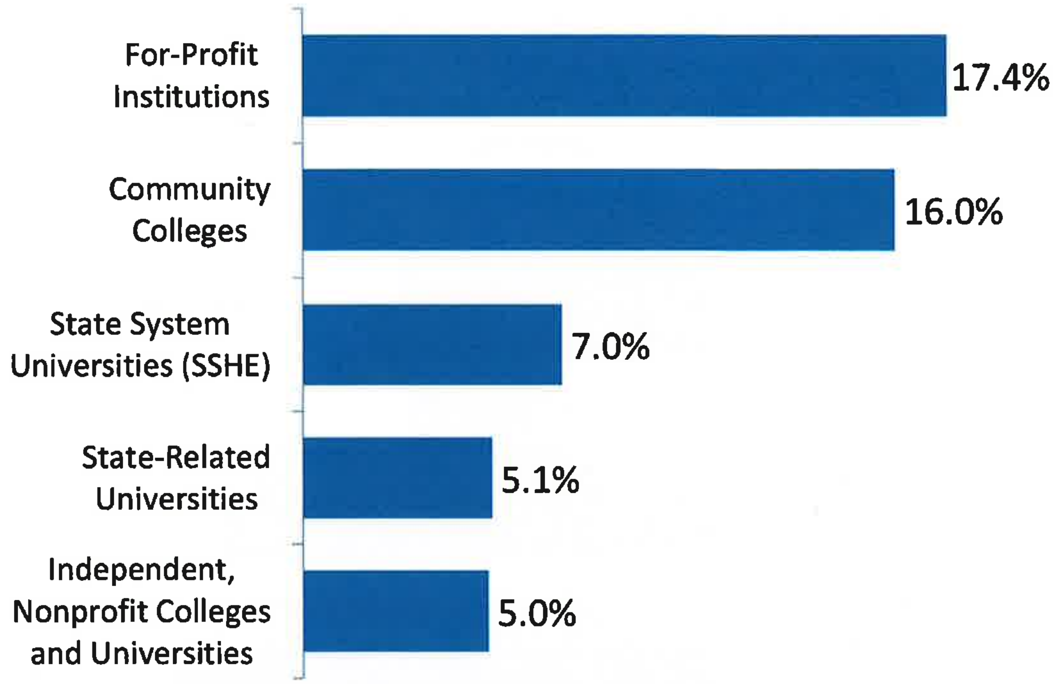
4-Year, 5-Year, and 6-Year Bachelor's Degree Graduation Rates For Minority Students By Higher Education Sector in Pennsylvania, 2017



Source: U.S. Department of Education, National Center for Education Statistics, IPEDS Graduation Rate Survey.

CHART 16

Federal Student Loan 3-Year Default Rates By Higher Education Sector in Pennsylvania

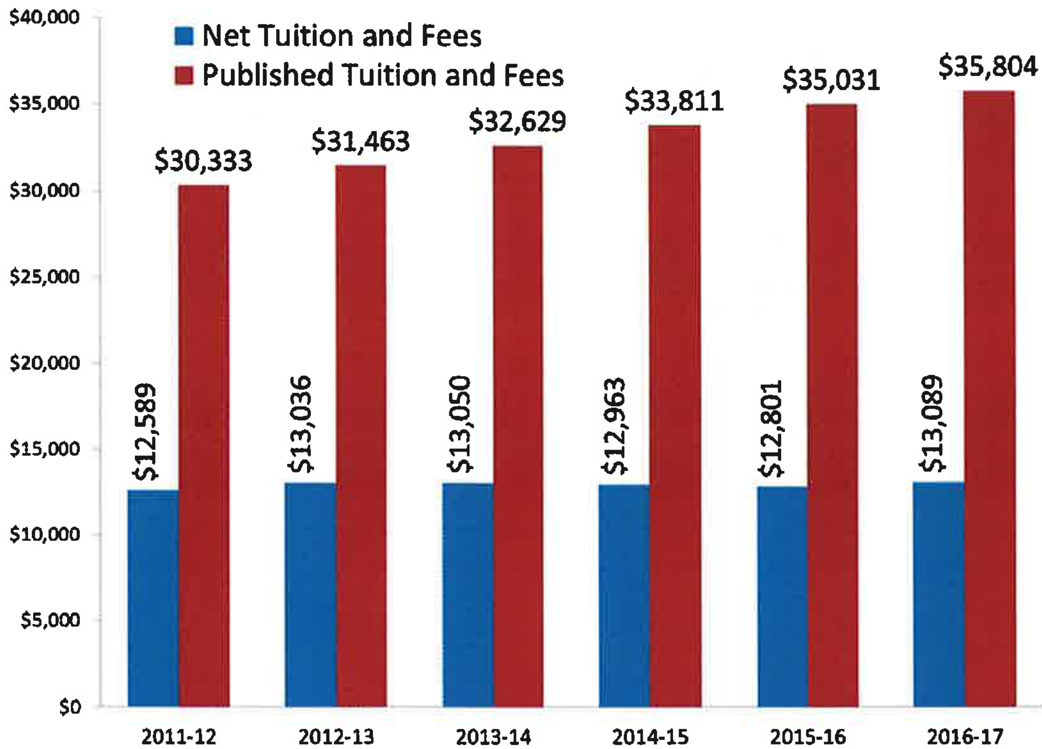


Source: U.S. Department of Education, Office of Federal Student Aid. https://www2.ed.gov/offices/OSFAP/defaultmanagement/cdr.html . Data is for undergraduate students who entered loan repayment in 2015.

CHART 17

AICUP colleges and universities are committed to keeping higher education costs low

Average Published Tuition and Fees and Net Tuition and Fees after Student Scholarships and Grant Aid



Source: U.S. Department of Education, Integrated Postsecondary Education Data System (IPEDS), Institutional Characteristics Survey and Student Financial Aid Survey.

CHART 18

Pennsylvania's Investment in Higher Education, 2017-18

Higher Education Sector	General Fund Appropriation 2017-18	Institutional Assistance Grants (IAG) 2017-18	Total PHEAA Dollars	TOTAL State Funds By Sector	Percent Funds by Sector
Private, Nonprofit Colleges and Universities	$0	$25,749,000	$142,356,023	$168,105,023	10%
State-Related Universities	$564,505,000		$93,680,337	$658,185,337	39%
State System Universities	$453,108,000		$78,158,842	$531,266,842	32%
Community Colleges	$287,730,000		$24,960,469	$312,690,469	19%
Total	$1,305,343,000	$25,749,000	$339,155,671	$1,670,247,671	100%

Business Efficiency Programs at AICUP

Consistent with its tri-fold mission of advocacy, research and collaboration, AICUP has developed (over the past two decades) 27 Board-endorsed, business efficiency programs in areas of compliance, employee benefits, facilities management, finance, student services, technology, telecommunications and procurement. Each of these programs has a distinct history and narrative, however all of these Board-endorsed programs:

1. Leverage the consumer strength of the AICUP membership, reducing price and improving terms for the purchase of services and goods.

2. Encourage suppliers to recognize this sector (private higher education) as a distinct market, worthy of preferred marketing coverage, pricing and service delivery.

3. Develop a necessary, minimum critical mass for contract aggregation.

4. Identify unique and strategic business efficiencies opportunities that are best suited for a state-level association and not otherwise offered by individual members or groups of member colleges on a regular basis.

Member participation in these programs is voluntary and varies; but it is fair to say that some programs (such as software licensing) touch almost all of our members while most programs operate with a solid 20% - 40% penetration of the membership (92 private college/university members in PA). Programs are reviewed continuously and pricing/terms are reviewed periodically to maintain a competitive market position. The Association's Member Services Committee, IT Working Group, HR Working Group and Corporate Affiliate Working Group all provide guidance and expertise in these reviews.

Notably, the Association is currently launching two new programs with a small number of colleges: first, aggregating cyber-security needs through a shared employee resource; and second, aggregating retirement benefits to lower expense ratios and increase employee services. Each of these programs may lead to further aggregation and volume discounts available to the entire AICUP membership. Part of our mission is to identify business efficiencies as distinct services to our AICUP members, efficiencies that allow our campuses to work together, transact together and/or purchase together.

Examples of Successful Programs:

AICUP's Endorsed Software Licensing Program currently engages almost all of its 92 AICUP members – resulting in a growing $5-6 million contract across the membership. In 2018, over $1 million in annual savings was documented within the Microsoft component of that program alone.

AICUP's Endorsed Environmental Self-audit Program generated hundreds of thousands of hard dollar savings (and millions of dollars in avoided EPA fines) when campuses worked together to improve EPA compliance in a program approved by and hailed by the EPA Region III as an example for other campuses/Associations around the country. Today, this program has been repackaged as a software/tablet application and Web-Portal for the small price of roughly $7,200 per year – a small fraction of just one EHS professional FTE.

AICUP's Endorsed Bond Finance Program, provides small borrowers and large colleges alike with a market-tested program recognized as one of the most efficient access points to fixed and variable rate financing (tax-exempt and taxable). Over the years, more than 40 AICUP members, borrowing greater than $1.1 billion have enjoyed substantial savings in issuance expenses through this program – many returning to use the program multiple times over the years

AICUP's Endorsed Purchasing Card Program serves almost 40 members, generating almost $1.8 million in rebates across a $111 million purchase volume. This program, and previous iterations of it, provides participating campuses with revenue that can exceed two-time, three-times and (in some cases) more than 10-times the dues these institutions pay to be members of AICUP – and reducing/eliminating paper-based transactional costs of traditional credit card programs.

AICUP's Endorsed Broadband Program serves a small but meaningful group of 12 members in western PA, aggregating their common Internet services under a single provider, managed and supported by Carnegie Mellon University. This program has saved these member thousands of dollars but more importantly, serves as a platform for new initiatives in 1) business continuity planning, 2) cyber-security and 3) website protection/consent management.

House Democratic Policy Committee
Public Hearing on Student Loan Debt at Cabrini University
October 16, 2019
PHEAA Testimony
Nathan Hench

Chairman Sturla and members of the House Democratic Policy Committee - on behalf of Jim Steeley, PHEAA's President and CEO, as well as the PHEAA Board of Directors, I would like to thank you for the opportunity to speak with you today as you examine student loan debt within the Commonwealth.

PHEAA was created 55 years ago with the primary mission of creating affordable access to higher education for Pennsylvania students and families.

Since then, we have helped generations of Pennsylvanians achieve higher education while helping to strengthen the foundation of our economy with an educated workforce.

We do this by administering a variety of student aid programs for the Commonwealth – the largest of which is the PA State Grant Program.

For the 2018-19 award year, this need-based program provided grant awards to nearly 144,000 students, with a maximum award of $4,123.

PHEAA covers all costs to administer this and other state-funded student aid programs, which saves taxpayers nearly $16 million annually.

This also makes Pennsylvania's student aid programs among the most efficient in the nation, since every dollar appropriated to those programs goes directly to benefit the students who need it most.

Additionally, PHEAA has contributed more than $1 billion from its business earnings to directly supplement student aid programs to further support Pennsylvania students, families and taxpayers.

PHEAA also uses its earnings to support a variety of outreach and student aid awareness initiatives, much of which is focused on helping students make wise choices early in the planning process so they can avoid unnecessary loan debt.

This type of outreach is vital when you consider that a recent study showed that 2018 high school graduates nationwide missed out on $2.6 billion in free money in the form of Federal Pell Grants due to more than 660,000 high school graduates not filling out the FAFSA.

In Pennsylvania alone, 22,399 high school graduates would have been Federal Pell Grant eligible if they just completed a FAFSA. This resulted in $87.9 million in gift aid being left on the table.

PHEAA's education and outreach efforts are spearheaded by 13 Higher Education Access Partners who live and work in communities throughout the Commonwealth. These professionals provide a variety of hands-on student-aid related services to students, families, educators, schools, and community partners.

As a group, our Access Partners participate in nearly 4,000 financial aid events annually. Many of these events are held in cooperation with local legislators to help increase awareness among your constituents of various student aid opportunities, application processes and how to borrow money responsibly.

Regardless of these efforts, student loan debt continues to be a serious concern – not just for PHEAA, but for members of this Committee, students, and families, as well. Nationally, 44 million student borrowers owe more than $1.3 trillion in student loans, with more than 1 million of those borrowers struggling to repay $100,000 or more in student loan debt.

65 percent of Pennsylvania college graduates carry some student loan debt, with an average debt load of more than $37,000.

Unfortunately, with this level of debt, Pennsylvania has the second highest debt level behind Connecticut.

This is one reason why continued support of the PA State Grant Program is so important.

Over the last ten years, Pennsylvania has been in the bottom ten among states in terms of growth in its maximum annual award for its primary need-based grant program.

The 2007-08 Academic Year was the high-water mark for the program in terms of the maximum award amount, with a maximum PA State Grant award of $4,700. For 2019-20, the maximum award is $4,123.

Yet, by looking at average debt levels among a Pennsylvania-resident cohort of federal student loan borrowers who are also Pell Grant eligible students, we found that such borrowers carry a lower debt load when they are also PA State Grant recipients.

Specifically, among this cohort which began school in the fall of 2015, students who received a PA State Grant award every year borrowed an average of $28,722 in federal student loans – compared to $37,970 for students who did not receive a PA State Grant

We also know that if allocated program resources had been adjusted annually for the Consumer Price Index since 2007-08 – the year with the highest maximum PA State Grant award – today's maximum award would be approximately $5,808.

A maximum award of $5,808 would require $481 million in total resources for the program year – an increase of nearly 55 percent.

If recipients could realize maximum awards of $5,808, instead of $4,123, the potential exists to reduce borrowing by an additional $1,685 per year. Across four years, this could mean a reduction of $6,740 in student loan debt.

At a high level, this could reduce Pennsylvania's average student debt level from more than $37,000 to about $30,000... and Pennsylvania's standing would improve from second highest in the nation to the 18th highest.

PHEAA has consistently advocated for students and families to avoid unnecessary loan debt and has been leading this effort with extensive community outreach, planning guides, online tools, and other resources.

The first priority for any successful higher education funding plan is to become knowledgeable about the options and obligations a student will have before, during, and after postsecondary school.

This means working to minimize the total cost of attendance and exhausting eligibility for gift aid, such as PA State Grants and scholarships.

As always - PHEAA's preference is that studnets would never borrow money to pay for college, but that is not always possible considering today's high cost of attendance.

If gift aid and family savings are not sufficient and it becomes absolutely necessary to borrow money, students should first exhaust their eligibility for low-cost federal student loans, which also offer a variety of benefits during repayment that can make a borrower's loan debt more manageable.

Only as a last resort should students consider a private student loan, which often come with higher interest rates and fewer borrower benefits during repayment.

Despite PHEAA's efforts - and those of the legislature and Pennsylvania's higher education community, it seems that more and more student borrowers are only becoming aware of their debt levels after they leave school.

