NATIONAL POLICY AGENDA TO REDUCE THE BURDEN OF STUDENT DEBT

September 19, 2018

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-driven 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.

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
- Treat private loans like other consumer debt in bankruptcy
- Increase community college students' access to federal student 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, competitive economy requires a well-educated society, and federal Pell Grants help seven and a half million low- and moderate-income students a year pursue higher education or 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. Pell Grants are the federal government's most effective investment in college access and success, and they have broad, bipartisan support from business, education, veterans, civil rights, and student groups, as well as from the higher education community. However, the purchasing power of Pell Grants has significantly declined over time. In fact, Pell Grants now cover the lowest share of college costs in the program's history. And Pell Grant recipients continue to carry a disproportionate debt burden relative to their higher income peers. Strengthening Pell Grants must be a top priority. Based on existing research, we recommend doubling the maximum Pell Grant to restore its purchasing power and close income gaps in access and attainment; the grant's former automatic annual inflation adjustment should also be permanently restored to maintain its value going forward. We recommend making Pell Grants a fully mandatory program that is not subject to annual appropriations based on projections that will never perfectly align with actual program participation. We also support restoring Pell eligibility for defrauded students to provide such students with an opportunity to complete a quality credential at another school. We support legislation introduced in 2017 (S. 1136, H.R. 2451) that reflects these recommendations.

Further simplify the federal financial aid application process

The complexity of the federal financial aid application process discourages too many students from applying for or receiving the aid they need to attend and complete college. Significant changes have been implemented to simplify the Free Application for Federal Student Aid (FAFSA), including our proposal to let applicants electronically transfer their IRS data to the FAFSA, using the tax data available when students typically apply to college to determine aid, and the introduction of skip logic in the online FAFSA. These changes have streamlined the aid application process for millions of students and their families and will let students find out how much federal aid they are eligible for before they have to decide where to apply. We recommend further simplifying the FAFSA by eliminating 20 burdensome questions that cannot be automatically answered using Internal Revenue Service (IRS) data and that require students to collect detailed financial information from multiple sources. While these changes would further simplify the federal financial aid application, in order to simplify the entire process, we must also address the burdens and complexity of verification, which for over a quarter of FAFSA filers – most of whom are Pell eligible – is the final step to receiving aid for which they are eligible. Our research has found that verification remains a complex and costly part of the FAFSA process that can delay aid and derail enrollment, and is furthermore an unduly burden financial aid offices. 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.

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 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, allowing low income students and families to see tangible benefits. The bill also eliminated the taxation of Pell Grants, removing unnecessary complexity while helping Pell recipients access the education tax benefits for which they are eligible. Bipartisan legislation (H.R. 3581) introduced in 2017 also eliminates the taxation of Pell Grants.

Additionally, to simplify the tax code, ensure equity, and reduce the burden of student debt, we recommend eliminating the taxation of any 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. For many, this tax liability, which can run into the thousands, simply replaces one unaffordable debt with another. 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 multiple bills have been introduced to correct it so that discharged student loans are not taxed as income.

Promote state investment in affordable higher education

A decades-old trend of state disinvestment in public higher education accelerated dramatically during the Great Recession. About three-quarters (77 percent) of undergraduates attend public colleges, where, even after significant recovery after the Great Recession, average inflation-adjusted per student state funding at public institutions remains 12 percent below its pre-recession level. We recommend making significant new federal investments in public higher education contingent on states also pulling their own weight. It is critical that Congress take steps to ensure that states increase and maintain their investment in public higher education, with a particular focus on maintaining or lowering the net price of public college for low- and moderate-income students. For example, legislation introduced in 2015 (S. 2191), 2016 (H.R. 5756), 2017 (S. 806), and in 2018 (S. 2598) all include strong maintenance of effort provisions to ensure that new federal dollars sent to states do not 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 can be better targeted. Much of the complexity of this system is a holdover from when banks received subsidies to make loans that were guaranteed by the government. Now that these loans are made directly and more cost-effectively by the Department of Education, the entire student loan system, from disbursement to repayment, 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, rather than based on how much net revenue they are expected to generate for the government.

