the institute for college access & success

NATIONAL POLICY AGENDA TO REDUCE THE BURDEN OF STUDENT DEBT

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The Institute for College Access & Success is a trusted source of research, design, and advocacy for student-centered public policies that promote affordability, accountability, and equity in higher education. Our Project on Student Debt increases public understanding of rising student debt and the implications for our families, economy, and society.

Since 2005, we have worked to strengthen Pell Grants, which reduce students' need to borrow; increase investment in public colleges, which serve three-quarters of undergraduates; and create and improve income-driven repayment plans, which keep federal student loan payments more manageable for millions of borrowers. However, much work remains to secure truly equitable access to an affordable, quality higher education; below are our key recommendations for federal policymakers.

Extend & Expand COVID-19 Emergency Relief

- Extend duration and expand coverage for monthly payment relief
- Provide additional loan relief for distressed borrowers
- Deliver additional relief to states and colleges

Increase Access to Need-Based Student Aid

- Secure and improve Pell Grants
- Establish a new federal-state partnership to fund public colleges
- Further simplify the federal financial aid application process
- Streamline and improve higher education tax benefits

Make Loan Repayment Simple, Manageable, and Fair

- Simplify and improve income-driven repayment (IDR)
- Automatically enroll distressed borrowers in IDR
- Improve student loan servicing
- Restore bankruptcy protections for student loan borrowers
- Reduce the punitive consequences of student loan default

Improve Postsecondary Data and Consumer Information Tools

- Bring the postsecondary data system into the 21st century
- Collect private student loan data
- Improve and promote tools to help students make informed college decisions

Enhance and Improve Institutional Accountability

- Strengthen policies to prevent waste, fraud, and abuse

Reduce Risky Private Loan Borrowing

- Require school certification of private loans
- Require private lenders to discharge loans in the event of death or severe disability
- Increase community college students' access to federal student loans

EXTEND AND EXPAND COVID-19 EMERGENCY RELIEF

Students, borrowers, states, and colleges need additional emergency help to weather the twin crises of pandemic and recession. Congress should build upon the CARES Act to include the below.

Extend Duration and Expand Coverage for Monthly Payment Relief

Current emergency benefits for federal student loan borrowers are set to expire at the end of 2020. Rather than setting the benefits to end on an arbitrary date, lawmakers should tie the benefits to a clear economic indicator. Policymakers must also expand which loans are covered by emergency relief — commercial FFELP loans and campus-based Perkins loans, which account for nearly 11 percent of the federal loan portfolio (in dollar terms), are not currently covered. Congress should also direct private lenders to provide additional relief (such as extended payment pauses or interest reductions) for private loan borrowers.

Once the emergency benefits end, millions of borrowers will need to transition back into repayment. Past disaster-related forbearance for hurricanes and wildfires have contributed to jumps in delinquency and default after the forbearances ended, demonstrating the difficultly inherent in transitioning large groups of borrowers from non-payment to active repayment. To prevent this, borrowers should be given a six-month grace period from delinquency, default, and collections to allow servicers adequate time to successfully transition them back into repayment after the emergency benefits expire. Congress should also build on the borrower-communication requirements in the CARES Act by providing more explicit direction and resources to the Education Department to facilitate a smooth transition of borrowers back into repayment, including close oversight of contracted servicers, once the pause payment period ends.

Provide Additional Loan Relief for Distressed Borrowers

Congress should discharge the federal student loans of students who are covered by government findings of wrongdoing (such as students who attended Corinthian Colleges and ITT Technical Institute). Addressing some of the outstanding issues regarding borrower defense claims would serve as a small but important economic stimulus for some of the most vulnerable borrowers. In addition, far too many borrowers have attempted college to improve their prospects only to be left stuck in the same — or worse — economic condition with unmanageable debts and facing the financial devastation of default.

There are a number of steps Congress should take to provide relief to such borrowers, including restoring bankruptcy protections for both federal and private student debt and reinstating a statute of limitations on the collection of federal student loan debt by discharging all loans that have been in repayment for 30 years or longer.