But by then, this realization is often too late.

Compounding this problem is an often ambiguous understanding of student loan costs and obligations, especially in regards to federal loans, which are typically rolled into financial aid award letters, along with grants, scholarships and work study awards, with little explanation.

In fact, more than two-thirds of these award letters fail to clearly distinguish student loan debt from gift aid, such as grants and scholarships.

This may be one reason why a Brookings study found that 28 percent of first year student borrowers – more than one in four - had no idea that they had taken out a federal student loan to pay for their education.

One reason for this confusion may be that Federal student loans are not subject to the same truth in lending requirements to which state-based and private student loans are subject.

To help address this lack of awareness and reverse today's trend of over-borrowing, PHEAA created MySmartBorrowing.org.

This free resource engages high school students and potential borrowers early in the planning process – before any decisions are made to borrow money - helping them to make smart choices as they develop their higher education success plan.

MySmartBorrowing.org provides unique estimators that help determine a student's possible higher education costs at different schools, future salary expectations for a particular degree, availability of employment opportunities, and their potential ability to repay loans comfortably while also affording an independent lifestyle after graduation.

MySmartBorrowing.org is one of many free resources that PHEAA provides for the Commonwealth at no cost to taxpayers.

These include EducationPlanner.org, which is our one-stop career and college-planning website; YouCanDealWithIt.com, which helps graduates and soon-to-be graduates prepare for life after college with debt management and career development advice; and PHEAA.org, which provides useful information on available state and federal student aid programs, including the Pennsylvania Student Aid Guide.

PHEAA's extensive outreach programs and services, including our online awareness tools and Higher Education Access Partners - who provide assistance to your constituents - are only part of the solution to a very complex problem.

I should also recognize the bipartisan efforts of the Pennsylvania General Assembly and the Governor in helping to address student debt in Pennsylvania, including HB 2124, which requires Pennsylvania schools that receive federal loan data to provide students with an annual accounting of their loan debt and obligations.

As always, PHEAA stands ready to work with the legislature and the Governor's office to help develop new initiatives that can help address the growing student debt problem in Pennsylvania.

This concludes my remarks. I want to thank you again for the opportunity to appear here today.

I welcome the opportunity to answer your questions.

Pennsylvania Attorney General Josh Shapiro

Testimony submitted to the House Democratic Policy Committee

For the hearing entitled

"Student Loan Debt"

October 16, 2019

Presented by
Nicholas F. B. Smyth, Senior Deputy Attorney General,
Assistant Director for Consumer Financial Protection

Chairman Sturla, Representative O'Mara, and all members of the Committee, thank you for inviting me to testify today. My name is Nicholas Smyth, and I am a Senior Deputy Attorney General and the Assistant Director for the Consumer Financial Protection Bureau at the Office of Attorney General Josh Shapiro

In July 2017, Attorney General Shapiro established the Office's first-ever consumer financial protection unit. General Shapiro tasked us with focusing special attention on for-profit colleges and student loan servicers because the student debt crisis touches nearly every resident of our Commonwealth. The average student loan debt for new graduates in Pennsylvania is nearly $37,000 – second most in the country, and first among larger states. About 2 million Pennsylvanians – nearly one in five adults – have student debt. The amount of student debt in Pennsylvania - $68 billion - has more than doubled in the past ten years. Of that, $7.2 billion is delinquent debt, held by 240,000 Pennsylvanians. These numbers are projected to continue growing at shocking rates.

The student debt crisis affects consumers from all walks of life. Despite the common misconception that the student debt crisis only impacts young people, the Commonwealth's fastest growing group of borrowers are those over age 60. We now have over 200,000 borrowers over 60, following a 57% increase from 2012 to 2017. Over 10% of those borrowers over 60 are delinquent on their loans. Seniors all across the country are seeing their Social Security checks reduced due to defaulted student loans. This is in part because the loan servicers have done such a poor job of helping these borrowers enroll in more affordable repayment plans.

The crisis is hitting particularly hard in the five county Philadelphia area. We see more than twice the rate of defaults on student loans in majority minority census tracts, than we see in other parts of the metro area.

This committee is right to focus its attention on the student debt crisis and, in particular, the crisis in student loan servicing, because the government contractors that service Federal loans have caused needless financial harm to millions of families across the country. My testimony will focus on one particular servicer of Federal loans, Navient, which has 1,000 employees in Pennsylvania. Our office sued Navient in Federal Court in October 2017. Our filing followed three lawsuits filed by the CFPB, Illinois, and Washington State, and it preceded two others filed by California and Mississippi. Our nine-count complaint is available on our website.[1]

Among other things, we allege Navient misled borrowers who were struggling to repay their loans, costing borrowers who were struggling to pay $4 billion in additional interest charges. This is the amount of interest that Navient added to the loan principal for borrowers who were put into multiple consecutive forbearances.

Forbearances are temporary postponements of payments that are *sometimes* appropriate for borrowers who have a *short-term* financial hardship. For most borrowers

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[1] https://www.attorneygeneral.gov/wp-content/uploads/2018/01/PA-v.-Navient-Complaint-2017-10-6-Stamped-Copy.pdf

struggling to make payments, an income-drive repayment plan (IDR) is better than a forbearance. Borrowers who enroll in forbearance face significant costs, including: (1) accumulation of unpaid interest, which is added to the loan's principal balance at the end of the forbearance; (2) missing out on low or $0 payments that could count towards loan forgiveness; and (3) the borrower's monthly payment can dramatically increase after the forbearance period ends.

We allege in our complaint that, during the five years from January 2010 to March 2015, Navient enrolled over 1.5 million borrowers in two or more consecutive forbearances. Navient's own numbers show that these consecutive forbearances added nearly $4 billion of interest, which works out to an average of about $2,700 per borrower from unnecessary forbearances.

As alleged in our complaint, Navient and its agents were incentivized to push forbearances instead of IDR because it was faster and less costly for Navient. Forbearances get the borrower off the phone quickly, without any paperwork, and allow the Navient agent to move on to the next call.

This $4 billion in interest that Navient added to loan balances harms these individuals by reducing their ability to save and spend as they see fit; it also harms our Commonwealth's larger economy because it diminishes these consumers' purchasing power, forcing them to delay buying a home, creating a business, or starting a family.

In short, an entire generation is being held back by the shackles of student loan debt, and these debts are growing instead of shrinking, in part because Navient is not helping borrowers enroll in the payment plans that are best for them, despite representing that it is the expert in the area and would assist borrowers.

For borrowers facing financial hardship, income-driven repayment plans are generally much better than multiple forbearances. Congress created the first IDR plan in 1993 with the goal of reducing the burden of student loan payments. To review IDR plans, any borrower can go to the Repayment Calculator on studentloans.gov, put in their Federal loan balances, family size, and income, and learn what their payments will be under the various IDR plans. But it's not the consumer's job to figure out on their own what IDR plan is best. It's Navient's job. But despite publicly assuring borrowers that it will help them identify and enroll in an appropriate, affordable repayment plan, Navient has routinely disregarded that commitment and instead steered borrowers experiencing long-term financial hardship into forbearance.

Navient promised borrowers to help evaluate their repayment options. As alleged in our complaint, it told them on its website, "Our representatives can help you by identifying options and solutions, so you can make the right decision for your situation." It said, "We can help you find an option that fits your budget, simplifies your payment, and minimizes your total interest cost." I'll illustrate how IDR works with two examples.

Example 1: $0 payments and credit for loan forgiveness

Imagine a family of four, married filing jointly, with a Federal loan balance of $40,000. Their combined adjustable gross income (AGI) is $63,000 which was about the median household income in the Commonwealth of Pennsylvania in 2017. This family of four would have to pay $403 per month on their Federal loans for ten years under the standard repayment plan. Under an IDR plan, that family would pay half that - only $203 per month. This means the family could get credit for making a payment each month towards loan forgiveness and, under the Pay As You Earn IDR plan, would qualify for forgiveness if they haven't already paid off their loans after 20 years of payments. And if the parents work in public service - such as teachers, nurses, or police officers - they would be eligible for forgiveness after just 10 years if they successfully enrolled in Public Service Loan Forgiveness.

Now, imagine one spouse loses a job, and household income drops to $39,000. All of a sudden this family is eligible for $0 per month payments under IDR. These $0 "payments" would still count towards forgiveness in 10 or 20 years. When the spouse gets another job and the income rises, the monthly payments will rise too.

Now imagine if the family had called Navient's call center following the job loss and, instead of IDR, as our complaint alleges, Navient steered them into a 6-month forbearance. Instead of qualifying for $0 payments and credit toward forgiveness, the family will still pay nothing, but interest will continue to accrue and they will not receive credit toward forgiveness. Interest will be added to the loan principal (or be "capitalized") at the end of the forbearance.

Consecutive forbearances mean that each year the family is going to have over $1,500 in interest added to their loan balance. In our complaint we allege that Navient enrolled more than 520,000 borrowers into *four or more* consecutive forbearances; in this family's case, that would increase their loan balance by over $3,000. And after the forbearances run out, payments will not count towards loan forgiveness because Navient never enrolled them in IDR.

If this family had six forbearances over three years - not uncommon according to the data - they would see their loan balance rise by nearly $5,000. After coming out of the last forbearance, the monthly payments would be $453 per month, or *$50 more* per month than the $403 monthly payment they couldn't afford to pay before. A much better alternative would be an IDR with low or $0 payments, and eventual loan forgiveness.

The allegations in the state and CFPB lawsuits are supported by the findings of the U.S. Department of Education's Inspector General (IG), which found in a 2017 audit of randomly selected calls to borrowers that Navient failed to even mention IDR plans in nearly one of ten calls. The IG wrote that many customer service representatives failed to ask questions to determine if IDR might be more beneficial to the borrower. Navient is not helping borrowers get into the payment plans that are best for them.

Example 2: the importance of the interest subsidy

Another critical benefit of IDR is the interest subsidy. There are two types of Federal loans that students can take out: subsidized and unsubsidized. Subsidized loans have special treatment in IDR plans.

Imagine a different hypothetical family of four. They have $30,000 in subsidized loans between the two parents. One parent loses a job and the family income falls to $39,000. As before, these borrowers would be eligible for $0 monthly payments under an IDR plan. Since their loans are subsidized, the over $1,500 in interest that accrues each year is automatically paid by the Federal government, for the first 3 years of enrollment in an IDR plan. So this family would save nearly $5,000 in interest -- or even more if the rates were higher than 3.9% when they took out their loans.[2]

There are hundreds of thousands of families that missed out on the economic benefit of this interest subsidy because Navient steered them into forbearance instead of IDR. In our complaint we gave a few examples. One Pennsylvania consumer attended college between 2001 and 2006 and she took out multiple Federal loans. When she called Navient to ask for assistance with her loan payments, Navient told her that her only option for loan assistance was a forbearance, despite the fact that she qualified for an IDR plan. The forbearance was in 6 month increments and there was a fee each 6 month extension. Navient failed to adequately inform her about any fees or interest accrual when the initial forbearance was completed.

This consumer has worked in the public sector since 2006, qualifying her for loan forgiveness under PSLF. However, when she asked Defendants about PSLF in 2007, Defendants' employees gave her information that deterred her from enrolling. She alleges they told her falsely that she would have to make 120 consecutive payments while employed at a qualifying organization for ten consecutive years to qualify for forgiveness. She learned in 2014, seven years after first enquiring about PSLF, that the information given to her by the Defendants in 2007 was false. Unfortunately, since she did not enroll in 2007, none of the payments she made since 2007 could be applied to the PSLF. This resulted in seven additional years of loan payments that need to be made before her loans are forgiven under the PSFL. If Defendants had been truthful in 2007, she may have qualified to have her loans forgiven as soon as 2017.

Another Pennsylvania consumer was enrolled in a master's degree program from 1996 to 2004. Unfortunately, like many students, he did not complete the degree. Since he left the school, he has struggled to pay his loans. The consumer's student loans were in and out of forbearance for the next 11 years. Despite the fact that the consumer had demonstrated long-term financial hardship to Navient for five years by the time IDR plans became available in 2009, Navient did not enroll him in one until 2015, when he

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[2] Under the REPAYE plan, the government will continue to pay 50% of accrued interest on subsidized loans after the first three years. It will also pay 50% of the accrued interest on unsubsidized loans the entire time a borrower in the program.

entered Income-Based Repayment with a monthly payment of $0. According to the consumer, nearly $27,000 in interest has been added to his loans since 2004.

When we are talking about families making $39,000 or less each year, every dollar counts. Families like these are making difficult financial decisions every day – child care, groceries, rent or mortgage payments, healthcare, transportation, and more. Burdening families with more debt when times get hard, especially when there is a better solution for them that the Federal government has already created, does nothing to help them work toward financial stability. Student loan servicers can and must do a much better job of enrolling borrowers in IDR plans.

On behalf of Attorney General Shapiro, thank you for the opportunity to testify today. I would be happy to answer any questions you might have.

Testimony of Whitney Barkley Denney
Center for Responsible Lending
Before the House Democratic Policy Committee
October 16, 2019

My name is Whitney Barkley Denney, and I am a senior policy counsel at the Center for Responsible Lending. The Center for Responsible Lending (CRL) is a nonprofit, nonpartisan research and policy organization dedicated to protecting homeownership and family wealth by working to eliminate abusive financial practices. CRL is an affiliate of Self-Help, one of the nation's largest community development financial institutions. For thirty years, Self-Help has focused on creating asset-building opportunities for low-income, rural, women-headed, and families of color, primarily through financing safe, affordable home loans and small business loans.

Student Loan Debt is a National Crisis

The growth of outstanding student loan debt over the last decade has been staggering. Today, more than 44 million people[1] carry over $1.5 trillion of outstanding student loan debt, an amount that exceeds all other types of non-mortgage loan debt. Two out of three graduates in the class of 2017 borrowed federal student loan debt to finance their education.[2]

In the past decade, the higher education landscape has become significantly more perilous for student borrowers. When state legislatures began to tighten their belts in the wake of the Great Recession, investments in public colleges and universities began to decline.[3] As a result, student debt has become a significant drag on the entire economy as it depresses the purchasing power of millions, preventing people from starting families, investing in their own businesses, going back to school, and buying homes.

As states slashed budgets and schools raised the cost of a degree, families experienced massive wealth declines from a sinking economy.[4] With foreclosures, job loss, and downturns in the market fracturing family balance sheets, an entire generation of students needed to borrow

[1] See: https://studentaid.ed.gov/sa/sites/default/files/fsawg/datacenter/library/PortfolioSummary.xls. Reflects totals through the end of June 2018

[2] http://www.newyorkfed.org/medialibrary/interactives/householdcredit/data/pdf//HHDC_2018Q4.pdf

[3] Mitchell, Michael; Leachman, Michael; and Masterson, Kathleen. 2016. Funding Down, Tuition Up: State Cuts to Higher Education Threaten Quality and Affordability at Public Colleges. Center on Budget and Policy Priorities. Available at https:// www.cbpp.org/sites/default/files/atoms/files/5-19-16sfp.pdf.