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

With a record high 8.9 million federal student loan borrowers currently in default, and more than one million borrowers defaulting every year, more needs to be done to improve student loan servicing, simplify and increase borrower awareness of repayment options, and help borrowers enroll and remain in affordable plans that help them avoid 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 the fact that nearly one in four (23 percent) federal student loan borrowers are either 30 days delinquent or in default makes clear that many more borrowers could be benefiting from them. The Education Department has taken steps to promote awareness of income-driven plans and make it easier to enroll, but much more needs to be done. We strongly support bipartisan legislation (H.R. 3554) introduced in 2017 that would automatically enroll severely delinquent borrowers in an income-driven plan to help prevent defaults, and automate the annual income recertification process required for borrowers to continue making income-driven payments. We also recommend replacing the multiple 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 discretionary income and remaining balances would be forgiven, tax free, 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. We strongly support legislation introduced in the Senate (S. 1948) in 2015 that reflects these recommendations.

While the Department rescinded its July 2016 policy direction on the servicing of all federal student loans to create a more transparent and accountable system that provides high-quality servicing and promotes continuous improvement, it has signaled its intent to implement long-outstanding Government Accountability Office (GAO) recommendations to improve borrowers' experience with loan servicers through its NextGen Servicing redesign initiative. It is imperative that in this redesign, the Department of Education adopt consistent, enforceable standards for all student loans that offer students high-quality information and excellent service, as was jointly recommended by the Consumer Financial Protection Bureau (CFPB) and Departments of Education and Treasury in 2015.

PROVIDE STUDENTS WITH KEY INFORMATION WHEN THEY NEED IT

Students need reliably accessible, timely, accurate, and comparable information about costs, financial aid, and typical outcomes in order to make informed decisions about where to go to school and how to pay for it. . By highlighting important data on individual colleges' costs and student outcomes, the Department's College Scorecard is a key resource for students and families. However, key data on student debt are still not available, and it remains too difficult for students to get comparable estimates of how much prospective colleges may cost them or to compare aid offers from different colleges. 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

To support more useful, comprehensive, accurate and comparable postsecondary data, we join a broad, nonpartisan coalition in recommending the repeal of the 2008 ban on a student level data network, and holistic reform of postsecondary data infrastructure through the creation of a federal student level data network with strong protocols for protecting both student privacy and data security. Without such progress, key outcome metrics will remain out of reach of both students and policymakers, and public data will continue to fall short of reflecting all students. More incremental improvements are both necessary and possible in the absence of such a network. For example, the Department's College Scorecard is a valuable tool that highlights data on individual colleges' costs and student outcomes. However, currently available data on student debt remain incomplete and uneven. For example, the total debt at graduation—including federal and private loans—is still not available for each college, nor is the debt by type of credential offered by a given school. And while the Department is working toward obtaining cumulative debt data through the National Student Loan Data System (NSLDS), such data will remain 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 informed college decisions

It is far too difficult for students 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 clear, comparable information, students and families will be able to better identify colleges that provide the best value and fit their specific needs, and educational and career goals. Toward that end, we support the improvement and promotion of the following existing consumer tools.

- **Net Price Calculator**. Federal law requires colleges to post online "net price calculators" to help students and families look beyond a college's sticker price and learn 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. Subsequent guidance from the Department has helped, but more must be done to ensure that the calculators live up to their potential. We strongly support bipartisan legislation introduced in the House (H.R. 3694) in 2013 and in the Senate (S. 889) in 2017 to improve these tools based on our research, including by authorizing the creation of a 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 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. However, the latest publicly available information from July 2017 shows that while over 3,000 colleges were using the Shopping Sheet at the time, most schools either did not use it at all or used it only for some students. The Department of Education should resume publishing a regularly updated list of colleges using the Shopping Sheet and for which students, and to ensure that all students receive clear and comparable information from every college to which they are admitted, we support bipartisan legislation (S. 888) introduced in 2017 that would require all colleges receiving federal aid to use a similar standardized format. Both the shopping sheet and this legislation and reflect the growing 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**. By law, all federal student loan borrowers are required to receive entrance and exit counseling. The Department has improved its current online counseling tools, which are used by thousands of colleges, by making the format more user friendly and more fully integrating income-driven repayment plan options. However, there remains significant potential for enhancing federal student loan counseling to ensure that students are provided clear, timely, actionable information on borrowing options and obligations Loan counseling should more consistently and clearly provide students with information related to their previous and future borrowing decisions, and the repayment options available to them, without deterring or restricting access to loans that students need to attend and complete college. Borrowers should be counseled before rather than after they sign the promissory note, and exit counseling should better facilitate borrowers' understanding of the tradeoffs among repayment options based on the borrower's expected income and total student debt, and between keeping monthly payments low versus reducing the total cost of their debt. We encourage the Department to continue its effort to consumer test and improve its existing online loan counseling tools, including by consistently providing definitions of key terms before using them, and more clearly explaining how to select or change a repayment plan. Improving the timing and effectiveness of federal student loan counseling has consistent bipartisan, bicameral support, including S 1628 introduced in 2017 that provides annual counseling, and H.R. 1635 passed by the House of Representatives in 2018 which also makes loan counseling annual, and provides critical information 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, and remaining in good standing on their debt, federal policies can and should do more to protect taxpayers and students from waste, fraud, and abuse in federal student aid programs as a result of schools failing to graduate large shares of students and consistently leaving students with debts they cannot repay. It is imperative that Congress maintain existing accountability mechanisms, many of which were adopted with bipartisan support and have proven successful over the course of decades. These critical protections include the cohort default rate, the 90-10 rule, and the gainful employment rule.