Deliver Emergency Relief to States and Colleges

Colleges are facing extreme uncertainty and will need significant help in recovering from both the immediate and long-term effects of the coronavirus outbreak. Congress should immediately provide significant additional funding to enable states to shore up public colleges and universities. State higher education budgets are already being hit hard as states must fund urgent health needs and weather a steep decrease in revenue as a result of the economic downturn. These funds are desperately needed and will enable states to (1) cover operational costs at public institutions and avoid steep tuition hikes at the very time that families can least afford it and (2) fill critical gaps left by enrollment drops or tuition discounts provided to students forced to shift from campus-based to online-only education.

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 burdensome 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 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. Federal Pell Grants help over seven million low- and moderate-income students a year pursue higher education or training. They are the federal government's most effective investment in college access and success, and 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 that Congress work toward doubling the maximum Pell Grant to restore its purchasing power and increase equity 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 2019 (H.R. 4639) and 2017 (S. 1136, H.R. 2451) that reflects these recommendations, as well as Pell Grant-related provisions included in legislation introduced in 2019 (H.R. 4674).

Establish a New Federal-State Partnership to Fund Public Colleges

Public colleges enroll three-quarters (76%) of undergraduates. However, state disinvestment in public higher education — paired with inequitable funding across institution types — has led to a decline in states' ability to provide accessible and affordable higher education opportunities for their residents.

To reverse this trend and restore the promise of a public higher education for all students, we propose a renewed federal-state partnership that delivers new federal funding to public colleges, focused on reducing net costs especially for low-income students and underrepresented students of color. In exchange, states must maintain or increase their own investments in public higher education.

Legislation introduced in 2015 (S. 2191), 2016 (H.R. 5756), 2017 (S. 806), 2018 (S. 2598), and 2019 (S. 3028) 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.

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.

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. Policymakers should ensure that students do not fare worse under a simplified system than they do under the current system.

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

There is bipartisan agreement that higher education tax benefits are overly complex, and their benefits poorly timed and regressive. We recommend streamlining existing education tax benefits by improving the American Opportunity Tax Credit (AOTC) and eliminating benefits that are less effective or targeted, such as the Tuition and Fees Deduction and Lifetime Learning Credit.

We also recommend eliminating the taxation of Pell Grants, which keeps many students from accessing tax benefits for which they are eligible. We support bipartisan legislation introduced in 2019 (H.R. 3803) that would eliminate this unnecessary complexity.

Additionally, we recommend eliminating the taxation of forgiven federal student loan debt, regardless of the reason for discharge. Currently, the IRS does not consider as taxable income loan balances discharged after 10 years of payments under the Public Service Loan Forgiveness program (PSLF) or due to death or permanent disability. However, balances discharged after 20 or 25 years of responsible payments in an income-driven repayment (IDR) plan are considered taxable. This disparate tax treatment is inequitable and confusing, and creates a potentially large and unaffordable tax liability that disproportionally affects persistently low-income borrowers.

MAKE LOAN REPAYMENT SIMPLE, MANAGEABLE, AND FAIR

Income-driven repayment (IDR) plans provide a critical safeguard for borrowers but can be confusing for borrowers to navigate. Current delinquency and default rates suggest more borrowers who could benefit from IDR are not enrolled.

Simplify and Improve Income-Driven Repayment (IDR)

There are five similar IDR plans, causing unnecessary complexity and confusion. To simplify and improve student loan repayment as well as reduce delinquency and default, we recommend streamlining these five plans into a single, improved plan that works better for both students and taxpayers.

This single IDR plan, paired with the option of a fixed payment plan, would let any borrower choose the assurance of payments capped at 10 percent of income and provide tax-free forgiveness of remaining debt, if any, after 20 years of payments. The plan would also better target benefits to those who need them most and prevent borrowers with high incomes and high debt from receiving loan forgiveness when they could have afforded to pay more.

We strongly support legislation introduced in the Senate (S. 1002) in 2019 that reflects these recommendations (see TICAS fact sheet here). Many of these recommendations are also included in legislation (H.R. 4674) introduced in the House in 2019.

