



NATIONAL POLICY AGENDA TO REDUCE THE BURDEN OF STUDENT DEBT

November 10, 2014

Since 2005, The Institute for College Access & Success (TICAS) and its Project on Student Debt have worked to reduce the risks and burdens of student debt. We have helped create and improve Income-based repayment plans to keep federal loan payments manageable; strengthen Pell Grants, which reduce the need to borrow; and simplify the financial aid application process. But there is much more work to be done. For more details on the policy agenda outlined below, please see our report: [*Aligning the Means and the Ends: How to Improve Federal Student Aid and Increase College Access and Success.*](#)

Increase access to need-based student aid

- Secure and improve Pell Grants
- Further simplify the federal financial aid application process
- Streamline and improve higher education tax benefits
- Promote state investment in affordable higher education

Simplify and improve federal student loans and their repayment

- Simplify federal student loans and better target subsidies
- Streamline, improve, and promote awareness of federal loan repayment options

Provide students with key information when they need it

- Collect better data on students' debt and outcomes
- Improve and promote tools to help students make wise college decisions

Protect students and taxpayers from colleges that overcharge and underdeliver

- Enhance and improve institutional accountability
- Strengthen policies to prevent waste, fraud, and abuse

Reduce reliance on private education loans and strengthen borrower protections

- Prevent unnecessary private loan borrowing by requiring school certification of private loans
- Develop standards for refinancing or modifying private loan debt
- Treat private loans like other consumer debt in bankruptcy
- Increase community college students' access to federal students loans

INCREASE ACCESS TO NEED-BASED STUDENT AID

Financial aid policy should ensure that students from all backgrounds can get a college education without taking on crushing debt or excessive outside work that reduces the odds of completing a degree or certificate. Truly supporting college access and success requires more need-based grant aid and better targeted tax incentives that help limit how much students need to borrow and work while in school, and a financial aid process that is a gateway rather than an obstacle.

Secure and improve Pell Grants

A strong economy requires a well-educated populace, and federal [Pell Grants](#) help nine million low- and moderate-income students a year pursue higher education or training. At the same time, cost concerns still deter too many academically qualified young people from pursuing a college education and too many adults who could benefit from postsecondary training. Grants based on financial need reduce the amount that low- and moderate-income students need to borrow and encourage them to attend and finish college. Strengthening and fully funding Pell Grants must be a top priority. Based on existing research, we recommend doubling the maximum Pell Grant to close income gaps in access and attainment. We also recommend making Pell Grants a mandatory program that is not subject to annual appropriations based on projections that can turn out to be too high or too low. Our nation cannot achieve the goal of leading the world in college completion without investing in Pell Grants and shielding them from federal budget cuts.

Further simplify the federal financial aid application process

The complexity of the federal financial aid application process discourages many students from applying for or receiving the aid they need to attend and complete college. The current Administration has implemented significant changes to simplify the Free Application for Federal Student Aid (FAFSA), including our [core proposal](#) to let applicants electronically transfer their IRS data to the FAFSA. While this has streamlined the aid application process for millions of students and their families, not all applicants can benefit from it. All aid applicants should be able to electronically transfer key income data from their tax forms. This could be achieved by allowing applicants to use the tax data that is available when students typically apply to college (sometimes referred to as 'prior-prior year'), and by enabling the transfer of data from W-2 and 1099 forms in addition to 1040 forms. Other [policy and institutional changes](#) would reduce the heavy paperwork and bureaucracy typical of the aid verification process, which can keep eligible students from getting the aid they need and unduly burden financial aid offices.

Streamline and improve higher education tax benefits

Current higher education tax provisions are too poorly timed and poorly targeted to efficiently increase college access or success. [Bipartisan legislation](#) (H.R. 3393) introduced in 2013 incorporated many of our [recommendations](#) to dramatically streamline tax benefits by creating an improved, permanent American Opportunity Tax Credit (AOTC) and eliminating less targeted and less effective tax benefits, such as the Tuition and Fees Deduction and Lifetime Learning Credit. Research suggests that the AOTC is the most likely of the current tax benefits to increase college access and success because unlike other higher education tax benefits it is partially refundable, so students and families with low-incomes can benefit. The bill also eliminates the taxation of Pell Grants, removing unnecessary complexity while helping Pell recipients access the education tax benefits for which they are eligible.