[4] 2013 Update: The Spillover Effects of Foreclosures. Center for Responsible Lending (August 2013). Available at https:// www.responsiblelending.org/sites/default/files/nodes/files/research-publication/2013-crl-research-update-foreclosurespillover-effects-final-aug-19-docx.pdf.

more than ever before to attend college. Further, a larger number of students than ever before chose to go to college to pursue an education that could help them secure a solid future.[5]

The financial drag created by student loan debt, however, is not equally distributed among borrowers. Families of color are more likely to need to borrow for higher education and in larger amounts. Even after graduation, African American and Latino people face substantial job discrimination and earn far less than their white counterparts[6] African Americans can also face more difficulty paying off debt and building savings to withstand future financial shocks because of this income gap. Given these disadvantages, these students tend to take longer to pay their loans back compared to their white counterparts.[7] In fact, recent research shows that, rather than helping communities of color build wealth, student loans actually deepen the wealth gap.[8] For example, young African-Americans take on 85% more student debt than their white counterparts for their education and that difference in indebtedness increases by almost 7% per year after leaving school.[9]

Women graduate, on average, with $2,700 more in student loan debt than men, and because of the gender pay gap, they earn about 26% less, so paying off their debt takes significantly longer.[10] This is especially true for women of color. African-American women graduate with almost 50% more student debt than white and Latina women at 4-year institutions.[11] Approximately 57% of African-American women and 42% of Latina women who were repaying student loans reported that they had been unable to meet essential expenses within the past year compared to 34% of all women.[12]

Pennsylvania's Student Loan Borrowers Face Similar Outcomes

Pennsylvania is not immune from national trends. In fact, in some cases, Pennsylvania's student borrowers face worse outcomes than their peers in neighboring states. Collectively,

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[5] Quillian, Lincoln; Pager, Devah; Hexel, Ole; & Arnfinn H. Midtbøen. 2017. "Meta-analysis of field experiments show no change in racial discrimination in hiring over time." Proceedings of the National Academy of Sciences of the United States of America 114(41): 10870-10875; Gaddis, S. Michael. 2015. "Discrimination in the Credential Society: An Audit Study of Race and College Selectivity in the Labor Market." Social Forces 93(4): 1451-79.
[6] Schultz, Sarah. 2017. "A Blueprint for Higher Education Equity." Washington DC: Young Invincibles. Available at https://younginvincibles.org/reports-briefs/blueprint-higher-education-equity/.
[7] Houle and Addo, 2018. "Racial Disparities in Student Debt and Reproduction of the Reproduction of the Fragile Black Middle Class." Sociology of Race and Ethnicity 1-16
[8] Id.
[9] Id.
[10] American Association of University Women. (2018). Women's student debt crisis in the United States. Retrieved from https://www.aauw.org/research/deeper-in-debt/.
[11] Ibid
[12] Ibid.

Pennsylvania's student loan borrowers have $68 billion in outstanding student loan debt[13], a number that has increased dramatically in the last decade. Indeed, nearly 20% of Pennsylvanians have an outstanding student loan, representing a 160% increase since 2005.[14]

Pennsylvanians who borrow for college graduate with some of the largest debt loads in the country, with the average bachelor's degree graduate borrowing more than $37,000 before leaving school.[15] And, they are struggling to repay. More than 25% of Pennsylvania borrowers are seriously delinquent on their loan payments, or in default.[16] African American borrowers are overrepresented in delinquency and default numbers, with 25% facing collections on a student loan, as opposed to only 10% of white borrowers.[17]

Older Student Loan Borrowers are Struggling

While student debt is often seen as an issue for younger Americans, particularly Millennials who began their adult lives during the worst financial crisis in a century, more and more older Americans are beginning to enter retirement with student loan debt still on their personal balance sheets. In 2015, $66.7 billion of total outstanding student loan debt was owed by 2.8 million borrowers age 60 and older.[18] This is quadruple the number of older borrowers with student loan debt since 2005.

Americans over 60 are not only paying off loans for their children—they are also taking on debt to finance their own educations. The Federal Reserve Board reports while 68% of borrowers over 60 are paying for loans for their children and/or grandchildren, 27% of student loan borrowers over 60 are paying for their own education or education for their spouse.[19]

In Pennsylvania, almost 202,000 borrowers age 60 and older are carrying student loan debt, owing $6.8 billion dollars.[20] And like their younger counterparts, these student loan borrowers

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[13] CRL calculation multiplying per capita student debt by population. Source: Federal Reserve Bank of New York. (2019). *State level household debt statistics 2003-2018* [Data file]. Retrieved from https://www.newyorkfed.org/medialibrary/interactives/householdcredit/data/xls/ area_report_by_year.xlsx.
[14] [14] CRL calculation multiplying % of consumers with any debt ("borrowers") by % of borrowers with a student loan. Source: https://www.philadelphiafed.org/eqfx/webstat/index
[15] The Institute for College Access & Success, *Student Debt and the Class of 2018* (2019), https://ticas.org/wp-content/uploads/2019/09/classof2018.pdf
[16] CRL calculation dividing % of student loan borrowers severely delinquent by estimated percent of student borrowers in repayment (50%) Source: https://www.philadelphiafed.org/eqfx/webstat/index
[17] https://apps.urban.org/features/debt-interactive-map/
[18] Office for Older Americans & Office for Students and Young Consumers. 2017. Snapshot of Older Consumers and Student Loan Debt. Consumer Financial Protection Bureau. Available at https://www.consumerfinance.gov/data-research/ research-reports/snapshot-older-consumers-and-student-loan-debt/.
[19] Government Accountability Office. 2016. Social Security Offsets: Improvements to Program Design Could Better Assist Older Student Loan Borrowers with Obtaining Permitted Relief. Available at https://www.gao.gov/assets/690/681722.pdf.
[20] https://files.consumerfinance.gov/f/documents/201708_cfpb_older-consumers-and-student-loan-debt-by-state.pdf

are struggling. One in eight Pennsylvania borrowers over the age of 60 are severely delinquent on a student loan debt, placing them at risk for garnishment of their tax returns and even their social security payments.[21]

The student debt crisis is driven by a myriad of complicating and often overlapping factors. However, states are well positioned to address two of the most pernicious causes – for-profit colleges and servicing practices that drive borrowers deeper into debt.

For Profit Colleges Profit Off Borrowers of Color – and Drive Them into Debt

For-profit colleges, like the Art Institutes, Pittsburgh Technical College, and Strayer, continue to be major drivers of student loan debt and defaults, particularly for students of color. One of the major contributors to high rates of default for African American borrowers is their over-representation at for-profit colleges.

Over 52% of borrowers who first entered higher education in the 2003–2004 undergraduate cohort at for-profit institutions defaulted by 2016 compared to just over 17% for borrowers of the same cohort that first enrolled in four-year public colleges.[22]

Pennsylvania borrowers who enroll in the for-profit colleges fare little better than their national counterparts. More likely to be female[23], African American[24], and poor[25], for-profit college borrowers in Pennsylvania are far less likely to graduate college than their public and private school peers, with only 25% making it across the graduation stage in 6 years. They are also more likely to leave school indebted, and with more debt, with 75%[26] of Pennsylvania's for-profit college students borrowing an average of $31,000 for their educations. [27] Finally, they default twice as often as their counterparts enrolled in private and public school, with more than 14% defaulting within three years of leaving schools.[28]

For more than fifty years, Pennsylvania was home to the now infamous Education Management Corporation (EDMC), the parent company of the Art Institutes, South University, and Brown

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[21] Id.

[22] Scott-Clayton, Judith & Jing Li. 2016. "Black-white disparity in student loan debt more than triples after graduation." Brookings Institution. Available at https://www.brookings.edu/research/black-white-disparity-in-student-loan-debtmore-than-triples-aftergraduation/.

[23] Center for Responsible Lending, "The State of For-Profit Colleges" (updated 2019) retrieved from: https://www.responsiblelending.org/map/pdf/pa.pdf

[24] Id

[25] Id

[26] Id

[27] Id

[28] Id

Mackie College.[29] Beginning in 2007, EDMC faced several lawsuits regarding their recruitment practices, claims of false promises to potential students, and inflation of the school's job placement statistics.[30]

The unraveling of EDMC happened over the course of four years. In 2015, EDMC settled a lawsuit with the U.S. Department of Justice for $95.5 million.[31] In 2016, the chain announced that they were closing 19 of their Art Institute campuses, and nearly all their Brown Mackie campuses.[32] Then, in 2017, empowered by weakened federal oversight, the company announced that they would sell their remaining Art Institute campuses to The Dream Center, an evangelical development organization with no background in higher education.[33] The Dream Center abruptly shuttered most of the remaining Art Institutes in 2019.[34]

At the time of its closure, the Art Institutes of Philadelphia was charging students around $48,000 for an Associate's degree, and $98,000 for a Bachelor's degree.[35] At the Art Institutes in Pittsburgh, an associate's degree in graphic design cost students nearly $45,000 – but just 12% of borrowers actually graduated. Those who did graduate typically reported they were earning less than $22,000 a year.[36] In 2017, the Center for Responsible Lending conducted a series of focus groups with Florida for-profit college borrowers that confirmed what research had already suggested: For-profit college students pay more for programs that do very little to improve their earnings compared to more affordable, high-quality programs in other sectors of higher education.[37] These focus group participants voiced disappointment in not being able to find full-time employment sufficient to make any progress repaying student debt, inability to cover typical family living expenses or access credit to buy a car or home, and despair and cynicism about the prospect for better financial prospects for their children—coupled with a determination that they avoid for-profit colleges for their education.

Despite years of failing to serve students, however, for-profit colleges continue to make financial gains under the current administration—just recently, the administration withdrew a rule that cut federal funding for programs at colleges that regularly resulted in graduates having

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[29] "Pittsburgh's Education Management Corp. to delist stock from Nasdaq", Pittsburgh Post Gazette Oct 24, 2014)
[30] Fleisher, Chris "EDMC accused in GI Bill scheme". TribLIVE. (December 15, 2014)
[31] Kirkham, Chris "For-profit college will pay $95.5 million to settle 'boiler room' recruiting case". LATimes.com (Nov. 16, 2015)
[32] Kieler, Ashley "For-Profit Brown Mackie College Ceasing Enrollment, Phasing Out Most Locations". Consumerist (June 6, 2016)
[33] Moore, Daniel "EDMC completes sale of schools to Dream Center" Pittsburgh Post Gazette (Oct. 18, 2017)
[34] Crowley, Stacy and Erica Green "A College Chain Crumbles, and Millions in Student Loan Cash Disappears" New York Times (March 7, 2019)

[35] Smith, Ashley A. "Art Institutes and Other Former For-Profit Institutions Closing" Inside Higher Ed (Dec. 10, 2018)
[36] Id
[37] Howarth, Robin & Lang, Robert. 2018. Debt and Disillusionment: Stories of Former For-Profit College Students as Shared in Florida Focus Groups. Durham, NC: Center for Responsible Lending. Available at https://www.responsiblelending.org/research-publication/debt-and-disillusionment-stories-former-profit-college-students-shared-florida.

debt that far outweighed their incomes. And those financial gains come at the expense of borrowers and taxpayers. Unfortunately, many for-profit schools fail to spend these public dollars responsibly. Of the top 10 education advertisers online, seven are for-profit institutions. Six-month spending on advertising for these seven schools averaged $11.8 million (Aug. 2016–Jan. 2017). A study of these same schools using Department of Education data found that on average only 22.9% of tuition dollars were spent on instruction (FY 2015).[38]

States, however, can step in where the federal government has failed. In recent years, Maryland, California, and Maine have all passed legislation to rein in for-profit college abuses. In 2019, Maine passed a comprehensive bill that requires for-profit colleges to report the amount they are spending on advertisements; evaluates the repayment, graduation and default rates of for-profit borrowers in the state; and prohibits schools from enrolling borrowers who cannot work in their field because they cannot sit for the licensing exam or have a criminal background that disqualifies them from employment.[39]

Poor Student Loan Servicing Leads to Poor Student Loan Outcomes

Another critical piece of the $1.5 trillion student debt puzzle are student loan servicing companies, which serve as the crucial link between borrowers and successful repayment of their loans. Among their responsibilities, servicers are tasked by both federal and private contracts with collecting student loan payments, putting borrowers into the right repayment plans, or even discharging the debt when the student is eligible for such under federal law.

Audits and borrower complaints have shown that servicers are failing to fulfill these obligations consistently, resulting in long-term negative consequences for borrowers who do not have a choice in who is servicing their loans. Indeed, from the time the Consumer Financial Protection Bureau (CFPB) began taking complaints about student lending in late 2011 until February 2017, there were tens of thousands of complaints about loan servicers. Other federal agencies have reported on poor servicing practices as well. An audit conducted by the US Office of the Inspector General found that, from 2015 – 2017, Federal Student Aid rarely enforced servicer compliance with their contracts and did not follow policy when evaluating servicer performance. The failure of servicers to do their job contributes to the growing debt burden as their practices result in unnecessarily longer and larger debt loads.

In 2016, then Under Secretary of Education Ted Mitchell rolled out a set of policy directives, called the Student Aid Bill of Rights, that instructed the Department of Education employees

[38] Hall, Stephanie. 2019. How Much Education Are Students Getting for Their Tuition Dollar? Washington DC: The Century Foundation. Available at https://tcf.org/content/report/much-education-students-getting-tuition-dollar/?agreed=1.
[39] An Act to Ensure the Integrity of For Profit Colleges:
http://www.mainelegislature.org/legis/bills/getPDF.asp?paper=SP0030&item=3&snum=129

negotiating servicer contracts to include important consumer protections and incentives in the new contracts.[40] Unfortunately, in one of her first acts as Secretary of Education, Betsey DeVos reversed those guidelines.[41] The contract negotiators would no longer be asked to hold student loan servicers to high standards of consumer protection. Despite the crisis that student loan debt presents to 44 million borrowers, their communities, and our economy, the current Department of Education refuses to adequately hold servicers accountable.

The recent rollbacks at the federal level emphasize the importance of state-level protections. With their traditional police powers, states have the authority to ensure servicers are not engaging in unfair and abusive practices. Just as many states had long overseen debt collectors, recognizing the impact debt collection practices can have on their residents, states responded to widespread concerns about student loan debt and poor servicing practices by implementing a regulatory framework that would allow them to ensure their borrowers were treated fairly by their servicers.