Automatically Enroll Distressed Borrowers in IDR

While it is important that borrowers have a choice between a fixed repayment option and an income-based repayment option, borrowers who are severely delinquent on their loans should be automatically enrolled in income-driven repayment to help them avoid the severe consequences of defaulting on their loans. IDR is always preferable to default, and IDR payments can be as little as $0 for borrowers with very low incomes.

We strongly support bipartisan legislation (H.R. 3833) introduced in 2019 that would automatically enroll severely delinquent borrowers in an income-driven plan to help prevent defaults.

Improve Student Loan Servicing

Improving the federal student loan servicing system will significantly improve borrowers' repayment experiences and outcomes. As the Department continues developing its new servicing platform (NextGen), the Department must ensure that the new system is transparent to borrowers, that contractors' incentives are aligned with borrower success, and that contractors are subject to strong oversight.

As has been jointly recommended by the Consumer Financial Protection Bureau (CFPB) and the Departments of Education and Treasury — and separately recommended by the Government Accountability Office — a federal servicing system must prioritize borrowers' interests and ensure all borrowers have easy access to high-quality information and excellent customer service. We also support the restoration of a data-sharing partnership between the Education Department and the CFPB to facilitate appropriate oversight of the federal loan program.

Restore Bankruptcy Protections for Student Loan Borrowers

Bankruptcy provides a crucial protection for Americans facing severe financial hardship. The bankruptcy reform legislation passed in 2005 sets a high bar for granting relief, which helps ensure that consumers who receive relief are truly unable to pay. Yet federal bankruptcy law treats private education loans and federal student loans even more stringently than other forms of consumer debt, excluding both from discharge except in exceedingly rare cases of proven "undue hardship."

To remove barriers to relief for borrowers who are truly unable to repay, we support recent bipartisan legislation (H.R. 770, S. 1414, and H.R. 2648) to restore borrowers' ability to discharge student debt through bankruptcy.

Ensure the Consequences of Student Loan Default Are Not Overly Punitive

In addition to streamlining and improving the student loan repayment system, we recommend that policymakers re-think some of the consequences of student loan default and ensure that they are not overly punitive and self-defeating.

Federal student loan borrowers can resolve their default through several avenues, including full repayment, loan rehabilitation, or loan consolidation. While each of these three options remove the default status, only borrowers who complete the loan rehabilitation process will have the record of default removed from their credit history.

A record of default on a borrower's credit history can have a severe and long-lasting impact on their financial situation, and all borrowers who have resolved their default — regardless of the path to resolution they took — should have access to the same fresh start. We recommend that the default record also be removed from the credit history of borrowers who resolve their default loan through repayment or consolidation, and support legislation introduced in 2019 (H.R. 4869 and H.R. 4395) that would address this issue.

In addition, some of the consequences of default can themselves compound financial hardships, making it more difficult for borrowers to resolve default and establish financial stability.

We support bipartisan legislation re-introduced in 2019 (S. 609) that would end the practice of states suspending, revoking, or denying state licenses solely because borrowers are behind on their federal student loan payments.

Borrowers with defaulted loans can also have their wages or tax refunds garnished by the U.S. Department of the Treasury through its Treasury Offset Program (TOP), often causing financial hardship for those who can least afford it. We recommend that offsets be capped at a reasonable level for all borrowers and that certain low-income borrowers be exempted from TOP collections.

When a borrower makes payments to collection agency on a defaulted student loan, a sizeable portion of their payment is typically applied to collection fees, which can be as high as 40 percent on some loans. We recommend that policymakers implement a low statutory cap on the collection fees that private collection agencies can charge to borrowers with defaulted student loans.

IMPROVE POSTSECONDARY DATA AND CONSUMER INFORMATION TOOLS

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 as well as the improvement and promotion of important federal consumer tools.

Bring the Postsecondary Data System into the 21st Century

The creation of a student level data network with strong protocols for maintaining student privacy and protecting data security is key to increasing the comprehensiveness and comparability of postsecondary data.