Additionally, to simplify the tax code, ensure equity, and reduce the burden of student debt, we

recommend eliminating the taxation of forgiven or discharged federal student loan debt. Currently, borrowers who receive a loan discharge after 20 or 25 years of responsible payments in an income-driven repayment (IDR) plan may face an unaffordable tax liability because these discharged amounts are treated as taxable income. Concern about this potential tax liability discourages some borrowers from enrolling in IDR—including borrowers whom IDR was specifically designed to help. By contrast, loan balances discharged after 10 years of payments under the Public Service Loan Forgiveness program (PSLF) are *not* treated as taxable income. This disparity is highly inequitable and should be corrected so that discharged student loans are not taxed after either 10 years in PSLF or 20 or 25 years in IDR.

Promote state investment in affordable higher education

A decades-old trend of state disinvestment in public higher education accelerated dramatically during the recent economic crisis; per student state funding at public institutions [remains](#) 23 percent below its pre-recession level. To help keep college affordable, Congress should consider maintenance of effort provisions to ensure that federal dollars supplement – rather than supplant – state and other forms of higher education funding and financial aid.

SIMPLIFY AND IMPROVE FEDERAL STUDENT LOANS AND THEIR REPAYMENT

The current federal student loan program is too complex, its terms are too arbitrary, and its benefits are poorly targeted. Much of the complexity is a holdover from when banks received subsidies to make loans that were guaranteed by the government, shielding lenders – but not borrowers or taxpayers – from risk. Now that these loans are made directly and more cost-effectively by the Department of Education, the entire student loan system can and should be streamlined and improved.

Simplify federal student loans and better target subsidies

We [recommend](#) streamlining and improving federal student loans to better support access and success while containing costs and risks for both students and taxpayers. In place of the two types of Stafford Loans available to undergraduates today, there should be a single undergraduate student loan with a fixed interest rate and no fees. To support and encourage students to stay enrolled and complete, the loan would have a low interest rate while the student is in school, based on the government’s cost of borrowing. When the loan enters repayment, the interest rate would rise by a set margin, but the total rate could never exceed a designated cap. The interest rates would be set based on the cost of running the loan program, and would not [generate significant profits](#) for the government, as they do now.

To help borrowers who go to school when interest rates are unusually high, the loan would have a built-in form of insurance that would keep their rates from ever being too much higher than the rate on loans being offered to current students. Additionally, to provide a targeted safety net for borrowers from low-income families, Pell Grant recipients would be eligible for interest-free deferments during periods of unemployment and economic hardship.

Streamline, improve, and promote awareness of federal loan repayment options

In recent years, more than one in eight borrowers has [defaulted](#) on federal student loans within the first three years of repayment, and according to economists with the Federal Reserve Bank of New York, over seven million student and parent borrowers have at least one education loan [past due](#). These figures underscore the need to improve student loan servicing, simplify and increase borrower awareness of repayment options, and help borrowers enroll in affordable plans before they default.

Since July 2009, federal student loan borrowers have had additional repayment options that cap monthly payments as a share of their income and forgive any debt remaining after 20 or 25 years in repayment. These plans help to ensure that monthly payments are affordable, but current default and delinquency rates make clear that many more borrowers could be benefiting from them. The Administration recently took steps to promote awareness of income-driven plans and make it easier to enroll, but much more needs to be done, including automatically enrolling severely delinquent borrowers in an income-driven plan to help prevent defaults, and continuously targeting outreach to borrowers showing signs of financial distress.

To streamline and improve student loan repayment, we also [recommend](#) replacing the multiple existing income-driven plans with a single, streamlined plan that lets all borrowers choose the assurance of manageable payments and forgiveness after 20 years. Monthly payments would be capped at 10% of a borrower's income and remaining balances would be forgiven after 20 year of payments. Additionally, we recommend targeting the benefits to borrowers who need help the most by phasing out the income exclusion for borrowers with high incomes and eliminating the 10-year standard payment cap on monthly payment amounts.

PROVIDE STUDENTS WITH KEY INFORMATION WHEN THEY NEED IT

To make wise decisions about where to go to college and how to pay for it, students and their families need clear, timely, and comparable information about costs, financial aid, and typical outcomes. That is why we recommend improvements in the collection and availability of student data, and the improvement and promotion of important federal consumer tools.

Collect better data on students' debt and outcomes

Currently available data on student debt are incomplete and uneven, with no comprehensive college-level data on debt at graduation or private loan borrowing. While the Department is working toward obtaining cumulative debt data through the National Student Loan Data System (NSLDS), such data will be incomplete because private loans are not included in that database. Ultimately, the best way to provide accurate and comprehensive data on private loan borrowing while minimizing the reporting burden for colleges is for the Department to collect the data directly from lenders, using the NSLDS platform through which lenders currently report on every federal loan, or an equivalent system for tracking all federal and private loans. Until such a system is in place, we continue to recommend that the Department immediately [collect these data](#) from colleges via the Integrated Postsecondary Education Data System (IPEDS).