In 2015, Connecticut became the first legislature to pass the "Student Loan Bill of Rights," a bill that required student loan servicers to be licensed by the state, created an Office of the Student Loan Ombudsman, and prohibited student loan servicers from engaging in actions that would violate certain bedrock principles of consumer protection. As the bill's author and sponsor, Representative Matt Lesser, noted at the time, the Student Loan Bill of Rights represented a shift from thinking about student loans as an issue of higher education "to a systemic problem for the financial sector of the economy

Other states took notice, and California[42], Illinois[43], and Washington, DC[44] followed to enact new laws in 2016.

Early in 2017, the Consumer Financial Protection Bureau, Illinois attorney general, and Washington State attorney general announced a lawsuit against Navient Corporation, at the time the largest student loan servicer in the country.[45] The lawsuits alleged that the servicers

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[40] Press release: Education Department to Implement Improved Customer Service and Enhanced Protections for Student Loan Borrowers, Dept of Ed. (July 20, 2016) retrieved: https://www.ed.gov/news/press-releases/education-department-implement-improved-customer-service-and-enhanced-protections-student-loan-borrowers

[41] Press release: Memorandum from Secretary of Education Betsy DeVos to FSA Chief Operating Officer James Runcie Regarding Student Loan Servicer Recompete, Dept. of Ed. (April 11, 2017) Retrieved: https://www.ed.gov/news/press-releases/memorandum-secretary-education-betsy-devos-fsa-chief-operating-officer-james-runcie-regarding-student-loan-servicer-recompete

[42] Student loan servicers: licensing and regulation: Student Loan Servicing Act. https://leginfo.legislature.ca.gov/faces/billCompareClient.xhtml?bill_id=201520160AB2251

[43] Student Loan Servicing Rights Act: http://www.ilga.gov/legislation/ilcs/ilcs5.asp?ActID=3830&ChapterID=18

[44] Student Loan Ombudsman Establishment and Servicing Regulation Amendment Act of 2016: http://lims.dccouncil.us/Download/36411/B21-0877-SignedAct.pdf

[45] Douglas-Gabriel, Danielle "Student Loan Servicer Navient Hit With Three Government Law Suits in One Day" Washington Post ((Jan. 18, 2017) https://www.washingtonpost.com/news/grade-point/wp/2017/01/18/student-loan-servicer-navient-hit-with-three-government-lawsuits-in-one-day/

routinely undermined borrowers by misapplying payments, reporting incorrect information to credit bureaus, and placing borrowers in plans that caused their debt to balloon. The Bureau's complaint confirmed what many student loan borrowers had experience–loan balances increasing after being placed into forbearance after forbearance rather than an income driven repayment plan (IDR), payments that were misapplied, and even disabled veterans who were denied credit after their student loan servicing company failed to correctly report the discharge of their loans to the credit bureaus. As of 2019, there are 5 lawsuits from state attorneys general against Navient alleging unfair and deceptive practices, with Mississippi, California, and Pennsylvania in addition to the ongoing lawsuits In Illinois and Washington.

Faced with constituents struggling to gain their financial footing as they dealt with their student loan debt, more states became interested in exerting their traditional police powers to protect student loan borrowers. Predictably, however, the industry groups that lobby on behalf of servicers and state guaranty agencies stepped up their efforts to protect servicers' interests. In late February, 2018, after months of lobbying by student loan servicers, including the CEO of Navient, the DeVos Administration released a Notice of Interpretation, outlining the Department's belief that state student loan servicing laws are pre-empted by federal law.[46] The document outlines the Department's belief that federal law completely preempts all state laws that impact federal loan servicing – not only state licensing regimes but even prohibiting servicers from misleading borrowers and asserting general principles found in each state's laws prohibiting companies from engaging in unfair and deceptive act and practices .[47] While the memo has been given virtually no legal weight and found to be unpersuasive by multiple courts, it had the clear effect of establishing the Department of Education as a foe of student loan servicing reform.

Despite the attempt by the Department and servicers to thwart state interests, Washington still passed some version of the Student Loan Bill of Rights during the 2018 legislative season, and the power of states to regulate the abusive practices of student loan servicers remained clear. In fact, a bi-partisan group of 30 state attorneys general affirmed the right of the states to oversee and enforce student loan laws, signing a letter stating, in part:

> Given the states' experience and history in protecting their residents from all manner of fraudulent and unfair conduct, they play an essential role in consumer protection in student loans and education. States are uniquely situated to hear of, understand, confront, and, ultimately, resolve the abuses their residents face in

[46] Federal Register "Federal Preemption and State Regulation of the Department of Education's Federal Student Loan Programs and Federal Student Loan Servicers" (March 12, 2018) https://www.federalregister.gov/documents/2018/03/12/2018-04924/federal-preemption-and-state-regulation-of-the-department-of-educations-federal-student-loan (this interpretation holds no force of law, and does not conform with the Administrative Procedures Act)

[47] Id.

the consumer marketplace. Abuses in connection with schools or student loans are no different. As with other issues facing their citizens, state regulators bring a specialized focus to, and appreciation for, the daily challenges experienced by students and borrowers. Far from interfering with the Department and other federal efforts to rein in abuses, the record overwhelmingly demonstrates that state laws and state enforcement complement and amplify this important work.[48]

A poll done by the Center for Responsible Lending and the Maine Center for Economic Policy in October 2018 revealed another cause for concern for state officials – student loan borrowers who move out of state to find jobs that pay enough to help repay their debts. In Maine, more than 40% of those polled new someone who had left the state in order to pay for their student loan debt.[49]

The poll also revealed the deep ripple effects of student debt. The majority of student loan borrowers who were polled reported that they had struggled with payments, reduced the amount they were saving for retirement, and unable to purchase a car. More than 30% of respondents reported that they had put off paying rent or their mortgage to pay a student loan, failed to pay another bill, or even have been unable to afford food or clothing.

A similar poll from Maryland, which Center for Responsible Lending commissioned with the Maryland Center for Consumer Rights, found that borrowers overwhelmingly (85%) support licensing and oversight of student loan servicers in their state. [50]

In 2019, bills were filed across the country, as new states followed the lead of Connecticut and others and even added new protections to compliment initial efforts. The new enhanced versions of the Student Loan Bill of Rights not only required student loan servicers to be licensed by the state and enumerated certain prohibited acts, but also created affirmative duties for servicers and, importantly, included a private right of action, enabling borrowers to enforce these new servicing laws. New York,[51] Colorado,[52] Maine,[53] Rhode Island,[54] and New Jersey[55] passed these comprehensive bills, while Maryland passed an update to their 2018 bill, adding prohibited acts, affirmative duties, and a private right of action. And Nevada took a first

[48] Sign On Letter to Congress re Student Loan Preemption, Mar. 15, 2018, https://nj.gov/oag/newsreleases18/2018-0315_AG-Letter-to-Congress-Opposing-Student-Loan-Preemption.pdf

[49] https://www.mecep.org/new-poll-mainers-struggle-to-pay-down-student-debt-say-loan-servicers-are-making-matters-worse/

[50] https://www.responsiblelending.org/sites/default/files/nodes/files/research-publication/gonzales-poll-student-loan-debt-apr2018.pdf

[51] An act to amend the banking law, in relation to requiring the licensure of student loan servicers : https://nyassembly.gov/leg/?default_fld=&leg_video=&bn=A07582&term=2017&Summary=Y&Text=Y

[52] Colorado Student Loan Servicers Act: https://leg.colorado.gov/sites/default/files/2019a_002_signed.pdf

[53] The Student Loan Bill of Rights: https://legislature.maine.gov/legis/bills/bills_129th/billtexts/SP028501.asp

[54] Student Loan Bill of Rights Act: https://www.billtrack50.com/BillDetail/1110649

[55] Nevada Student Loan Ombudsman Bill: https://www.leg.state.nv.us/App/NELIS/REL/80th2019/Bill/6730/Text

step towards a Student Loan Bill of Rights, passing a bill to establish the Office of the Student Loan Ombudsman.

Student Loan Debt is a Crisis, but States Can do Something

Whether they are in default, failing to decrease their debt even with regular monthly payments, or putting off buying a home, it seems clear that the 20% of Pennsylvanians with a student loan debt are struggling. And while relief from the Federal government seems unlikely, state legislatures can and have stepped up to protect the borrowers in their states. Pennsylvania should work towards direct, commonsense solutions to address both the predatory behavior of many for-profit school chains, and to ensure that servicers are providing fair and competent student loan servicing to borrowers in the state.

FOR-PROFIT COLLEGES: LESS FAVORABLE OUTCOMES, DEEPER DEBT FOR STUDENTS

PENNSYLVANIA

PA for-profit colleges disproportionately HARM:

LOW-INCOME FAMILIES • AFRICAN AMERICANS • WOMEN

Undergraduate enrollment at Pennsylvania for-profit colleges is:

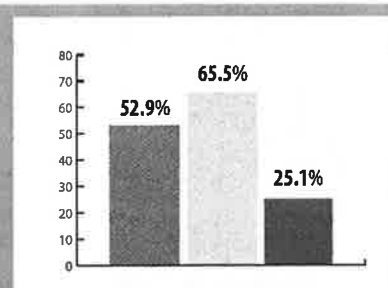
- **63.7% low-income,** compared to 31% low-income for all nonprofit undergraduate institutions in the state.
- **23.1% African American,** compared to 11.2% African American for all nonprofit undergraduate institutions in the state.
- **58.8% female,** compared to 55.1% female for all nonprofit undergraduate institutions in the state.

LESS LIKELY TO GRADUATE

Students at for-profit colleges are LESS LIKELY TO **GRADUATE**

PENNSYLVANIA COMPLETION RATE (IN 6 YEARS)

- Public 4-Year
- Private 4-Year
- For-Profit 4-Year

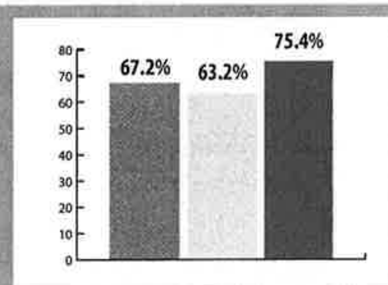


MORE LIKELY TO BORROW

Students at for-profit colleges are **MORE LIKELY** to take out **STUDENT LOANS**

PENNSYLVANIA PERCENT OF STUDENTS BORROWING

- Public 4-Year
- Private 4-Year
- For-Profit 4-Year

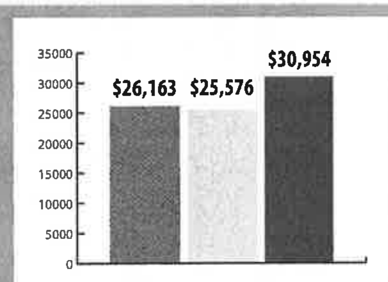


DEEPER IN DEBT

GRADUATES LEAVE SCHOOL **MORE INDEBTED**

PENNSYLVANIA MEDIAN DEBT AT GRADUATION

- Public 4-Year
- Private 4-Year
- For-Profit 4-Year

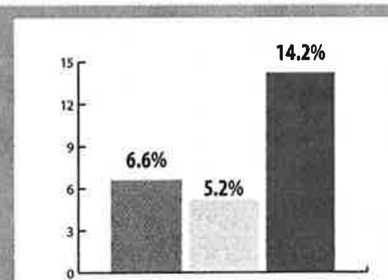


MORE LIKELY TO DEFAULT

Students at for-profit colleges are **MORE LIKELY TO DEFAULT** on their college debt, leading to economic instability

PENNSYLVANIA THREE-YEAR COHORT DEFAULT RATE

- Public 4-Year
- Private 4-Year
- For-Profit 4-Year



CRL

Center for Responsible Lending

ALL CALCULATIONS CONTAINED IN THIS FACT SHEET are CRL's using the September 2018 release of College Scorecard (U.S. Department of Education). Enrollment shares for low-income, African-American, and female students sum enrollment for all for-profit undergrad schools in the state and compare them to the combined sum of enrollment at public and private nonprofit undergrad schools for each of the three categories. Measures shown in each chart are unweighted averages for all institutions of a certain college type (Public 4-Year, Private 4-Year, For-Profit 4-Year), excluding undergrad institutions with fewer than 100 undergrads.

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State Student Loan Servicing Laws

	Scope		Oversight			Servicer Conduct			Ombudsman
State	Covers Banks	Covers Guaranty Agencies	Establishes Licensing Structure	Includes Enforcement by Supervision	Private Right of Action Available	Includes Prohibited Acts	Includes Affirmative Duties	Requires IDR Evaluation Before Default[1]	Establishes Public-Facing Student Loan Ombudsman or Advocate Position
Connecticut	x	x	x	x		x			x
Illinois			x	x		x	x		x
California			x	x		x	x		
District of Columbia		x	x	x					x
Washington		x[2]	x	x		x	x		x
Virginia									x
Maryland[3]		x		x	x	x	x		x
New York		x	x	x	x	x	x		
Colorado		x	x	x	x	x	x	x	x
Maine		x[4]	x	x	x	x	x	x	x
Rhode Island		x	[5]	x	x	x	x	x	
New Jersey		x	x	x	x	x	x	x	x
Nevada									x

1 Some states, including Illinois and Washington, provide for some protections regarding Income-Driven Repayment (IDR), but do not require that borrowers be evaluated for IDR prior to default.

2 Washington exempts "[g]uarantors of federal student loans that do not also service federal student loans" from its licensing requirements. These guaranty agencies are still subject to the student education loan servicer requirements provided they service federal loans.

3 Maryland enacted an ombudsman-only bill in 2018. In 2019, the state enacted additional measures addressing servicer conduct and providing oversight.

4 Finance Authority of Maine is exempt from licensing requirements in Maine's Student Loan Bill of Rights.

5 Rhode Island requires registration of student loan servicers.

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Center for Responsible Lending

National Urban League

The Leadership Conference Education Fund

QUICKSAND:

Borrowers of Color & the Student Debt Crisis

September 2019

Table of Contents

Executive Summary

Higher education has long been considered a pathway for advancement in our country. However, the playing field has not been level for low- and moderate-income families and people of color in their pursuit of a postsecondary education. Sadly, the resulting disparities in educational outcomes contribute to the persistent and growing racial wealth and income gaps. Nationwide, trends in the higher education landscape such as state disinvestment, rising college costs, the increasing necessity of college degrees in the labor market, and the loss of savings and other forms of wealth from the Great Recession have led us to a crossroads. Now, student debt threatens the well-being of an entire generation of students and their families.

Historically, access to higher education has been dramatically unequal.[1] This pattern persists today as African American and Latino students struggle to fund their college experiences due to the effects of compounding wealth and educational inequities rooted in discrimination. Too often, these students are preyed upon by poor quality for-profit institutions that fail to provide reliable educational benefits.[2] As a result, students of color accumulate high levels of unsustainable debt.

