Written Testimony
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"Breaking the System Part II: Examining the Implications of Biden's Student Policies for Students and Taxpayers"
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Subcommittee on Higher Education and Workforce Development

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Chairman Owens, Ranking Member Wilson, and Distinguished Members of the Subcommittee:

Thank you for the opportunity to discuss the U.S. Department of Education's (Department's) efforts to address the problem of student debt, remedy the economic damage that student loans cause to families and communities, and prevent a future student debt crisis.

Few, if any, institutions in our society have as much potential to build the middle class, drive the economy, and meet America's most pressing challenges as our colleges, universities, and trade schools do. On average, postsecondary education is an excellent investment, paying off not only for students and families, but also for employers, communities, and our nation as a whole. But when President Biden took office, he inherited a student loan program that had grown so large and unaffordable that it siphoned off many of the benefits of college and left some students worse off than if they had never attended college at all.[1]

Under the leadership of President Biden and Secretary Cardona, we are taking historic steps to tackle the student debt crisis and ensure that college is a vehicle for upward mobility and economic prosperity. We are:

- Fighting to help lower and middle-income borrowers struggling because of the continuing economic effects of an unprecedented global pandemic through up to $20,000 in one-time debt relief;

[1] Jordan D. Matsudaira and Lesley J. Turner. "Towards a framework for accountability for federal financial assistance programs in postsecondary education." The Brookings Institution. (2020) www.brookings.edu/wpcontent/uploads/2020/11/20210603-Mats-Turner.pdf.

- Creating the most affordable student loan repayment plan ever and approving forgiveness for the loans of more than 2 million borrowers who are eligible for Public Service Loan Forgiveness and other programs;

- Investing in students by increasing Pell Grants, with the goal of doubling the maximum award by 2029, working toward tuition-free community college, and proposing new tuition subsidies for students at Historically Black Colleges and Universities (HBCUs), Tribally Controlled Colleges and Universities (TCCUs), and Minority-Serving Institutions (MSIs) such as Hispanic-Serving Institutions (HSIs); and
- Holding colleges accountable for student debt, while also investing in underresourced colleges and universities and the inclusive institutions of higher education serving large shares of low-income and students of color.

Making the Federal financial aid system work for students and families does not simply happen overnight. It requires critical investments in Federal Student Aid's (FSA) core functions to maintain basic operations to deliver aid to students and service loans for a full fiscal year,alongside investments to provide stable and comprehensive servicing through long-term servicing contracts, investments in a streamlined and simplified FAFSA, investments in communications to help tens of millions of borrowers successfully return to repayment, and investments in FSA's systems to support all stakeholders across postsecondary education, including our institutions, servicers, borrowers, and students.

I am pleased to testify alongside my partner, Richard Cordray, the Chief Operating Officer (COO) of FSA. Without strong implementation, even the best policies would be only empty promises. Students are fortunate to have COO Cordray and his dedicated team working every day to modernize outdated systems and deliver better results for students.

Background

A century ago, our decision to make high school free and universal helped us become one of the best-educated, most prosperous nations in the world. Today, two- and four-year degrees continue to lead graduates to higher salaries, higher rates of labor force participation, lower rates of unemployment and poverty, and greater health and happiness.[2] Educational attainment also benefits our nation through a stronger economy and a more productive workforce.[3]

This year, Congress has authorized the Department to provide $84 billion in loans and $29 billion in grants to help more than 18 million students attend more than 5,000 institutions of higher education.[4] These programs help students pursue a tremendous variety of goals, including both blue- and white-collar careers. In fact, of the nearly 3.8 million undergraduate degrees and certificates awarded in the 2020-21 award year, nearly 600,000 were associate degrees and certificates in technical fields like construction, welding, mechanic and repair technologies, and allied health fields.[5] Many of these students used federal loans and grants to access and complete their education.

