December 11, 2008

The Honorable Nancy Pelosi
Speaker
U.S. House of Representatives
H-232, U.S. Capitol
Washington, DC 20515

Dear Madam Speaker:

As you develop plans for a new stimulus package, we urge you to include a major investment in college affordability. Post-secondary education and training have never been so critical to the future of America's families, economy, and society. Yet rising unemployment, collapsing home values, and a plummeting stock market have made it harder than ever for working families to cover college costs, whether for a factory worker in need of retraining or a high school senior hoping to follow in her science teacher's footsteps.

A significant, short-term, and targeted increase in student aid will help build the skilled, educated workforce our nation needs for a sustained recovery. It will also help maintain our higher education infrastructure, which is imperiled by dramatic state budget shortfalls and rising costs. And unlike other recent stimulus efforts, this investment will make an immediate difference on Main Street because it will be used to purchase books, food, housing, transportation, and other essentials, as well as tuition and fees. In the longer term, of course, it will support the education, training and skills Americans need to qualify for jobs in a 21st century workforce.

Even before this recession, more students were borrowing more money to pay for college than ever before. At least two out of three students who complete a four-year degree have student loans, and their average debt is already more than $22,000. Because need-based grant aid has failed to keep pace with rising costs, low-income students who graduate are even more likely to borrow, and borrow more, than their higher income counterparts. Rising anxiety about college costs, combined with common misperceptions about the availability and benefits of federal loans, have left undergraduates increasingly vulnerable to deceptive sales pitches for expensive and risky private (non-federal) student loans.

We propose a *two-year* student aid stimulus package to promote college participation for students at all income levels while limiting student debt. As outlined below, these temporary funding increases would mitigate the worst short-term effects of the recession on college access and student success, and position our families and economy for a real, sustainable recovery.

- **Raise the maximum Pell Grant to $7,000** for the lowest income students and fully fund it along with the current Pell shortfall. The current maximum Pell Grant of $4,731 covers just 26 percent of the average in-state cost of attendance at a public four-year college. For college-qualified students with the most limited resources, who are far less likely to get through college than their higher income peers, this increase in grant aid would help reduce the need to borrow and encourage enrollment and completion.

- **Increase funding for the Federal Work-Study Program by 25 percent.** Young workers tend to be hit first and hardest by rising unemployment, and they must compete with more experienced workers for the shrinking pool of part-time jobs that students rely on to make ends meet. Work-study funds help low- and moderate-income students get valuable job experience while working to help pay for college, both during the school year and over the summer. In addition to subsidizing on-campus jobs that help students stay involved in their education, work-study funds can also support students in public service jobs, expanding both employment and available services in their communities.

- **Improve access to Parent PLUS loans**. The federal student aid system assumes that most parents can and should contribute towards their dependent children's education, and most parents want to do just that. However, parents who planned to use home equity or market-based college savings are now facing huge losses with few alternative or affordable sources of credit. Federal Parent PLUS loans can cover up to the full cost of attendance with fixed interest rates of 7.9 percent in the Direct Loan program and 8.5 percent in the Federal Family Education Loan (FFEL) program. Currently, colleges get to decide whether or not to make Parent PLUS applicants fill out the long, complicated Free Application for Federal Student Aid (FAFSA). The Education Department could instead provide a simple PLUS application for all parents, and Congress should consider ways to make PLUS loans more affordable for parents who might otherwise have to turn to riskier forms of debt. The Department of Education and colleges must also make sure that students and parents are aware that dependent students whose parents are rejected for a PLUS loan (there is a limited credit test) become eligible for nearly twice as much as other dependent students can borrow in Stafford loans.

- **Provide a limited "emergency access" student loan pool for colleges that commit to providing adequate need-based aid.** In this economic climate, students who have exhausted all available aid may increasingly be forced to turn to risky private loans or leave school because of lack of funds. These students should have limited access to additional, affordable federal loans. To ensure the responsible use of "emergency access" loans, colleges would have to meet certain criteria and bear at least part of the risk. For example, participation would be limited to colleges that commit to maintaining or increasing the proportion of student need covered by their own grant aid for the next two years.

All of these goals could be accomplished within existing administrative structures, so funds can reach their intended beneficiaries quickly. The steps described above would require significant federal investment, but the scope of this economic crisis requires a bold and comprehensive response. Although some lenders and interest groups have suggested that simply raising or even eliminating federal student loan limits would solve the college affordability problem, their approach would do students -- and our economy -- far more harm than good. It would leave students of modest means to choose between taking on so much debt that it would be hard to get ahead even after this recession ends, or giving up on the best chance they have to get ahead at all. It might also provide a strong incentive for colleges to increase tuition and engage in high-pressure sales tactics to capture more federal dollars at students' expense. Saddling students with more debt is neither an appropriate nor realistic response to the current economic situation.

With economists predicting the longest recession since World War II, investing in our long-term competitiveness with short-term spending on student aid is a responsible way to protect and create American jobs. The money will go to people who actually need it, be spent right away, preserve a critical part of our infrastructure, and help position our country for a prosperous future.

If you have any questions at all about this proposal, please contact Lauren Asher or Melissa Tooley at the Project on Student Debt: 510-559-9509, ljasher@ticas.org, mtooley@ticas.org.

Sincerely,

American Association of Collegiate Registrars and Admissions Officers
American Association of State Colleges and Universities
American Association of University Women (AAUW)
Campus Progress
Consumer Action
Consumers Union
Dēmos: A Network for Ideas & Action
Institute for Higher Education Policy
National Association of Student Financial Aid Administrators
National Center for Public Policy and Higher Education
National Consumer Law Center
National Consumers League
State Higher Education Executive Officers
The Project on Student Debt
U.S. Public Interest Research Groups
United States Students Association

cc: The Honorable George Miller
The Honorable David Obey