Historically black colleges and universities (HBCUs) and other minority-serving institutions (MSIs) have a long history of providing increased opportunities in education for African American, Latino, and native students. In particular, HBCUs perform a critical function for African American undergraduates: Across the 21 states and territories where they are located, HBCUs comprise only 9% of four-year institutions but awarded 26% of all African American bachelor's degrees in 2016.[3] Among Latinos enrolled in postsecondary programs, the majority of Latino undergraduate students (65%) attend a Hispanic-serving institution (HSI). HSIs are public or private nonprofit schools with student populations that are at least 25% Latino, that enroll a high concentration of low-income students, and that have low core expenses. HSIs now account for 15% of all institutions of higher education, and the number of HSIs has doubled over the past 20 years. HSIs play an important role in educating Latino students, yet while HSIs serve low-income students, these institutions are often under-resourced themselves. On average, HSIs produce better graduation outcomes for Latino students compared with non-HSIs and also tend to have smaller completion gaps between white and Latino students.[4] These schools, along with many public institutions, provide high-quality opportunities but have never been adequately funded. Indeed, the racial wealth and resource gap extends to institutions of higher education.[5]

Student debt is a significant drag on the entire economy as it depresses the purchasing power of millions, preventing people from starting families, investing in their own businesses, going back to school, and buying homes. And because students of color carry larger debt burdens, these consequences also exacerbate the racial wealth divide by impacting families of color the most acutely. Without action, this problem will only worsen.

In order to ensure that our higher education system provides meaningful opportunities for students to build a financial future and participate in our economy, fundamental reforms are necessary. This report provides the historical context for the student debt crisis as both a civil rights and an economic justice issue, and provides policy solutions for borrowers in repayment, current students, and future students.[6]

> The federal government must reinvest in our future by providing broad-based debt cancellation to all borrowers in repayment.

The sheer amount of outstanding debt and the number of borrowers impacted pose significant risk to this country's economic well-being. Because of this, we must tackle the debt itself in addition to reforming the higher education system. The federal government must reinvest in our future by providing broad-based debt cancellation to all borrowers in repayment. Further, the system must be reformed to ensure that it works efficiently and is fair for borrowers with remaining debt and for future students.

Recommendations for System Reform:

- Improve repayment options and provide debt relief: Make it easier for students who currently carry debt loads to pay off their loans and move on with their financial lives so that they can participate in a growing economy through improvements to income-driven repayment, reduced interest rates, the availability of hardship bankruptcy relief, and broad debt cancellation;

- Strengthen servicing standards and oversight: Reform student loan servicing by setting clear standards and supporting students navigating student loan debt so that they can enroll in affordable repayment options quickly. Borrowers deserve clear and timely information about their options and basic consumer protections. Additionally, servicers should not pursue past-due debts through Social Security offsets and garnishments that are more aggressive than income-driven repayment options. Further, hold the Department of Education accountable for basic oversight and management of servicing and collection standards;

- Prevent abuses by for-profit institutions: Stop funding ineffective and abusive for-profit schools and hold schools accountable for student performance by establishing standards around the use of federal dollars, closing the 90/10 loophole, protecting students who attended closed schools, and reinstating meaningful Gainful Employment and Borrower Defense to Repayment rules; and

- Make college accessible for ordinary Americans: Reinvest in higher education as a public good by providing debt-free college options for students at two- and four-year HBCUs and public institutions, boosting funding to HBCUs and other minority-serving institutions, and protecting and expanding Pell Grants to prevent this crisis for the next generation of students.

Pathways to Loan Repayment & Forgiveness

Make IDR simpler and more affordable. Currently these programs require unaffordable levels of a borrower's income, failing to leave enough for essential living expenses. Borrowers should be allowed and encouraged to make student debt payments based on 8% of discretionary income above 250% of the poverty level. Further, IDR terms should be shortened from 20–25 years to 15 years.

Provide dollar-limited across-the-board loan cancellation to all students currently in repayment. Broad debt cancellation should be offered to students currently in repayment. This will benefit all students, but particularly serve low-income students and those in default, many of whom tend to have relatively low balances and would experience complete student debt elimination.

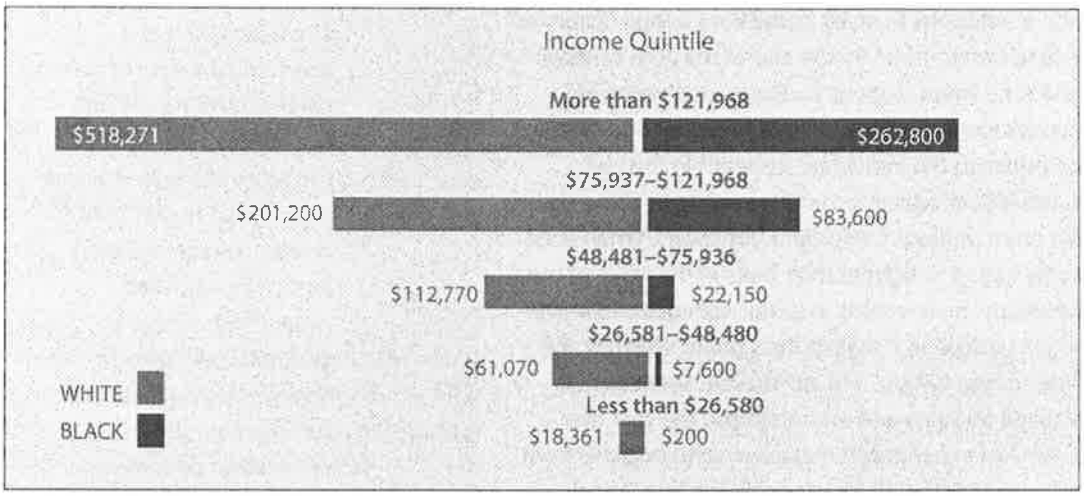
Student debt has become a significant drag on the national economy, weighing the heaviest on African Americans and Latinos. Fortunately, policymakers can stem the crisis for borrowers and their families and jump-start the ability of young people and families to move ahead with their financial lives.

Historically, students have benefited from public investment in higher education, from the GI Bill to the creation of the Pell Grant program. But not all students benefited equally from these social investments: African American students did not have access to the GI Bill, and higher education institutions in many states have a long history of resistance to integration.[7] By the end of the 20th century, just at the time when student bodies were diversifying, policymakers were shifting the costs of higher education from the public to the individual student.[8] In the past decade, the higher education landscape has become significantly more perilous for student borrowers. When state legislatures began to tighten their belts in the wake of the Great Recession, investments in public colleges and universities began to decline.[10] In response, public colleges and universities raised tuition, and cut student services.[11] As states slashed budgets and schools raised the cost of a degree, families experienced massive wealth declines from a sinking economy.[12] With foreclosures, job loss, and downturns in the market fracturing family balance sheets, an entire generation of students needed to borrow more than ever before to attend college. Further, a larger number of students than ever before chose to go to college to pursue an education that could help them secure a solid future.

> There has been "a vicious cost shift from the public to the individual precisely at a time when the share of students of color attending college has risen.... To say that the alternative to student loans is for students to forego college is a tacit admission that we collectively refuse to maintain our historic levels of investment for the most diverse generation of students in American history."[9]
>
> –Mark Huelsman, Demos

Today, the amount of outstanding total student debt in America exceeds $1.5 trillion.[13] This debt disrupts the lives of millions of students and families seeking financial stability and hinders the health of the overall economy.[14] While shocking, the total sum of student debt also masks important trends within the crisis: specific populations of students facing more severe consequences due to poorly structured and operated student loan programs; neglect in overseeing abuses of the higher education system by for-profit schools; and inadequate support for affordable, quality higher education. For students of color, and particularly for African American students and families, the current system can be catastrophic, too often turning visions of increased opportunity into lasting financial burdens.[15]

Figure 1. Racial Wealth Gap Persists at All Income Levels[16]



Source: Darity, William; Hamilton, Darrick; Paul, Mark; Aja, Alan; Price, Anne; Moore, Antonio; and Chiopris, Caterina. 2018. "What We Get Wrong About Closing the Racial Wealth Gap." Durham, NC: Samuel DuBois Cook Center on Social Equity.

Unfortunately, in America the wealth gap begins at birth. The average African American child is born into a family with 10 times less wealth than the average white child.[17] This disparity is driven by the structural racism and the pervasive discrimination that occur within all sectors of society, including housing, education, employment, and lending.[18] Due to these inequities, African American families at all income levels lag behind white families in wealth accumulation (Figure 1). Thus, families of color are more likely to need to borrow, and in higher amounts, to pay for postsecondary education.

An African American household with a college-educated head has less wealth than a white family whose head did not even obtain a high school diploma. It takes a postgraduate education for an African American family to have comparable levels of wealth to a white household with some college education or an associate degree.[19]

When working after completing school, African American and Latino students face substantial job discrimination and earn far less than white counterparts.[20] African Americans can also face more difficulty paying off debt and building savings to withstand future financial shocks because of this persistent income gap. Given these disadvantages, these students tend to take longer to pay their loans back compared to their white counterparts.[21]

Students of color pursue postsecondary education in a social and economic system built on racist ideologies and infused with hidden and unconscious biases that create and perpetuate the racial wealth, income, and achievement gaps.[22] This reality means that, on average, students of color have less familial financial support or knowledge about navigating this complex system.[23] It also often means that students of color are more likely than their white counterparts to have additional obligations while they are students.[24] They are also caregivers or parents or full-time workers. For many students of color, higher education is neither a luxury nor a choice, it is a necessity.[25]

Historically, access to higher education has been dramatically unequal.[27] Today this pattern persists, and African American and Latino students struggle to fund higher education due to wealth stripping policies that have and continue to hinder the economic security of African American and Latino students and their families. Often they end up trapped by poor quality for-profit institutions that fail to provide reliable educational benefits.[28] As a result, students of color too frequently accumulate high levels of unsustainable debt.

Borrowers In Their Own Words

One recent study found that student loan borrowers recognized a value in their degrees that could not be measured in dollars. One graduate said that her higher education was "100%" worth it and added: "I know that sounds so insane to even say that [due to the amount of debt I have]. But, I mean, I feel like I came so far from where I was... and yes, I have this debt looming over me, and I have a lot of anxiety about that, and that really sucks. But... I feel like I wouldn't be where I am in my life, and I owe that to being able to go to school and do everything that I've done."[26]

Historically black colleges and universities (HBCUs) and other minority-serving institutions (MSIs) have a long history of providing increased opportunities in education for African American, Latino, and native students. HBCUs perform a critical function for African American undergraduates: Across the 21 states and territories where they are located, HBCUs comprise only 9% of four-year institutions but awarded 26% of all African American bachelor's degrees in 2016.[29] Among Latinos enrolled in postsecondary programs, the majority of Latino undergraduate students (65%) attend a Hispanic-serving institution (HSI). HSIs are public or private nonprofit schools with student populations that are at least 25% Latino, that enroll a high concentration of low-income students, and that have low core expenses. HSIs now account for 15% of all institutions of higher education, and the number of HSIs has doubled over the past 20 years. HSIs play an important role in educating Latino students, yet while HSIs serve low-income students, these institutions are often under-resourced themselves. On average, HSIs produce better graduation outcomes for Latino students compared with non-HSIs and also tend to have smaller completion gaps between white and Latino students.[30] These schools, along with many public institutions, provide high-quality opportunities but have never been adequately funded. Indeed, the racial wealth and resource gap extends to institutions of higher education.[31]

Today, higher education is not only failing to help close the racial wealth and income gaps, it is fueling their growth. This crisis must be immediately addressed with fundamental reforms that provide meaningful opportunities for students to build a financial future and participate fully in our economy.

The Student Debt Crisis

Unlike previous generations, most college students now graduate with debt. In 2016, almost 70% of graduating seniors borrowed to cover the cost of college, at an average amount of almost $30,000 (Figure 2).[32] There are significant differences across racial and ethnic groups, with some groups particularly reliant on student loans. For example, native Hawaiians and other Pacific Islanders borrow in almost 90% of cases, and African American graduates borrow in 85% of cases. These rates vary by state, and Appendix B provides a state-by-state look at how racial and ethnic categories impact median debt, share with debt, and delinquency.

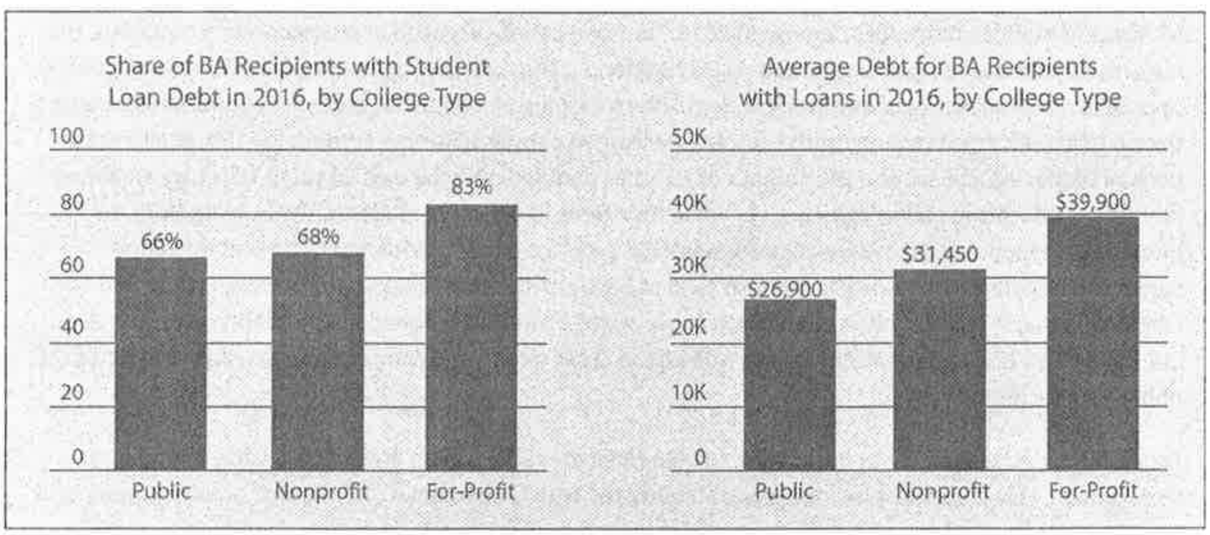
Figure 2: Significant Differences in Amount & Share of Student Debt across Racial & Ethnic Groups

	All	White	Black	Hispanic/ Latino	Asian	American Indian or Alaska Native	Native Hawaiian/ Other Pacific Islander
Average Debt for BA Recipients with Loans in 2016	$29,669	$30,093	$33,993	$25,452	$25,447	$26,380	$26,515
Share of BA Recipients with Student Loan Debt in 2016	68.9%	69.4%	84.9%	66.3%	45.1%	76.1%	89.4%

Source: U.S. Department of Education. National Postsecondary Student Aid Study, 2016 (NPSAS: 16).