Improve and promote tools to help students make wise college decisions

It is far too hard for consumers to tell what a given school might cost them before they apply, or to compare the real value of financial aid offers before choosing where to attend. With easy-to-understand, comparable information, students and families will be able to better identify colleges that provide the best value and fit their specific needs. Increased transparency and awareness may also create pressure for colleges to keep their costs to students affordable and find ways to better support student success. That is why we support the improvement and promotion of the following federal consumer tools.

- **College Scorecard and Ratings.** The [College Scorecard](#) is a one-page form developed by the Administration to help consumers quickly and easily understand the chances of completing,

borrowing, ending up with high debt, and defaulting at any particular school. However, for this tool to provide the most useful information, the federal government must [collect better college-level data](#) on student borrowing and completion.

TICAS also supports the development of a consumer-focused college ratings system, which could be linked to the College Scorecard. We provided detailed [recommendations](#) for designing a consumer-focused ratings system that would rate colleges separately on several key dimensions, including affordability, success, and student support, recognize institutions that serve a disproportionate number of low-income students well, and allow users to select their own comparisons groups.

- **Net Price Calculator.** Federal law requires all colleges to post online “net price calculators” to help students and families figure out which colleges they might be able to afford, before they have to decide where to apply. Unfortunately, our [research](#) has found that many calculators are hard to find, use, and compare. Recent [guidance](#) from the Department has helped, but more remains to be done to ensure that the calculators live up to their potential. We strongly support bipartisan legislation introduced in both the [House](#) (H.R. 3694) in 2013 and in the [Senate](#) (S. 2281) in 2014 to improve these tools based on our research, including by authorizing the creation of central net price calculator portal so students could enter their information once and instantly get comparable net price information from multiple colleges.
- **Shopping Sheet.** Jointly developed by the U.S. Department of Education and Consumer Financial Protection Bureau (CFPB), the “Shopping Sheet” is a voluntary model format for college financial aid offers to make it easy for students who have been accepted to a college to understand and compare the real cost of attending that college. So far, more than 2,000 colleges have [agreed](#) to use the Shopping Sheet for some or all of their students. To ensure that students receive clear and comparable information from every college to which they are admitted, we support [bipartisan legislation](#) (S. 1156) introduced in 2013 that would require all colleges receiving federal aid to use a similar standardized format. Both this legislation and the shopping sheet reflect the consensus we helped build on [key elements](#) that must be included in any aid offer, such as the full cost of attendance, net price, and clear distinctions between grants and loans.
- **Loan Counseling.** Current federal law and regulations require entrance and exit counseling for any student who receives a federal loan, but the timing and content of the counseling need to be improved and individualized to better help students borrow wisely, complete college, and repay their loans. For example, entrance loan counseling should occur *before* the student agrees to the loan, and exit counseling should better help borrowers consider the tradeoffs between repayment plan options. We support the Administration’s [plan](#) to test, evaluate, and improve loan counseling resources, and we also support [bipartisan legislation](#) (H.R. 4984) passed by the House of Representatives in 2014 to improve the timing and effectiveness of loan counseling, including by encouraging students to use federal student loans before considering risky private loans to pay for college.

PROTECT STUDENTS AND TAXPAYERS FROM COLLEGES THAT OVERCHARGE AND UNDERDELIVER

While students are, and should be, held accountable for studying and making progress toward a credential, there are few consequences for schools that fail to graduate large shares of students while

consistently leaving students with debts they cannot repay. Federal policies need to protect taxpayers and students from waste, fraud, and abuse in federal student aid programs.

Enhance and improve institutional accountability

While students are held accountable for studying and making progress toward a credential, there are few consequences for schools that fail to graduate large shares of students or consistently leave students with debts they cannot repay. To more closely tie a college's eligibility for federal funding to the risk students take by enrolling and the risk taxpayers take by subsidizing it, and reward schools that serve students well, [we recommend](#) using a Student Default Risk Index (SDRI). While a school's Cohort Default Rate (CDR) reflects only the share of a school's student loan borrowers who default, the SDRI is the CDR multiplied by the school's borrowing rate. By incorporating the share of students who borrow loans, the SDRI more accurately conveys a student's risk of defaulting at a given school.

- End Eligibility for Worst Performers. Establish an SDRI threshold above which performance is unacceptable, and cut failing schools off from federal aid (as is done currently with CDRs).
- Risk Sharing. Move beyond all-or-nothing school eligibility for aid by requiring risk-sharing from schools that receive a majority of their revenue from federal student aid and have SDRIs that are high but fall below the eligibility cutoff.
- Rewards. Reward colleges with very low SDRIs, providing incentives for colleges to enroll low-income students and help them apply for aid and enroll full time.