Despite the importance of postsecondary education, published prices for four-year colleges have more than tripled since 1980, and nearly tripled at two year colleges, and – up until the last two years – the purchasing power of Pell Grants has been falling. Compared to a generation ago, more students are borrowing, and they are borrowing more.[6]

As a result, college graduates may struggle to repay their student loans and start a family, own a home, save for retirement, launch a business, or enjoy the benefits of a middle-class life.[7] Research suggests that student debt complicates students' life plans, from getting married to attending graduate school to purchasing a home.[8] The economic

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[2] https://www.bls.gov/emp/chart-unemployment-earnings-education.htm; https://econpapers.repec.org/article/anrreveco/v_3a7_3ay_3a2015_3ap_3a519-555.htm; https://www.luminafoundation.org/resource/its-not-just-the-money/; Oreopoulos, P., & Salvanes, K. G. (2011). Priceless: The Nonpecuniary Benefits of Schooling. Journal of Economic Perspectives, 25(1), 159-184.

[3] https://www.luminafoundation.org/resource/its-not-just-the-money/; Moretti, E. (2004). Workers' Education, Spillovers, and Productivity: Evidence from Plant-Level Production Functions. *American Economic Review*, 94(3), 656-690.
Dee, T. S. (2004). Are There Civic Returns to Education? *Journal of Public Economics*, 88(9-10), 1697-1720.
Currie, J., & Moretti, E. (2003). Mother's Education and the Intergenerational Transmission of Human Capital: Evidence from College Openings. *Quarterly Journal of Economics*, 118(4), 1495-1532.

[4] Department of Education data

[5] Based on staff analysis of Department of Education data.

[6] https://research.collegeboard.org/trends/student-aid, see "Trends in Student Aid 2022: Data in Excel"

[7] Holding student loan debt can delay or decrease rates of homeownership, particularly for those who borrow but do not attain a degree (Mezza et al 2020, Miller and Nikaj 2018).
https://www.journals.uchicago.edu/doi/10.1086/704609;
https://www.tandfonline.com/doi/full/10.1080/09645292.2018.1430749

[8] Gicheva, D. (2016). Student Loans or Marriage? A Look at the Highly Educated. Economics of Education Review, 53, 207-2016; Chakrabarti, R., Fos, V., Liberman, A. & Yannelis, C. (2020). Tuition, Debt, and Human Capital. Federal Reserve Bank of New York Staff Report No. 912.; Mezza, A., Ringo, D., Sherlund, S., & Sommer, K. (2020). "Student Loans and Homeownership," Journal of Labor Economics, 38(1): 215-260.

impact of their debt is shared not only by their families but also by their entire communities.[9]

Recent data from the Department shows that one in three borrowers never graduates, and some students are left worse off than if they had never attended college at all.[10] Prior to the student loan pause, more than a million students defaulted on their loans every year, many of them first-generation students and Pell Grant recipients.[11] Borrowers who experience default see their credit scores drop by 50 to 90 points, which can increase the costs of services and financial products such as insurance and other forms of borrowing, and face wage garnishment and tax refund offsets.[12] Our debt-based system of personal education financing also reinforces racial inequities: after 12 years of repayment, the typical Black borrower has made no progress repaying their student loans.[13]

President Biden recognizes the urgent need for bold, transformational action to tackle the student debt problem, and the importance of helping borrowers as they recover from the pandemic. The Administration is working to provide relief to current and future borrowers; make college more affordable through Pell Grants and free community college; and hold colleges accountable for unaffordable debts.

Providing Student Debt Relief Under the HEROES Act

In March 2020, in response to the economic damage caused by the Covid-19 pandemic, the Department paused collections and interest charges on federally held student loans. Half of all student loan borrowers faced temporary employment and income disruptions, a significantly higher share than former students without student loans.[14]

Now, the federal government is winding down the pandemic relief programs, and the Department is committed to supporting student loan borrowers as they return to repayment. As COO Cordray will describe in more detail, we are developing a multi-pronged strategy to help borrowers successfully navigate back into repayment.

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9 https://pubmed.ncbi.nlm.nih.gov/34723115/#:~:text=Using%20tax%20return%20data%20from,entrepreneurship%20and%20poorer%20health%20behaviors.