We have joined over 175 organizations, including business leaders, schools, student advocates and civil rights, in supporting the 2019 bipartisan, bicameral College Transparency Act (S. 800, H.R. 1766) to repeal the 2008 ban on a federal student level data network and implement holistic reform of postsecondary data infrastructure while protecting privacy and prioritizing data security.

Without such reform, important measures of student success and their relationship to student debt, including at key disaggregates by race/ethnicity, will remain out of reach of both students and policymakers, and public data will continue to fall short of reflecting all students.

Collect Private Student Loan Data

Student debt data currently available remain incomplete and uneven. For example, the total debt at graduation — including both federal and private loans — is still not available for each college. Data on student debt levels voluntarily reported by colleges show that 31 percent of student loan debt in high-debt states is non-federal debt, underscoring the need for more comprehensive, federally collected debt data.

The Department has made important progress by publishing graduates' median cumulative debt data on the College Scorecard using data from the National Student Loan Data System (NSLDS), including most recently by working toward finalizing program-level cumulative debt data. Yet, such data will remain incomplete because private loans are not included in NSLDS. Requiring colleges to report nonfederal loan data, either at the school level through IPEDS or at the student level via NSLDS, would be the most expedient path to collecting nonfederal debt data.

However, Congressional action requiring the federal government to collect the data directly from lenders via the Department of Education or the Consumer Financial Protection Bureau would improve data comprehensiveness and accuracy, as well as reduce burden on institutions. This collection would ideally be part of a federal student level data network, but it need not wait for such a system.

Improve and Promote Tools to Help Students Make Informed College Decisions

Students need more reliably accessible, timely, accurate, and comparable information to make informed decisions about where to go to school and how to pay for it. We recommend further improvements to and promotion of the following existing consumer tools:

- *College Scorecard:* The College Scorecard is an interactive online tool that provides consumer friendly information on the chances of completing, borrowing, or ending up with high debt and/or low earnings at a specific school. The Department has made important progress on including additional program-level data that increases the usefulness of that information. Unfortunately, it has also removed key contextual information that helped users interpret the information the Scorecard provides.

  The Department should immediately restore the threshold earnings rate metric to the College Scorecard and work to improve on that metric by calculating and publishing threshold earnings rates at the program level, in addition to the school level. The Department should also restore the display of national medians to College Scorecard data.

The tool would be further improved by including a schools' graduation rate for Pell Grant recipients and by enhancing the interactivity of the sorting tools to allow users to compare colleges by degree level, selectivity, and location.

Additionally, cumulative debt figures should allow for the calculation and comparison of state-level figures and include both federal and private loan debt as soon as they are collected and available.

- *Net Price Calculators:* Nearly all colleges are required to have a net price calculator on their website to provide an individualized estimate of how much the college would cost a particular student, well before they must decide where to apply. TICAS and others' research has found that many of these calculators are hard to find, use, and compare.

  Bipartisan, bicameral legislation has been introduced (S. 889, H.R. 1915) in 2019 to make needed improvements to the design and accessibility of existing net price calculators. The legislation also authorizes the creation of a central portal that would let students quickly and easily get comparable net price estimates for multiple colleges without having to enter information multiple times in different places.

- *Financial Aid Offer Communications:* Students should be able to count on receiving clear and comparable information about how much college will cost them, regardless of the schools they are considering. Knowing how much they will need to save, earn, or borrow to cover remaining costs after grant aid is also key to being able to find the right financial fit, avoid surprise costs, and plan accordingly. Yet, research from TICAS and others shows too many aid offer communications fall far short of clearly and consistently providing key information on college cost and financial aid.

  Bipartisan, bicameral legislation was introduced (S. 888, H.R. 2321) in 2019 to require all colleges receiving federal aid to use consistent financial aid terminology in a standardized format developed through robust consumer testing involving a broad range of stakeholders, including students and schools.