Removing these guardrails – even if Congress intends to replace them with new, untested metrics – puts students and taxpayers at greater risk of unaffordable debt, higher rates of defaults, and wasted time and money. Federal accountability policies should be enhanced, and strengthened, not weakened.

Enhance and improve institutional accountability

There is strong bipartisan support for improving the current financial aid eligibility system that relies on an all-or-nothing approach allowing schools to too easily maintain the status quo, even if their performance consistently falls near the established threshold for failure. We propose more closely tying a college's eligibility for federal funding to the risk students take by enrolling and the risk taxpayers take by subsidizing it, and rewarding schools that serve students well. While the cohort default rate (CDR) is a critical metric for understanding the scope and scale of the most devastating repayment outcome a borrower can face, the current one-size-fits-all eligibility standard based on the CDR alone provides little incentive for colleges to improve unless they are on the verge of losing eligibility for federal funds, and provides no rewards for schools serving low-income students well. It also may unintentionally provide incentives for institutions with low borrowing rates to withdraw from the federal student loan program, resulting in federal loans being out of reach for nearly one million community college students. To address these shortcomings, we recommend that Congress use a simple metric that accounts for a school's borrowing rate to establish clear, fixed thresholds for rewards, risk-sharing payments, and loss of eligibility. Penalties should be targeted at the worst performers, and rewards designed to protect against unintended consequences of decreased access for low-income students.

Strengthen policies to prevent waste, fraud and abuse

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, where borrowing rates, debt levels, and default rates are highest. For-profit colleges enroll only nine percent of college students but account for one-third of all student loan defaults. Nineteen states and the District of Columbia have filed a lawsuit against the weakening or ignoring of hard-won regulations that protect students and taxpayers form predatory schools. Thirty-seven state attorneys general have jointly investigated potential fraud by for-profit colleges, the Department of Justice, Securities and Exchange Commission, Consumer Financial Protection Bureau have sued major for-profit colleges, and two major chains closed after the Education Department took enforcement actions.

The gainful employment rule went into effect in 2015 to enforce the longstanding statutory requirement that career education programs at public, nonprofit, and for-profit colleges receiving federal funding "prepare students for gainful employment in a recognized occupation." The Education Department then launched a coordinated system for accepting and tracking public complaints against schools on July 1, 2016. Later that year, the Department also finalized the borrower defense regulations to help ensure that defrauded students and students attending closed schools have an opportunity to gain a fresh start, and to prevent abuses and protect taxpayers. These hard-fought protections were never implemented; instead they were illegally delayed. The Department wrote a new borrower defense rule that would deny relief to virtually all wronged students and repealed the gainful employment rule entirely without adequate explanation or consideration. These rules should be enforced more aggressively, not rolled back or gutted. Congress must do its part, including by enacting legislation (S.1908, H.R. 4109) to prohibit any type of college from using federal financial aid dollars for marketing, advertising, and recruitment, legislation (S, 2037, H.R. 4181) to prohibit schools receiving Title IV funds from blocking students' access to the courts, and legislation (S.2272, H.R.4101) that prevents the exploitation of student veterans by for-profit schools. 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

More than half (53 percent) 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 (S 3205, H.R 6352) introduced in 2018 that would require it as well.

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 (S. 1262, H.R. 2527) 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 better support them in helping students make informed borrowing decisions.