10 Department of Education Data

11 Federal Student Aid Data Ceter, Student Aid Data, Default Rates, New Direct Loan Defaults. https://studentaid.gov/data-center/student/default

12 Blagg, K. (2018). Underwater on Student Debt: Understanding Consumer Credit and Student Loan Default. Urban Institute Research Report;.Elliott, D. & Granetz Lowitz, R. (2018). What Is the Cost of Poor Credit? Urban Institute Report; Corbae, D., Glover, A. & Chen, D. (2013). Can Employer Credit Checks Create Poverty Traps? 2013 Meeting Papers, No. 875, Society for Economic Dynamics.

13 https://www.brookings.edu/research/the-looming-student-loan-default-crisis-is-worse-than-we-thought/

14 Akana, Tom, and Dubravka Ritter. "Expectations of Student Loan Repayment, Forbearance, and Cancellation: Insights from Recent Survey Data." Federal Reserve Bank of Philadelphia, 2022.

The centerpiece of our efforts to return to repayment without high levels of delinquency and default is the Administrations's plan to invoke authority under the HEROES Act to cancel up to $20,000 in student debt. The plan would help more than 40 million borrowers, nearly 90 percent of whom live in households earning less than $75,000 a year. About half of eligible borrowers will have their loans fully cancelled. Student debt affects more than just those with professional or bachelor's degrees. The Secretary's debt relief plan would help student borrowers of all kinds, including those who pursued technical fields. For example, Department data show that students who earn an associate degree in welding hold approximately $6,500 in debt, based on median graduates in 2015-16 and 2016-17.

The debt relief plan is currently subject to litigation before the U.S. Supreme Court. Tens of millions of borrowers are eager for clarity on the future of this program and their future loan obligations. I am confident in the strength of our legal arguments and hopeful that we will be able to deliver this relief later this year after the U.S. Supreme Court rules this summer.

Supporting Borrowers with Affordable Payments and Targeted Debt Relief
This year, we also plan to finalize the most affordable student loan repayment plan ever. To make loan payments affordable, the proposed plan would base monthly payments on borrowers' incomes. It would make four major improvements to existing plans. First, no one earning less than $32,000 a year – about $15 an hour – would owe payments. Second, borrowers would see their payments on undergraduate loans cut in half, from 10 percent of their incomes to five percent. Third, no one making their required payments would see their balance grow due to interest. Finally, borrowers with smaller loans would receive earlier forgiveness, so someone who attends college for only a semester or two would not need to pay on their loans for 20 years or longer.

The Department's proposal would help low-income borrowers by cutting payments per dollar borrowed by 83 percent on average. A typical new teacher with a bachelor's degree would pay only one-third as much as she would under the current REPAYE plan. Four in five community college borrowers would be debt-free within 10 years.

Our proposed plan would also simplify the choices among repayment plans. Existing income-driven repayment plans have reduced delinquency rates and improved borrowers' financial health.[15] But research suggests that struggling borrowers are often unable to access these more affordable payments.[16] Focus groups with borrowers show that often

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[15] https://www.aeaweb.org/articles?id=10.1257/app.20200362

[16] For example, a 2012 study from the U.S. Department of Treasury showed that 70 percent of defaulted borrowers had incomes that would have qualified them for IDR plans and likely reduced their payments. U.S. Government Accountability Office, 2015. Federal Student Loans: Education Could Do More to Help Ensure Borrowers are Aware of Repayment and Forgiveness Options. GAO-15-663. Research from the Urban Institute showed that the share of

the complex student loan system prevents them from accessing affordable repayment plans, which results in borrowers defaulting.[17] By proposing a plan that offers the lowest payments to nearly all students, we hope to simplify loan repayment and reduce delinquency and default.

We are improving existing forgiveness programs to ensure that they reach borrowers, and have made adjustments to avoid harm to borrowers during the pandemic. So far, we have discharged the loans of more than 2 million borrowers who are eligible for forgiveness under our existing categorical loan forgiveness programs, like Public Service Loan Forgiveness.

Public servants like teachers, nurses, law enforcement, and military servicemembers faced particular challenges because of the pandemic, and we took action to help them overcome technical and administrative barriers to forgiveness. Because of this, approximately 616,000 public servants have received the relief they earned, and another 1.7 million have been brought closer to forgiveness, up from the 7,000 who had ever received loan forgiveness under the program as of January 2021. We have also updated and improved regulations to help many more borrowers working in public service reach forgiveness in the future. Those regulations will go into effect later this summer.

