THE INSTITUTE FOR COLLEGE
ACCESS & SUCCESS

Chairman Owens, Ranking Member Wilson, and members of the subcommittee:

Thank you for the opportunity to speak with you today.

I am Sameer Gadkaree, President of The Institute for College Access and Success (TICAS). TICAS is a nonprofit, nonpartisan organization that advocates for increasing college affordability, improving college access and completion, protecting students and taxpayers from fraud, waste, and abuse, and increasing economic and racial equity in our higher education system.

A college degree remains a strong investment for most Americans: college graduates tend to earn a substantial wage premium in the labor market and face significantly lower poverty and unemployment rates than those with no education beyond high school.[1]

However, college costs remain high enough that most students cannot enroll without taking on debt. To cover the average cost of attending a four-year public college, students from families making $30,000 or less would need to spend 93 percent — nearly all — of their total family income. To cover the cost of a two-year college, these students would need to spend nearly two-thirds of their family's total income.[2]

Why? For decades, state funding has declined for public colleges and universities — which enroll more than three-quarters of undergraduates nationwide — and colleges have turned to tuition and fees to make up the gap.[3] Meanwhile, grant aid, including the federal Pell Grant, has not kept up with rising costs.

The current maximum Pell award covers the lowest share of college costs in the program's more than 50-year history.[4] Pell Grants are the federal government's most effective investment in college affordability, and there is clear evidence that need-based grant aid increases college enrollment and completion among low- and moderate-income students.[5] Pell Grants are especially critical for students of color, with nearly 60 percent of Black students, half of American Indian or Alaska Native students, and nearly half of Latino students receiving a Pell Grant each year.[6] Pell Grant recipients today are more than twice as likely as other students to have student loans, and grant recipients who borrow end up graduating with over $4,500 more debt than their higher-income peers.[7]

Taken together, these trends mean that the average debt held by bachelor's degree recipients grew by about 56 percent over a 15-year period, well outpacing inflation.[8]

And this shift in funding of our higher education system does not just mean more debt for students. It can also lead to decreased instructional spending, fewer course offerings, larger class sizes, and cuts in student services, which can hamper students' ability to succeed.[9] While every public college student has felt the impact of state budget cuts, community college students, including many enrolled in occupational programs, have felt the impact most severely.[10]

Even before the pandemic, too many federal student loan borrowers were struggling to manage their loans. This struggle was particularly acute among those who did not complete their degree or who were enrolled in a high-cost, low-quality program, often in the for-profit college sector. In addition, programs meant to help borrowers manage their debt were difficult to access: 25 percent of all Direct Loan borrowers were either delinquent or in default at the end of 2019 and over one million borrowers entered default in 2019 alone.[11]

The vast majority of those who default on student loans have faced persistent economic and social vulnerability.[12] As of 2017, 87 percent of those who defaulted within 12 years of enrolling in college had received a Pell Grant at some point, meaning that they had a household income of less than $40,000.[13] Those who were the first in their family to attend college are also more likely to default: nearly a quarter (23 percent) of first-generation students defaulted on their loans within 12 years, compared to 14 percent of non-first-generation students.[14]

Students who started school but never completed a degree or credential are at particular risk of default, as they have taken on debt but received none of the associated economic benefits of graduating college. These borrowers — who represent about half of all those who default — typically owe relatively small balances, with nearly two-thirds owing less than $10,000; more than one-third owe less than $5,000.[15]

These trends are especially harmful for Black students: because of the racial wealth gap — along with persistent employment and wage discrimination — Black students are more likely to borrow to pay for college and have worse repayment outcomes.[16],[17]

Student debt also disproportionately affects women. Women hold 58 percent of outstanding student debt, and, on average, leave college with debt balances nearly 10 percent higher than men. These effects are even worse for women of color who are 12 percent more likely to have student loan debt than their peers.[18]

The COVID-19 pandemic significantly worsened economic precarity for student debt holders. A recent Philadelphia Federal Reserve survey found that "over half of education loan holders — a share significantly higher than observed in respondents without education debt — reported temporary employment and income disruptions over [the] one-year period."[19]

To help families during the pandemic, the Trump Administration implemented a pause on payments, interest, and collections for most federal student loan borrowers. In the face of ongoing public health concerns and economic uncertainty, the Biden Administration has continued the pause.