Institution type is also an important factor in determining a student's likelihood to borrow. Whereas 66% of students at public institutions borrow to cover the costs of higher education, 83% of students at for-profit colleges borrow. The average debt load is also higher for students at for-profit colleges, with an average amount borrowed of $39,900 compared with an average of $26,900 for a graduate at a public institution (Figure 3).[33]

Figure 3: Students at For-Profit Institution Borrow More Often & In Higher Amounts



Source: The Institute for College Access and Success. 2019. "Quick Facts about Student Debt."

Approximately 90% of student loan debt is held by the federal government, and the remaining 10% of loans are privately held.[34] The interest rates on federal loans in 2019–2020 are 4.53% for Direct Subsidized and Direct Unsubsidized Loans to undergraduates, 6.08% for Direct Unsubsidized Loans to graduate and professional students, and 7.08% for Direct PLUS Loans, which are available to parents along with graduate and professional students. Federal loans have borrower protections, such as deferred payments so that students do not have to pay while they are in school, fixed interest rates, income-driven repayment (IDR) plans after graduation, and even some forgiveness options such as public service loan forgiveness (PSLF). Private loans, conversely, can have variable interest rates, require payment while students are in school, and do not qualify for federal repayment and forgiveness programs.[35] Protections and incentives for federal student loan borrowers such as PSLF, the Borrower Defense to Repayment rule, and the Gainful Employment Rule have been under attack by the Trump administration, further endangering the financial lives of borrowers.

Federal Loan Repayment

Once students graduate or leave school, they begin to pay on a federal loan after a six-month grace period. The standard repayment plan is over 10 years, and other repayment options lower the monthly payment but extend the term over a longer period of 20 to 30 years. For instance, the Revised Pay As You Earn, or REPAYE plan, limits payments to 10% of discretionary income and extends the repayment term to 20 years.

African American Students

Over the past few decades, the number of African American students completing college has risen significantly.[36] Due to the racial wealth and income gaps, African American students face challenges paying for higher education, whether or not they complete their degree. Over half of all families with African American heads of household aged 25–40 have student debt, and 85% of African American graduates in 2016 took on debt to finance their undergraduate degree.[37] And the student loans are a burden: For African American borrowers who entered higher education in 2003–2004 as undergraduates, almost 49% had defaulted by 2016. Up to 70% of this cohort is projected to default by 2024.[38]

For African American students, a degree is no shield from racial disparities: African American bachelor's degree graduates are unable to afford their loans at five times the rate of white bachelor's degree graduates and are more likely to default than white borrowers who never finish a degree.[39] Many African American student loan borrowers find themselves drowning in increasing student debt despite making regular payments. Almost half of African American graduates owe more on their undergraduate student loans four years after graduation than they did when they received their degree, compared to 17% of white graduates.[40] One key concern is that for-profit colleges target African American students with expensive, low-quality programs.[41] As a result, many of these students end up in unsustainable debt from programs that fail to adequately prepare them for employment opportunities, producing no increase in earning capacity and

> Almost half of African American graduates owe more on their undergraduate student loans four years after graduation than they did when they received their degree, compared to 17% of white graduates.

substantial levels of debt.[42] Students at for-profit institutions who do not complete their degrees are further at risk because they never secured the credential that could help them, in the best case, achieve a boost in earnings.

Defaults Don't Capture the Full Extent of the Distress

Student loan default numbers do not fully reflect the high level of financial distress for two reasons. First, many students are in "deferral periods," during which payments are not due on their loans, but interest is accruing and their debt is growing. These students are not included in the default numbers. Second, the definition of "default" for student debt is far more severe than default in other areas of lending. For instance, most loans, such as car loans and mortgages, are considered to be in default after payments are 90 days past due.[43] Student loan debt, in contrast, is not in default until a student does not make full payments for 270 days, reflecting a much deeper level of borrower financial distress.

Research has established that many borrowers struggle to successfully repay their student loans. Today, two in five borrowers are in default or delinquent, and many borrowers are not reducing their principal even after almost a decade of repayment.[44] Almost one in four (23%) of student loan borrowers still owe more than half of their original loan balance after eight years in repayment. Even worse, more than 6% of borrowers owe more than 90% of their original loan balance after eight years of repayment.[45] And 27% of borrowers of all races and ethnicities who entered higher education in 2003–2004 as undergraduates had defaulted on their student loans by 2016. Up to 40% of this cohort are projected to default by 2024.[46] Ultimately, the research indicates that borrowers are unable to manage their student debt payments and that the situation is worsening.

Latino Students

Latino students make up almost one-fifth of all students in U.S. postsecondary institutions, and are projected to keep growing their share of the student population in years to come.[47] Latino students borrow at rates similar to their white peers, but have lower household incomes and significantly less wealth. They are more likely to drop out of school because of the high price of education; in 2009, 31% of Latino student loan borrowers dropped out of college. Once a student stops or drops out of college, they are much more likely to experience trouble in repayment because they have debt but no degree or credential in hand.

Latino students who attend for-profit schools experience particularly poor outcomes. At for-profit colleges, non-completion is particularly high, with 67% of Latino borrowers at four-year for-profit colleges leaving school before graduation.[48] Latino students at all institution types are more likely than their white peers to default on their loans, with 15% of those in repayment in default, and 29% in serious delinquency.[49]

As college costs are higher than ever, many Latinos are still recovering from the deep financial shocks of the Great Recession. Latino families also continue to face a persistent and growing wealth gap; in 2016 white wealth was 8.5 times that of Latino family wealth. Given their lower incomes and wealth, Latino families often invest a greater share of their scarce incomes in higher education, but rising costs mean that more and more students are turning to loans. College is a valuable investment, but student loan debt too often becomes a barrier to financial security and severely limits wealth building opportunities for those with student debt, including many Latinos, who struggle to pay.[50, 51]

Borrowers In Their Own Words

"I'm hoping once [the loan] is paid off, it's going to be worth it. When I started out, my debt load was a little over $32,000. My thought was, at least I'm paying this chunk off and I can say I paid for a portion of my education, and that means something. At the same time, as I reflect on it, no one should have to owe money for an education. Today, I spend at least $400 a month making these payments. I could imagine all the things I could be doing with that money: putting it to savings, taking trips. That's certainly affected getting a new car. It affects a lot, so I'm hoping all this struggle and putting things off, at least in the long run, will be worth it."[52]

Women Students

Women—and particularly African American women—are more likely to take on student loan debt, face a wage gap in the workforce, and struggle with repayment. Women graduate, on average, with $2,700 more in student loan debt than their male counterparts.[53] And because women earn less than their male counterparts in the workforce, paying off their debt takes significantly longer.[54] This is especially true for African American women and Latinas, who have the greatest average amount of student loan debt and are paid only 61 cents and 53 cents to the dollar, respectively, compared to white men.[55]

Millions of college-going women are also mothers—an estimated 25% of all college students are parents with dependent children, and over 40% of these parents are single mothers.[56] Mothers, and especially single mothers, face challenges at all types of institutions related to child care, as the current supply of on-campus childcare centers meets only 5% of demand.[57] Single mothers are another constituency that is targeted by expensive and predatory for-profit schools.[58] All of these factors combine to make single mothers more likely to drop out of college with higher debt loads.[59]

In repayment, women fare worse than men overall. According to a 2009 study by the American Association of University Women, just over half of women working full-time were paying more than what was affordable toward their student loan debt, while only 39% of men were.[60] Further, difficulties in repayment can make it difficult for women to meet their basic needs: Approximately 34% of all women and 57% of African American women who were repaying student loans reported that they had been unable to meet essential expenses within the past year.[61]

Borrowers In Their Own Words

Women are also particularly vulnerable to the promises of for-profit colleges, which target single mothers who are worried about supporting their children. When CRL conducted focus groups of students who attended for-profit colleges, these mothers spoke about their experiences.[62]

Rosa, a focus group participant, described how her children motivated her to enroll in a for-profit school. She now has $108,000 in student loan debt and is disillusioned about higher education:

"So I don't mean to sound sappy…so when I was 17, I had my daughter in high school. I had everybody tell me like 'You just threw your life away, blah blah blah. You're not going to make anything of yourself, you're not even going to go college, you're not even going to finish high school.' So I just always had this determination to kind of, like, prove everybody wrong. So, after I graduated high school I just went straight into college and just thought that, you know, I could make a nice life for my child…and I could prove everybody wrong. Just because you're a teen mom doesn't mean you're like a piece of trash. Because that's what everybody perceived me as."

Older Americans

Student debt isn't just a problem for Millennials. In 2015, $66.7 billion of total outstanding student loan debt was owed by 2.8 million borrowers age 60 and older.[63] This is quadruple the number of older borrowers with student loan debt since 2005. For seniors, defaulting on student loan debt can be devastating. For federal student loans, seniors can have their Social Security income seized by the federal government. In 2015, about 114,000 adults over 50 had their Social Security income seized for these purposes.[64]

Americans over 60 are not only paying off loans for their children—they are also taking on debt to finance their own educations. The Federal Reserve Board reports while 68% of borrowers over 60 are paying for loans for their children and/or grandchildren, 27% of student loan borrowers over 60 are paying for their own education or education for their spouse.[65]

Servicemembers

The federal government appropriately provides servicemembers with additional education benefits through the GI Bill and Post-9/11 GI Bill. Unfortunately, abusive for-profit schools turn these benefits into a financial jackpot for poor quality programs that they target to servicemembers. Under current provisions, for-profit schools must bring in at least 10% of total revenue from sources that are not federal financial aid. This rule, called the "90/10 Rule," ensures that for-profit schools are, in fact, competitive in the marketplace and are not relying only on taxpayers to survive. However, because veterans' benefits are not counted as federal financial aid, these schools are financially rewarded for signing up servicemembers, and veterans are targeted for recruitment by many for-profit institutions.[67]

> "Large for-profit schools remain dependent on recruiting GI Bill students in 2018. GI Bill students… still represent more than 10% of students enrolled in six large for-profit schools from 2013–2016, underscoring their dependence on recruiting this population."[66]
>
> –Veterans Education Success

The Burdensome Structure of Student Debt Makes It Devastating & Inescapable for Many Students

Many families see education as a ladder to success, but student debt can be a serious impediment to wealth building. For borrowers who are struggling the most and who owe on student loans for many years, it can have devastating consequences. Student debt has several characteristics that make it far more difficult to manage than other types of debt:

- Students receive this debt at the beginning of their working careers, effectively pledging as collateral their future income, despite having no real way to measure the future financial value of their degrees.

- Interest on some loans accrues while the student is in school and during deferral periods, adding to the debt. Moreover, there is no time limit on how long interest accrues or how long the loan can be collected, so students can end up owing primarily interest on their original loans.

- The government has extraordinary collection power. Most student loans are originated and owned by the federal government and are not only collectable by wage garnishment, but by taking away government payments, such as tax refunds and even Social Security retirement payments, which are protected from offset for almost all other debts.

- Student loans are generally not dischargeable in bankruptcy, making them life-long debts.

Harmful Student Loan Servicing Practices Further Add To the Debt Burden

While federal student loans are originated by the U.S. government, they are serviced by private companies and state guaranty agencies, with whom the Department of Education contracts. During the Obama administration, contract negotiators for student loan servicers were instructed to include important consumer protections and incentives in the contracts.[68]

Unfortunately, the current administration reversed those guidelines despite recent Consumer Financial Protection Bureau (CFPB) lawsuits against two of the largest servicers.[69] The lawsuits alleged that the servicers routinely undermined borrowers by misapplying payments, reporting incorrect information to credit bureaus, and placing borrowers in plans that caused their debt to balloon. With $1.5 trillion in student debt and with defaults on the rise, good servicing is vital.

- Programs designed to help borrowers, such as income-driven repayment (IDR) plans that have payments based on the borrower's income, are not promoted to borrowers and have complex requirements and documentation.

- The Department of Education has set up financial incentives for loan servicers to push borrowers into collection in order to earn higher fees than they receive by offering payment plans and has not monitored servicers or debt collectors for compliance with basic consumer protection standards.[70]

A College Education Should Serve Students, Not Just Enrich For-Profit School Owners & Investors

For-profit colleges continue to be major drivers of student loan debt and defaults, particularly for students of color. One of the major contributors to high rates of default for African American borrowers is their over-representation at for-profit colleges. Over 52% of borrowers who first entered higher education in the 2003–2004 undergraduate cohort at for-profit institutions defaulted by 2016 compared to just over 17% for borrowers of the same cohort that first enrolled in four-year public colleges.[71]

In 2017, the Center for Responsible Lending conducted a series of focus groups with Florida for-profit college borrowers that confirmed what research had already suggested: For-profit college students pay more for programs that do very little to improve their earnings compared to more affordable, high-quality programs in other sectors of higher education.[72] These focus group participants voiced disappointment in not being able to find full-time employment sufficient to make any progress repaying student debt, inability to cover typical family living expenses or access credit to buy a car or home, and despair and cynicism about the prospect for better financial prospects for their children—coupled with a determination that they avoid for-profit colleges for their education.

Despite years of failing to serve students, however, for-profit colleges continue to make financial gains under the current administration—just recently, the current administration withdrew a rule that cut federal funding for programs at colleges that regularly resulted in graduates having debt that far outweighed their incomes. And those financial gains come at the expense of borrowers and taxpayers. Unfortunately, many for-profit schools fail to spend these public dollars responsibly. Of the top 10 education advertisers online, seven are for-profit institutions. Six-month spending on advertising for these seven schools averaged $11.8 million (Aug. 2016–Jan. 2017). A study of these same schools using Department of Education data found that on average only 22.9% of tuition dollars were spent on instruction (FY 2015).[73]

Student Debt is an Individual & National Crisis

Defaults can cause borrowers to spiral into poverty. Defaulting on a student loan harms a borrower's credit score, making it more difficult to access jobs and housing, as employers and landlords routinely conduct credit checks when assessing applicants. In some states, defaulted borrowers could lose their driver's license and specialty work licenses related to their employment. For seniors, defaulting could mean garnishment of their Social Security income, locking them into poverty.

While default is catastrophic, even borrowers who are able to make payments are struggling. Student loan debt is leading borrowers to delay purchases like a car, saving for their retirement, and even starting families.[74] And because of the lopsided consequences associated with student debt, these delays also exacerbate the racial wealth gap.

Without action, this problem will continue to get worse. Research from the National Association of Realtors shows that the average student loan borrower delays

Borrowers In Their Own Words

"It's insane, like stress, like crazy—I feel like I am never going to get through it. I mean it causes anxiety and depression from it. And so, I just feel like I can't move forward with my life because I am constantly paying this and I'm never going to be able to get out of it."