Strengthen policies to prevent waste, fraud and abuse

As we testified at Senate hearings in [2010](#) and [2011](#), stronger policies, oversight, and enforcement are urgently needed to prevent unscrupulous colleges from wasting taxpayer dollars and preying on vulnerable students and our nation's veterans. These problems are of particular concern in the for-profit college sector, which has low completion rates, the highest student debt levels, and the highest federal student loan default rates. For-profit colleges enroll only 12 percent of college students but account for [44 percent](#) of all student loan defaults. [Thirty-seven state attorneys general](#) are jointly investigating potential fraud by for-profit colleges, and the Department of Justice, Securities and Exchange Commission, Consumer Financial Protection Bureau, and the Federal Trade Commission all have open investigations into and/or have lawsuits pending against major for-profit colleges.

The Administration recently finalized [regulations](#) to enforce the longstanding statutory requirement that career education programs receiving federal funding at public, nonprofit, and for-profit colleges "prepare students for gainful employment in a recognized occupation." However, the Administration can and must do much more to protect students and taxpayers from well-documented abuses. Congress should also enact legislation introduced in both the [House](#) (H.R. 340) and [Senate](#) (S. 528) in 2013 to prohibit the use of federal financial aid dollars for marketing, advertising, and recruitment. For information on the broad coalition of student, consumer, civil rights, veterans, and college access organizations working to better protect students and taxpayers, visit [ProtectStudentsandTaxpayers.org](#).

REDUCE RELIANCE ON PRIVATE EDUCATION LOANS AND STRENGTHEN BORROWER PROTECTIONS

Interest rates on private loans are typically variable, like on a credit card, and over the life of the loan much higher than the fixed rates on federal student loans. Lower income students usually receive the worst rates and terms, and private loans do not have the important borrower protections and repayment options that come with federal loans. We recommend the changes below to reduce reliance on risky private loans and to enhance protections for borrowers who have such loans. For more information, see our [publications and resources](#) related to private loans.

Prevent unnecessary private loan borrowing by requiring school certification of private loans

Almost half of undergraduates who borrow private loans [could have borrowed more](#) in safer federal student loans. Unfortunately, many students who borrow private loans – and the family members who co-sign them – [don't understand the difference](#) between federal and private loans until it is too late. Requiring private lenders to confirm a borrower's eligibility with his or her school before disbursing the loan ensures the student is eligible for that loan. It also gives the school a chance to help the student make an informed borrowing decision. Students, schools, and lenders, as well as the CFPB and the Department of Education, have all endorsed requiring "school certification" of private loans, including notifying the student of remaining federal aid eligibility before the loan is certified. We urge the Department and the CFPB to require such certification for all private loans, and we support legislation introduced in both the [House](#) (H.R. 3612) and [Senate](#) (S. 113) in 2013 that would require it as well.

Develop standards for refinancing or modifying private loan debt

Borrowers who face unmanageably high payments on their private loans do not have access to lower payments through income-driven repayment plans or other federal options, such as unemployment deferments. We recommend the CFPB and Congress develop standards for private loan refinancing and/or modification to make private loan borrowers' debts more manageable. We also support [legislation](#) (S. 1266) introduced in 2013 to jumpstart a market for meaningfully refinancing private loans.

Treat private loans like other consumer debt in bankruptcy

Since 2005, it has been far more difficult to discharge private loans than credit cards and other consumer debt in bankruptcy. This leaves most private loan borrowers at the mercy of the lender if they face financial distress due to unemployment, disability, illness, or military deployment, or when a school shuts down before they can finish their certificate or degree. We are part of a [broad coalition](#) that supports legislation in both the [House](#) (H.R. 532) and [Senate](#) (S. 114) in 2013 to restore fair bankruptcy treatment to private loan borrowers.

Increase community college students' access to federal student loans

[Nearly one million community college students](#) can't get a federal loan if they need one, because their school does not participate in the federal loan program. While many community college students can avoid borrowing, those who need to borrow to stay and succeed in school should have access to the safest, most affordable option: federal student loans. Without access to federal loans, students may turn to risky and expensive private loans or credit cards, or they may drop out, work excessive hours, or take fewer classes – choices that reduce their odds of earning a degree or certificate. Federal and state policies should encourage community colleges to participate in the federal loan program and highlight [practical ways](#) community colleges can help students make informed borrowing decisions.