- *Loan Counseling:* By law, all federal student loan borrowers must complete entrance and exit counseling. However, there remains significant potential as well as bipartisan support for enhancing federal student loan counseling to ensure that students receive clearer, timely, and actionable information on borrowing options and obligations. We support empowering schools to require annual counseling in order to more consistently provide students with information related to their previous and future borrowing decisions without deterring or restricting access to loans that students need to attend and succeed in college.

  In 2019, a bipartisan bill (H.R. 2129) was introduced to require annual loan counseling and provide critical information encouraging students to use federal student loans before considering risky private loans to pay for college, and another bipartisan bill (S. 887) was introduced to require annual loan counseling. We also encourage the Department to continue evaluating and improving its online tools, including by consistently providing definitions of key terms, and more clearly explaining how to select or change a repayment plan.

ENHANCE AND IMPROVE INSTITUTIONAL ACCOUNTABILITY

Strong college accountability is key to reducing the number of students left worse off by burdensome student debt. Stronger policies, oversight, and enforcement are urgently needed to address high-cost but low-quality programs and predatory practices that prey 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 9 percent of college students but account for one-third of all student loan defaults.

Thirty-seven state attorneys general have jointly investigated potential fraud by for-profit colleges, and the Department of Justice, the Securities and Exchange Commission, the Federal Trade Commission and the Consumer Financial Protection Bureau have all settled multi-million dollar cases against for-profit colleges and secured hundreds of millions of dollars of private debt relief for students who attended these schools.

Yet in recent years the abrupt closures of for-profit colleges have left more than 100,000 students stranded, many with debt but few options to complete their degrees, while more than 170,000 students continue to seek to fully cancel federal loans taken based on misrepresentations or illegal conduct by colleges.

The Trump Administration repealed the gainful employment rule, which required career programs to demonstrate that average graduates' debts are reasonable relative to their earnings. The rule had proven to be a successful tool to lower costs and improve the quality of career programs, and its repeal will cost taxpayers an estimated $6 billion over ten years.

The Trump Administration also repealed protections for students against colleges' fraud and other illegal conduct. Under the Trump Administration borrower defense to repayment rule, rather than creating a fair process for students to demonstrate they should not be required to repay loans connected to illegal conduct, 97 percent of students who took out loans connected to illegal conduct by schools will nonetheless be required to repay those loans. Colleges would be held responsible for just one percent of loans made based on misconduct. The removal of these guardrails puts students and taxpayers at greater risk of unaffordable debt, higher rates of defaults, and wasted time and money.

Strengthen Policies to Prevent Waste, Fraud, and Abuse

It is imperative that Congress maintain existing accountability mechanisms, many of which Congress adopted with bipartisan support and have proven successful over the course of decades. These critical protections include reinstating the gainful employment and borrower defense rules, requiring at least 15 percent of tuition be paid without federal subsidies, prohibiting the use of commissioned sales and other tactics associated with high-pressure and deceptive recruiting, and holding colleges more accountable for excessive student loan default rates.

It is also more critical than ever that Congress act to put in place new accountability protections. Legislation introduced in 2019 (S. 867, H.R. 3512) provides a comprehensive set of policy solutions to ensure both students and the taxpayer investment are protected. Known as the PROTECT Students Act, the bill addresses these key priorities and more.

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 RISKY PRIVATE LOAN BORROWING

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.

Require School Certification of Private Loans

More than half (53 percent) of undergraduates who borrow private loans borrowed less than the annual maximum allowed for safer federal student loans. Unfortunately, many students who borrow private loans — and the family members who co-sign them — do not 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. 2184) introduced in 2019 that would require it.

Require Private Lenders to Discharge Loans in the Event of Death or Severe Disability

Congress should require private student lenders to discharge the loans of a borrower who dies or becomes totally and permanently disabled. Unlike federal student loans, there is no federal law requiring such discharges; some private lenders voluntarily provide these discharges under certain circumstances while do not. This means that private student loan borrowers and their families are not protected in the event of death or severe disability, an inequity that takes on new urgency in a global pandemic.

Increase Community College Students' Access to Federal Student Loans

Nearly one million community college students cannot 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.

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