-Melissa, a focus group participant

the purchase of their first home by an average of seven years.[75] This is a significant problem in and of itself, but it is particularly worrisome in light of the fact that differing rates of homeownership are a key contributor to the racial wealth gap and the fact that homeownership has historically been a critical pathway through which Latino households build wealth.[76] And homeownership rates for African Americans are the same today as they were in 1968.[77]

Research has also identified a persistent negative impact of student debt on small business formation.[78] For instance, nearly half of Millennials who either already own a business or have plans to do so say that their student loan payments have impacted their ability to start a business.[79] And, once started, small businesses owned by people with student loan debt are less likely to grow. Given that small businesses are such a significant source of employment, the hampering of small business growth due to student loan debt also limits the types and number of available job opportunities.[80]

A Path Forward

Fortunately, reform is within reach. Any student loan policy reform must help both the millions of students currently carrying unsustainable debt and reform the student loan system in order to spare the next generation of college students. Immediate improvements can be made for students with existing debt loads that would reduce unfair burdens and kick-start the economy. This includes helping students reduce existing and unfair debt loads and immediately improving servicing to better serve students with debt. However, more meaningful reform must also prevent future students from enrolling in programs that do not serve their interests and increase affordable access to higher education to avoid repeating the mistakes of the last decade.

> Any student loan policy reform must help both the millions of students currently carrying unsustainable debt and reform the student loan system in order to spare the next generation of college students.

Recommendations for System Reform Include:

- Improve repayment options and provide debt relief: Make it easier for students who currently carry debt loads to pay off their loans and move on with their financial lives so that they can participate in a growing economy through improvements to income-driven repayment, reduced interest rates, the availability of hardship bankruptcy relief, and broad debt cancellation;

- Strengthen servicing standards and oversight: Reform student loan servicing by setting clear standards and supporting students navigating student loan debt so that they can enroll in affordable repayment options quickly. Borrowers deserve clear and timely information about their options and basic consumer protections. Additionally, servicers should not pursue past-due debts through Social Security offsets and garnishments that are more aggressive than income-driven repayment options. Further, hold the Department of Education accountable for basic oversight and management of servicing and collection standards;

- Prevent abuses by for-profit institutions: Stop funding ineffective and abusive for-profit schools and hold schools accountable for student performance by establishing standards around the use of federal dollars, closing the 90/10 loophole, protecting students who attended closed schools, and reinstating meaningful Gainful Employment and Borrower Defense to Repayment rules; and

- Make college accessible for ordinary Americans: Reinvest in higher education as a public good by providing debt-free college options for students at two- and four-year HBCUs and public institutions, boosting funding to HBCUs and other minority-serving institutions, and protecting and expanding Pell Grants to prevent this crisis for the next generation of students.

Current Student Loan Borrowers

Improve the Repayment Process

Provide dollar-limited across-the board loan cancellation to all students currently in repayment. Debt cancellation should be offered to students currently in repayment. This will benefit all students, but particularly serve low-income students and those in default, many of whom tend to have relatively low balances and would experience complete student debt elimination (see Appendix A for analysis and detail).

Student Loan Cancellation

Widespread student loan cancellation has the potential to alter the financial life courses of millions of Americans. Reducing or eliminating student loan balances could expand consumers' access to important financial products such as mortgages and could jump-start consumer spending and family formation for student loan borrowers who are relieved of a significant monthly expense.

Complete debt cancellation has been shown to increase GDP, decrease unemployment, and release millions of students from debt service obligations that prevent them from engaging in business and household formation, homeownership, and future educational attainment.[81] While total cancellation plans have encountered resistance because of the regressive nature of cancelling large debt totals for the highest-earning graduates, cancelling a set amount of loan debt for all borrowers upon entering repayment could focus the benefits on those that need it the most.[82] Overall, approximately 7.3 million borrowers were in default by March 2019 and almost 10% of outstanding student debt ($145 billion) was in default.[83] Estimates suggest that almost 90% of the defaulters are Pell Grant recipients and that the median amount owed is less than $10,000.[84] This suggests that even a modest amount of loan debt forgiveness of $10,000 for all borrowers could have a profound impact on borrowers in default (see Appendix A for more details and analysis).

Make IDR simpler and more affordable. Currently these programs require unaffordable levels of a borrower's income, failing to leave enough for essential living expenses. Borrowers should be allowed and encouraged to make student debt payments based on 8% of discretionary income above 250% of the poverty level. Further, IDR terms should be shortened from 20–25 years to 15 years.

Automatically qualify all borrowers for IDR programs. If a borrower does have to take a student loan for college, they should be automatically enrolled in an income-based repayment plan after filing taxes in the first year after their graduation. IDR should be an opt-out, not an opt-in, program. This change would allow the vast majority of borrowers who need income-driven payment relief to be automatically enrolled, while giving borrowers who can pay faster the option to opt out and pay on an accelerated schedule.

Forgive all student loans after paying on an IDR plan for 15 years. Student loan debt shouldn't last a lifetime, and discharge after years of payments should not create a tax burden for the borrower. Once a person has paid in good faith based on their available income under an IDR plan for 15 years, any remaining debt should be discharged on a tax-free basis. Those enrolled in Public Service Loan Forgiveness (PSLF) would still be eligible for that discharge after 10 years of repayment.

Forgive All Student Loans after Paying on an Income-Driven Plan for 15 Years

CRL's proposed income-driven repayment plan protects substantially more income for low- and moderate-income student loan borrowers compared to current policy in three ways.[85] First, under the proposed CRL plan, borrowers making less than 250% of the poverty level make no payments, compared to 150% under the current Revised Pay as You Earn (REPAYE) plan. As a result, borrowers struggling to make ends meet, in this case those with less than $23,000 in starting income, make no payments during the life of the loan under the CRL plan (assuming moderate wage and poverty level inflation and the repayment term ending in 15 years as outlined below). The comparable figure for the current REPAYE plan is $13,000 in starting income. Second, payments are calculated at 8% of discretionary income, as opposed to the 10% of discretionary income that is used for the REPAYE plan. Lastly, the repayment term ends after 15 years when remaining debt is forgiven, whereas the REPAYE plan ends after 20 years.

Using a repayment calculator developed by the Urban Institute, we calculated the savings to the borrower of CRL's plan compared to the REPAYE plan using the present value of borrower payments for each plan at various starting income levels. We also used the repayment calculator to show the differences in actual repayment length in years.[86]

Figure 4: IDR Proposal Results in Increased Savings, Shorter Term than Current IDR Plan for a Single Individual

Starting Adjusted Gross Income	Savings Under CRL Proposal	Difference in Repayment Period
$15,000	$1,507	-5 years
$20,000	$10,567	-5 years
$25,000	$20,738	-5 years
$30,000	$27,279	-5 years
$35,000	$28,494	-4 years
$40,000	$21,154	-1 years
$45,000	$14,195	2 years
$50,000	$7,448	4 years
$55,000	$839	5 years
$60,000	-$1,503	5 years

Source: CRL analysis derived from Urban Institute's Charting Student Loan Repayment calculator.

The table above shows that the present value savings over the life of the actual repayment periods are substantial and rising between $15,000 in income and $35,000 income, and still positive up until $60,000 in income.[87] Changes in income-driven repayment plans can save thousands of dollars for low-income borrowers during their repayment period and can relieve borrowers of their loan burdens faster.

Reduce interest rates, end interest capitalization, and end origination fees to prevent struggling borrowers from becoming underwater on their student loans. Interest recapitalization is the adding of unpaid interest to the principal amount of the loan, thus increasing the amount of future interest that accrues. Origination fees are upfront charges that are added to the amount borrowed.

Allow struggling borrowers to pause their payments for a period of time without capitalizing interest. Replace the current deferment and forbearance options into a simpler, interest-free "pause" on monthly payments. Under present rules, interest continues to accrue during these periods, and therefore large sums are added to the amount owed.

Allow adjustments and discharge of student debt in bankruptcy for hardship cases. At a minimum, borrowers must be able to discharge private student loans, as well as any federal loans that are ineligible for income-driven repayment.

Protect borrowers from aggressive collection actions after default. Protections afforded to borrowers in income-driven repayment should not disappear for the borrowers experiencing the most distress and falling behind on their payments. Several changes to the default process are critical: The entire balance of the loan should not come due upon default (as it does currently in a process called "acceleration"), borrowers should not have their earnings garnished in amounts larger than what they would pay under their IDR plan, involuntary payments should count towards forgiveness, and certain income types should be exempt from garnishment (such as Social Security and the Earned Income Tax Credit [EITC]). Further, borrowers who qualify for means-tested benefits, such as the EITC, should be exempt from garnishment.

Help borrowers access clear and consistent information about their loans by increasing resources to make independent counseling services available to students who carry debt, similar to the counseling made available to first-time homebuyers.

Strengthen Servicing Standards & Oversight

Reinstate borrower protections into contracts of federal student loan servicers. These include requiring servicers to act in the best interests of borrowers, prohibiting abusive fees and practices, and ensuring that voluntary overpayments are allocated to principal. Common sense affirmative duties and clear prohibited acts can ensure that servicers respond to and communicate with borrowers in a timely manner and that they provide consistent information.

Restructure servicer compensation to encourage and compensate servicers for spending time with borrowers at risk of delinquency and default, including enrolling borrowers in income-driven repayment. Today servicers are paid more to put borrowers into collection than to help them get more affordable payments.

Affirm and assert the power of the CFPB and state attorneys general in servicing enforcement by explicitly making violations of servicing standards enforceable under state Unfair, Deceptive, or Abusive Practices (UDAP) laws and the CFPB Act. Today, the Department of Education is ignoring its own duty to effectively oversee student loan servicers and simultaneously trying to block states from exercising oversight. Affirm that states have a right to oversee and sanction abusive student loan servicers.

Empower borrowers to enforce their own rights by banning mandatory arbitration clauses and recognizing a private right of action by borrowers against student loan servicers and debt collectors who violate consumer protection laws or contract requirements.

Current & Future Students

Each of the above recommendations would dramatically reduce existing debt burdens for students who are facing unprecedented financial costs for attending college. However, further steps are needed to prevent schools from selling credentials that cannot provide students a real path to economic security and to improve access to affordable, quality higher education.

Prevent Abuses by For-Profit Institutions

For current and future students and borrowers, in addition to the above reforms, we must stop funding ineffective and abusive for-profit schools and reduce overall student debt levels.

Congress should establish for-profit college standards. The Department of Education must stop writing blank checks to for-profit colleges, allowing them to spend federal dollars however they like. Instead, the Department should annually audit for-profit college spending, ensuring that at least 70% of Title IV dollars are being spent on instruction and student services.

Hold online for-profit schools to the same standards as brick-and-mortar institutions. Previously, schools could not receive federal support and run the shell operations with poor quality online programs that exist today. Allow states to measure online education providers against the same standards of approval they use for brick-and-mortar institutions in their state.

Close the 90/10 loophole. Reduce the ratio of federal dollars to other sources of tuition payment from 90/10 to 85/15 and classify funding from the GI Bill and the Department of Defense as federal sources in the ratio to protect veterans from exploitation.

Give automatic discharges to borrowers who attended closed schools. While current law allows student borrowers who attended closed schools within a certain timeframe to discharge their loans, the truth is that any borrower who attended a failed and closed school is going to see a serious decline in the value of their degree—especially if the school's closure was major national news. All student loan debt connected to obtaining that degree should be refunded, and the school should be on the hook for refunding taxpayers.

Reinstate meaningful Gainful Employment and Borrower Defense to Repayment rules. Any plan to reduce student loan debt must include provisions for students to receive debt relief when they are defrauded by their schools. Further, more effective metrics are needed in order to understand how students fare after attending Title IV-funded career education programs.

Make College Affordable for Ordinary Americans

According to a 2016 paper by the Center on Budget and Policy Priorities, nearly a decade of divestment from educational institutions has left a $10 billion hole in the budgets of institutions of higher education.[88] Major support, including the following, is required to make college reasonably affordable for working families.

Boost HBCUs, MSIs, and Tribal Colleges. The racial wealth gap extends to institutions. HBCUs, MSIs, and tribal colleges are consistently underfunded and need more investment to serve the unique needs of their populations and historical missions.

Use state-federal partnerships to help states reinvest in higher education. Congress can and should make it possible for any American to attend college without going into debt. Already, the federal government uses federal and state partnerships in other areas, leveraging federal resources to encourage state prioritization and investment. Unemployment Insurance, Medicaid, the Every Student Succeeds Act, and Temporary Assistance for Needy Families all rely on these partnerships in order to be viable social safety nets. A similar partnership regarding higher education would help restore funding levels to beyond pre-recession levels, and make it possible for all families to afford a college education.

Protect and expand Pell Grants. Pell Grants are insufficient to help the lowest-income students graduate from four-year colleges and universities debt-free, and Pell Grant levels have fallen far behind the rate of inflation and the cost of education. Pell funding should be increased to cover the average cost of attendance at a four-year public institution; all Pell funding should be a part of the mandatory, not the discretionary, budget; and Pell should be permanently tied to inflation. Furthermore, Pell should be extended to justice-impacted individuals and DACA recipients.

Pay attention to living costs in college affordability plans. No family should go into debt for a two- or four-year public education. Too often, free college plans are at once too limited and too generous—paying for tuition at public two-year colleges, but also paying tuition for the children of millionaires. Instead, families who can pay should pay an appropriate share and other, working families should be supported more generously. And affordability goals should be applied not just to tuition, but to all college expenses, including living expenses, for public two- and-four-year colleges and all HBCUs.

Conclusion

The student loan debt crisis is pernicious. It puts young people at a tremendous disadvantage as they begin their families and careers, it leaves older Americans struggling in their golden years, and it deepens and entrenches the already devastating racial wealth gap. The student loan debt crisis puts deeply held beliefs like the value of hard work, the transformative power of education, and the ability to build wealth during one's own lifetime into question. The balance sheets of millions of borrowers and this nation demonstrate that our current student debt system operates in direct contradiction of these ideals.

Rather than lifting people out of poverty and providing access to the middle class, student debt is further entrenching the racial wealth gap and perpetuating the cycle of poverty that results from systemic lack of access to resources, capital, and affordable credit. Our short-sighted approach is leaving jobs unfilled, money wasted, and human potential squandered, threatening our national security and economic well-being.[89]

Fortunately, this particular crisis is easily solvable. For some students in generations past, education debt was manageable and a college degree translated into a more financially secure future. With a renewed commitment to the value of higher education and the important role it plays in our lives and communities, we can return to that America, and help the 44 million student loan borrowers today realize not just the American Dream, but their own.