The Biden Administration acted to help to low- and moderate-income families via its one-time debt relief program, seeking to address the striking growth in college costs, the vulnerable students who accrued some college debt but do not have a degree, and the unique economic challenges of the

pandemic. A third of the relief would go to borrowers over 40 years old. And the Administration noted that the effort would reduce the racial wealth gap.[20] A Politico analysis found that 98 percent of debt relief applications came from ZIP codes where the average annual income is under $75,000.[21]

Meanwhile, as the administration transitions borrowers back into repayment, it is taking long-overdue steps to reform and simplify the repayment system and ensure borrowers can access existing relief programs, including the Public Service Loan Forgiveness (PSLF) program and — for defrauded borrowers — borrower defense to repayment.

For example, the administration's PSLF waiver is addressing longstanding bureaucratic challenges with the program that led to fewer than one percent of applicants receiving the relief they reasonably believed they had earned.[22] In a similar vein, the administration is working to remedy decades of servicing errors and giving borrowers rightful credit toward loan discharge under income-driven repayment plans.[23]

This summer, a new borrower defense to repayment rule will take effect, replacing a problematic rule that bipartisan majorities in both chambers of Congress rejected in 2020. The new rule will provide substantially stronger protections for borrowers who are defrauded by predatory institutions that often rely on aggressive and misleading recruitment tactics to lure students into enrolling and taking out federal student loans. Borrower defense provides protection for borrowers like the more than 200,000 defrauded borrowers now receiving relief under the settlement terms of *Sweet v. Cardona*.

The administration is also working to help borrowers in default get back on their feet and get their loans back into good standing via its "fresh start" initiative. This program protects borrowers from the financially devastating effects of default, including having their wages, tax credits, and other benefits seized.[24] For the many borrowers who started but did not complete a degree and subsequently defaulted on relatively small amounts of debt, this offers a critical opportunity to try again.

Alongside these targeted relief efforts, the administration is working to strengthen and simplify the repayment system by implementing an improved income-driven repayment (IDR) plan.[25] When designed and implemented well, IDR can help millions of borrowers stay on top of their loans and avoid default, providing manageable monthly payments that are tied to their income and family size, as well as the promise that student loan payments will not last the rest of their lives.

However, despite the availability of IDR plans — and significant improvements to program design and generosity over time — too many borrowers continue to struggle with repayment. Many borrowers never make it into an IDR plan, and even for many who do, income-based payments can still be too high. Many also struggle to navigate the bureaucratic hurdles of enrolling in and staying enrolled in IDR plans, with some even defaulting despite being enrolled in IDR.[26],[27] A significant number of borrowers who are successfully making monthly IDR payments still struggle with negative amortization if their monthly payments are not enough to cover accruing interest. As a result, they face ballooning balances even if they make regular, on-time payments.[28]

The administration's proposed plan would provide meaningful financial relief to the very borrowers who have borne the brunt of rising costs. By lowering monthly payments, shortening the repayment term for borrowers with lower balances, and preventing balances from soaring due to interest charges, the

proposed changes create a more practical path to managing student debt. The new IDR plan better recognizes and supports the economic reality that covering housing, food, childcare, and medical expenses must come first for families. It also includes new protections from the harsh, punitive consequences of loan default and helps students manage debt that has not paid off, including for those who start college but do not complete a degree.[29]

The Biden Administration's student debt actions have helped address some of the most serious consequences of rising student debt, which affects not only young Americans but, increasingly, those approaching and in retirement. The administration is taking targeted and common-sense steps to address a significant and growing problem affecting nearly 44 million Americans: making existing relief programs function as intended, discharging debt for those who were deceived by their schools, offering those in default a fresh start, addressing poor loan servicing, and revising the income-driven repayment system.

Ultimately, Congress must stop the debt pile-up and address the root causes of this crisis by lowering college costs and providing sufficient grant aid so that students do not need to take on unmanageable debt to earn a degree.