Appendix A

The Impact & Importance of Debt Cancellation: An Example of $10,000 Across-the-Board Federal Student Loan Cancellation

The Impact of Even Limited Debt Cancellation

This appendix outlines the impact of an up to $10,000 broad-based, fixed amount of federal student loan cancellation for all borrowers (undergraduate, graduate, and parents) of federal loans in repayment. It also anticipates the same cancellation benefit for those current student loan borrowers not yet in repayment, once they have entered repayment.[90] There are many possible forms and amounts of student loan cancellation that have been proposed recently and are worthy of consideration. This example of across-the-board fixed amount cancellation is simple, fiscally modest, and provides relief to all borrowers. It also provides complete debt cancellation for those who need it most based on earnings and likelihood of being in default. The $10,000 cancellation amount is proportionate with the increase in the average undergraduate's cumulative federal student debt at graduation (including certificate, AA, and BA degrees) which grew from $13,540 in 1999–2000 to $22,520 in 2015–16.[91] As discussed at the beginning of this report, this period coincided with substantial cuts in state support for higher education while federal grant support failed to fill the gap, leaving students to take on unprecedented amounts of debt to pursue their college dreams.

Benefits

How impactful would the benefits be from an up to $10,000 across-the-board student loan cancellation for all borrowers in repayment? Most immediately, the approximately 29 million borrowers currently in repayment on their federal loans would experience substantial relief.[92]

CRL projects that, for these 29 million current borrowers in repayment, approximately 40% (the two lowest quintiles of all borrowers by indebtedness) would experience *complete student loan cancellation.* (The median student loan outstanding by quintiles of borrowers in repayment was as follows: $2,470; $6,712; $12,498; $23,565; and $57,528.) For those that remain, the median borrower in the 3rd quintile would experience debt reduction of 80%; the 4th quintile, 42%; and the 5th quintile, 17%.

Note that the lowest two quintiles of borrowers by dollar amount outstanding, those experiencing complete cancellation, *also have very low earnings,* at $20,506 for the 1st quintile and $22,140 for the 2nd quintile. (The federal poverty level for a family of three in 2019 was $21,330.)[93] In terms of share of total federal loan student debt dollars, the borrowers in the first two quintiles represent only 7.6% of all student loan debt outstanding that has been in repayment at least one year.

Additionally, without specific targeting, this limited cancellation also benefits additional categories of borrowers who need it most. Seventy-six percent of all current borrowers[94] would have only undergraduate debt; 11% graduate and undergraduate debt; 6% graduate only; and 2% parent debt. By type of school of first loan for all current borrowers: 25% are for-profit; 14% community college; 15% non-selective four-year; 41% selective four-year; and 5% graduate. Finally, for current borrowers in default (7.2 million at YE 2018), *approximately 61% would experience complete cancellation,* representing 22% of all loan dollars in default. An additional 20% of all dollars in default would be cancelled for the remaining 39% of borrowers who would experience partial reduction of their balances.

Beyond the 29 million borrowers currently in repayment that experience immediate relief, each new cohort of borrowers that enters repayment would experience relief up to $10,000.[95] For each of these cohorts, approximately 25% would experience complete debt cancellation, a lower percentage of complete cancellation than the borrowers currently in repayment based on growing levels of indebtedness for more recent borrowers, but still a significant percentage of borrowers entering repayment.

Fiscal Costs & Economic Benefits[96]

The total unduplicated current borrowers count is 43 million including Direct, FFEL, & Perkins loans. The total immediate gross price tag for $10,000 cancellation for the 29 million borrowers in repayment is estimated at $227 billion, which represents approximately 23.9% of the federal portfolio in repayment.[97] The remaining 14 million not yet in repayment would receive an up to $10,000 loan cancellation once they enter repayment. We estimate this occurs at a rate of about 4.1 million borrowers per year. The incremental yearly approximate cost of cancellation for each new cohort entering repayment is $35.9 billion.

There are substantial macroeconomic offsets to these fiscal costs. In a recent analysis of the economic and fiscal impact of complete student loan cancellation (federal and private), the Levy Economics Institute simulated significant positive economic benefits in the form of increased GDP from increased household consumption and investment in the range of $86 billion to $108 billion per year over a 10-year period.[98] Their model also showed increased employment with little to no inflationary pressure. The average effect on the federal net budget position relative to current levels of deficits and the national debt was less than one-half of 1% of GDP per annum, in the range of -.29% to -.37%. The authors note that their analysis doesn't quantify the social benefits of student loan cancellation, which studies have shown could include increased family formation and stability, ability to pursue additional training, improved health status, increased entrepreneurial activity, and the like.

Obviously, our example is somewhat more modest than that of the Levy Economics Institute, with both lower budgetary costs and lower, but still substantial, macroeconomic benefits. Nevertheless, the Levy report shows that across-the-board student loan cancellation such as that outlined here would sow benefits far beyond the borrowers affected, accruing to the entire economy.

Appendix B

Student Loan Debt Shares, Median Debt Amounts, & Share with Severely Delinquent Debt by State

	Share of People with Student Debt in Predominately-White Communities (Urban)	Share of People with Student Debt in Communities of Color (Urban)	Median Debt Held by People in Predominately-White Communities (Urban)	Median Debt Held by People in Communities of Color (Urban)	Percent with Severely Delinquent Debt (Philadelphia Fed)
Alabama	13%	18%	$16,526	$16,770	19.5%
Alaska	14%	11%	$14,316	$14,250	16.2%
Arizona	15%	14%	$17,625	$12,480	18.9%
Arkansas	15%	19%	$14,990	$15,675	20.1%
California	12%	12%	$18,218	$14,058	15.6%
Colorado	19%	16%	$18,227	$15,613	14.1%
Connecticut	18%	15%	$19,052	$15,710	12.7%
Delaware	14%	22%	$19,286	$17,535	15.3%
Florida	13%	15%	$16,624	$15,934	17.7%
Georgia	15%	23%	$17,516	$20,291	18.4%
Hawaii	6%	11%	n/a*	$15,813	14.4%
Idaho	17%	7%	$15,541	n/a*	15.5%
Illinois	16%	18%	$17,610	$16,538	13.5%
Indiana	17%	22%	$16,750	$16,636	17.8%
Iowa	20%	19%	$15,380	n/a*	14.1%
Kansas	18%	12%	$15,750	$11,599	15.4%
Kentucky	16%	20%	$15,945	$15,921	19.5%
Louisiana	14%	19%	$14,664	$16,652	17.3%
Maine	19%	n/a**	$16,706	n/a**	14.5%
Maryland	14%	20%	$18,009	$19,678	14.5%
Massachusetts	19%	18%	$18,861	$14,315	11%
Michigan	17%	22%	$17,408	$15,097	17.3%
Minnesota	20%	23%	$17,289	$14,823	11%
Mississippi	15%	23%	$15,724	$15,966	24.2%
Missouri	17%	21%	$16,537	$17,450	18.3%
Montana	16%	13%	$15,827	$7,930	15.3%
Nebraska	18%	13%	$15,421	$10,602	12.1%
Nevada	12%	12%	$15,634	$11,826	20.3%
New Hampshire	20%	n/a**	$18,777	n/a**	11.8%
New Jersey	16%	16%	$20,061	$14,975	13%
New Mexico	12%	13%	$17,714	$13,512	20.8%
New York	18%	16%	$18,591	$16,650	12.1%
North Carolina	14%	20%	$17,019	$19,429	15.3%

	Share of People with Student Debt in Predominately-White Communities (Urban)	Share of People with Student Debt in Communities of Color (Urban)	Median Debt Held by People in Predominately-White Communities (Urban)	Median Debt Held by People in Communities of Color (Urban)	Percent with Severely Delinquent Debt (Philadelphia Fed)
North Dakota	20%	13%	$16,587	n/a*	10.3%
Ohio	19%	23%	$18,116	$16,498	18.1%
Oklahoma	15%	13%	$15,317	$14,081	20.2%
Oregon	17%	6%	$17,977	n/a*	15.9%
Pennsylvania	19%	24%	$18,987	$15,188	14.1%
Rhode Island	18%	18%	$17,174	$12,211	13.7%
South Carolina	16%	21%	$18,023	$20,104	17.1%
South Dakota	20%	10%	$16,793	n/a*	11.9%
Tennessee	14%	21%	$15,891	$18,236	19.3%
Texas	14%	15%	$16,392	$13,995	17.3%
Utah	14%	9%	$13,842	$11,000	13.1%
Vermont	17%	n/a**	$18,000	n/a**	10.1%
Virginia	15%	19%	$19,118	$18,864	13%
Washington	15%	13%	$16,475	$14,101	12.9%
Washington, D.C.	17%	23%	$31,822	$21,786	15.2%
West Virginia	15%	n/a*	$15,014	n/a*	20.5%
Wisconsin	17%	22%	$15,175	$15,316	12.9%
Wyoming	13%	5%	$13,615	n/a*	14.6%
National	16%	16%	$17,300	$15,511	15.7%

Source: Ratcliffe, McKernan, Lou, Hassani, and Quakenbush. 2018. "Debt in America: An Interactive Dashboard." Washington, DC: Urban Institute. Tabulations of data from a major credit bureau (2016) and the American Community Survey (2015). For more information and definitions of the variables, see the technical appendix accompanying the dashboard. Note: For the student loan variables, share of people with debt in predominantly-white communities and communities of color are based on zip codes in the state that are predominantly white (at least 60% of the population is white) or predominantly nonwhite (at least 60% of the population is nonwhite). *Not available due to insufficient sample size. **Not available because there are no areas in the state that are predominantly nonwhite/predominantly white.

Percent of borrowers with severely delinquent debt data was calculated as the number of borrowers with at least one severely delinquent account for a given credit type divided by the number of borrowers with debt of that type. Severe delinquency is defined as having at least one account 90+ days past due (DPD), in collections, or classified as severely derogatory. For student loans, this includes loans that are 30+ DPD, although many lenders do not begin to report past-due student loans until payments are 90+ DPD. However, this measure may underestimate effective delinquency rates for student loans since roughly half of these loans are in deferment, grace periods, or forbearance. Delinquency rates provided in this analysis may differ from estimates from other sources in at least two ways. First, these rates reflect the percent of individuals with a delinquent account rather than the percent of outstanding debt (or loans) past due. Second, the delinquency rates presented here include individuals with accounts that lenders have likely closed and charged off the balance because they no longer expect repayment. Many lenders will report a charged-off account in the period in which it occurs but not thereafter. In the credit bureau data, serious derogatory accounts (including ones charged off) can be reported for up to seven years. To the extent that lenders continue to report these accounts, they will be reflected in these charts.

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86 Note as income grows beyond a certain threshold level, repayment length differences shorten as individuals in REPAYE complete repayment faster than the maximum 20 years starting at about $35,000 in income, but individuals in CRL's plan don't complete repayment faster than the maximum 15 years until about $59,500 in income.

87 At $60,000 in income, the effects of shorter actual repayment time under REPAYE offset the lower monthly payment amounts under CRL's plan.

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92 CRL calculations in this memo are based on ratios describing portfolio borrower counts and dollar loan balances from Looney and Yanellis research using a 4% NSLDS sample from year end 2014 (and for a few categories 2013 and earlier). Where possible, these ratios are applied to borrower counts and dollar loan outstandings from FSA for 4th quarter 2018 to estimate loan cancellation impacts. Our calculations assume that the various ratios that Looney and Yannellis present in their research remain substantially unchanged for the current federal student loan portfolio. See: https://www.brookings.edu bpea-articles/a-crisis-in-student-loans-how-changes-in-the-characteristics -of-borrowers-and-in-the-institutions-they-attended-contributed-to-rising-loan-defaults/ and https://www.brookings.edu/wp-content/uploads/2018/02/es_20180216_looneylargebalances.pdf.

93 See: https://aspe.hhs.gov/2019-poverty-guidelines.

94 "All" includes both borrowers in and not yet in repayment.

95 CRL assumes that the $10,000 cancellation program could eventually fall away when dramatic improvements in college affordability and attendant reduction in student indebtedness occurs—see CRL's 2020 platform proposals.

96 Detailed cost calculations are available upon request from CRL.

97 This represents an unamortized one-time reduction of the federal loan portfolio. In practice, the loan portfolio pays off slowly over time, thus reducing the fiscal impact substantially—see Levy Economics Institute discussion that follows.

98 Fullwiler et. al., 2018.

Notes

Notes

National Urban League

nul.org

The National Urban League helps African Americans and others in underserved communities achieve their highest true social parity, economic self-reliance, power, and civil rights. The League promotes economic empowerment through education and job training, housing and community development, workforce development, entrepreneurship, health, and quality of life.

The Leadership Conference Education Fund

civilrights.org/edfund/

The Leadership Conference Education Fund builds public will for laws and policies that promote and protect the civil and human rights of every person in the United States. The Education Fund was founded in 1969 as the education and research arm of The Leadership Conference on Civil and Human Rights, the nation's oldest and largest civil and human rights coalition of more than 200 national organizations.

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www.naacp.org

Founded in 1909, the National Association for the Advancement of Colored People (hereinafter NAACP) is our nation's oldest, largest and most widely known grassroots civil rights organization. The principal objectives of NAACP are to ensure the political, educational, social and economic equality of all citizens; to achieve equality of rights and eliminate racial prejudice among the citizens of the United States; to remove all barriers of racial discrimination through democratic processes; to seek enactment and enforcement of federal, state and local laws securing civil rights; to inform the public of the adverse effects of racial discrimination and to seek its elimination; to educate persons as to their constitutional rights and to take all lawful action to secure the exercise thereof.

UNIDOSUS

STRONGER COMMUNITIES. STRONGER AMERICA.

www.unidosus.org

UnidosUS, previously known as NCLR (National Council of La Raza), is the nation's largest Hispanic civil rights and advocacy organization. Through its unique combination of expert research, advocacy, programs, and an Affiliate Network of nearly 300 community-based organizations across the United States and Puerto Rico, UnidosUS simultaneously challenges the social, economic, and political barriers at the national and local levels. For 50 years, UnidosUS has united communities and different groups seeking common ground through collaboration, and that share a desire to make our country stronger.

CRL

Center for Responsible Lending

www.responsiblelending.org

The Center for Responsible Lending (CRL) is working to ensure a fair, inclusive financial marketplace that creates opportunities for all responsible borrowers, regardless of their income, because too many hard-working people are deceived by dishonest and harmful lending practices.

While the housing crash was devastating to families at all income levels, it was disproportionately destructive to entire communities of low- and moderate-income families and borrowers of color. In fact, it wiped out generations of family wealth in these communities. Many of these families had successful 30-year loans, but they were lured by the promises of deceptive marketing and then financially devastated when they were placed in egregious loan products.

CRL is a nonprofit, non-partisan organization that works to protect homeownership and family wealth by fighting predatory lending practices. Our focus is on consumer lending: primarily mortgages, payday loans, credit cards, bank overdrafts and auto loans.

This paper has been updated since original release in July 2019. Original draft available upon request.