Policymakers can start by investing in the Pell Grant program, which is extremely well-targeted to students with high financial need: 80 percent of Pell recipients come from families with annual incomes at or below $40,000, including 40 percent with annual family incomes at or below $15,000.[30] Alongside that investment, federal policymakers should work with states to restore funding for public colleges and drive down tuition. And they should support efforts to hold the worst-performing career education programs accountable for creating outsize debts with little gain in earnings. Policymakers should also require colleges to provide students with clear, transparent, and comparable information about college costs and the financial aid options available to cover them.

To truly drive economic growth and help families recover from the pandemic, we must make college more affordable, hold colleges accountable for keeping costs down and providing a quality education, and ensure that student debt doesn't hold families back from prosperity.

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[2] Calculations by TICAS using data from the College Board's 2022 *Trends in College Pricing* report, available at https://bit.ly/3yKGhem.

[3] Center on Budget and Policy Priorities. 2019. State Higher Education Funding Cuts Have Pushed Costs to Students, Worsened Inequality, available at http://bit.ly/3Ls3FVM.

[4] Calculations by TICAS using data from the College Board's 2022 *Trends in College Pricing* report (available at: https://bit.ly/3yKGhem) and U.S. Department of Education data on the maximum Pell Grant.

[5] Denning, Jeffrey T., Benjamin M. Marx, and Lesley J. Turner. 2019. "ProPelled: The Effects of Grants on Graduation, Earnings, and Welfare." American Economic Journal: Applied Economics," 11 (3): 193-224. http://bit.ly/42lbsus; Evans, Brent J. and Tuan D. Nguyen. 2018. "Monetary Substitution of Loans, Earnings, and Need-based Aid in Postsecondary Education: The Impact of Pell Grant Eligibility (CEPA Working Paper No.18-05)." Retrieved from Stanford Center for Education Policy Analysis: https://stanford.io/3YV7Tbt.

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[10] The Institute for College Access & Success. 2019. *Dire Disparities: Patterns of Racially Inequitable Funding and Student Success in Public Postsecondary Education*. https://bit.ly/2Zn7TXL.

[11] Calculations by TICAS using data from the U.S. Department of Education's Federal Student Aid Data Center using the files "Portfolio by Delinquency Status (DL, FFEL, ED-Held FFEL, ED-Owned)," "Direct Loan and Federal Family Education Loan Portfolio by Loan Status," and "Federal Student Aid Portfolio Summary," accessed on September 22, 2020. See https://bit.ly/2IDdpKW, https://bit.ly/1O6zgrW, and https://bit.ly/2hvfiOd. Figures represent Direct Loan borrowers whose loans are more than 30 days delinquent, including those whose loans have gone into default. Recipient counts are based at the loan level. As a result, recipients may be counted multiple times across varying loan statuses.
[12] Center for American Progress. 2017. *Who Are Student Loan Defaulters?* https://ampr.gs/3LBV5E5.
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[14] The Institute for College Access & Success. 2018. *Students at Greatest Risk of Loan Default*. https://bit.ly/3n5KNBy.
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[24] U.S. Department of Education, Office of Federal Student Aid. *A Fresh Start for Federal Student Loan Borrowers in Default*. https://bit.ly/40bPw3H.
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[27] The Institute for College Access & Success. 2022. *How Reforming Income-Driven Repayment Can Reduce the Burden of Student Debt*. https://bit.ly/3n2wPk7.
[28] TICAS. 2021. *Roadmap for Reform: Making Income-Driven Repayment Work Better for Borrowers*. https://bit.ly/3JNQGfJ.
[29] U.S. Department of Education. 2023. *New Proposed Regulations Would Transform Income-Driven Repayment by Cutting Undergraduate Loan Payments in Half and Preventing Unpaid Interest Accumulation*. https://bit.ly/3LwPzCD.
[30] Calculations by TICAS using data from the U.S. Department of Education, 2017-18 Federal Pell Grant Program End-of-Year Report, Table 71, http://bit.ly/3JLW9Ui. Of the Pell Grant recipients with family incomes above $40,000, more than two-thirds (69%) have families of four or larger and almost two in five (38%) have families of five or larger.