We have also provided relief to 450,000 borrowers who are eligible for total and permanent disability discharges. Most of these borrowers were eligible for forgiveness due to disabilities already recognized by the Social Security Administration, but they were not able to navigate the complex process created by the Department.

This Administration inherited a substantial backlog of "borrower defense" claims alleging misconduct of schools. We settled a class action lawsuit involving the previous Administration's delay in adjudicating such claims and provided loan discharges to those borrowers. We have also identified more than a million borrowers who are eligible for loan forgiveness and put in place stronger borrower defense rules to protect future students and deter college wrongdoing.

Investing in Making College Affordable

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borrowers without a college credential and borrowers receiving Federal benefits enrolled in IDR was lower than the share not making any payments. https://www.urban.org/urban-wire/demographics-income-driven-student-loan-repayment; Other research supports that and shows that undergraduate borrowers, low-income borrowers, and borrowers with debt levels that are high relative to their incomes enroll in IDR plans at lower rates than their counterparts with higher education levels and incomes. The Department's Student Loan Ombudsman has received complaints from borrowers enrolled in IDR that they often still find payments to be unaffordable because competing expenses, such as medical bills, housing, groceries, and private student loan payments, cut into their discretionary income.

[17] https://www.newamerica.org/education-policy/reports/in-default-and-left-behind/

Permanently solving the student debt crisis requires more than changes to student loan repayment. We need to invest in postsecondary education so that more students can afford to complete college without unaffordable debts.

For 50 years, the Pell Grant has been the bedrock of financial aid. But its value has eroded over time. While a Pell Grant used to cover 80 percent of the cost to attend a public four-year college, today it covers less than a third.

Over the past two years, Congress has increased the maximum Pell Grant by $900, which will help 6 million students pay for college. President Biden has proposed another $820 increase this year and has laid out a path for doubling the maximum award by 2029 within a responsible budget.

President Biden's budget also proposes a new program to provide two years of subsidized tuition up to $4,500 for students at four-year HBCUs, TCCUs, and MSIs. This proposal recognizes the essential role these institutions play in creating educational opportunities for first-generation, low-income, and underrepresented students.

If enacted, the President's Budget would also create a new partnership with states, territories, and tribes to make community college tuition-free. Already, 32 states have created some type of free college program, and the idea continues to gain momentum in states from Maine to New Mexico. Tennessee Promise raised college enrollment rates to a record level, with higher retention rates and smaller student debts.[18]

Holding Colleges Accountable

Addressing the root causes of student debt also means holding colleges accountable to students and taxpayers for college costs and unaffordable loans.

Accountability starts by enforcing current laws. The borrower defense rule will deter wrongdoing by holding colleges financially responsible for liabilities resulting from discharged student debt. COO Cordray has revived the FSA Enforcement Unit and taken steps to prevent owners and executives from walking away from failed colleges with a windfall to their personal fortunes.[19] We have also sought public input on the use of tuition-sharing at colleges that hire contractors to recruit students.

[18] https://www.tbr.edu/news/two-years-after-entering-college-first-tennessee-promise-students-are-outperforming-their-peers; https://www.tandfonline.com/doi/abs/10.1080/00221546.2021.1888674

[19] https://fsapartners.ed.gov/knowledge-center/library/electronic-announcements/2022-03-23/updated-program-participation-agreement-signature-requirements-entities-exercising-substantial-control-over-non-public-institutions-higher-education; https://fsapartners.ed.gov/knowledge-center/library/electronic-announcements/2023-03-01/establishing-personal-liability-requirements-financial-losses-related-title-iv-programs

A disproportionately large share of unaffordable debts is generated by for-profit colleges. For-profit colleges enroll 10 percent of students but account for half of all student loan defaults.[20] The Department has proposed a new rule through rulemaking to set standards for debt and earnings at career programs, including those offered by for-profit colleges, which will protect hundreds of thousands of students. Based on past experience, we expect colleges to respond to this gainful employment rule by improving the value they offer students through scholarships, shorter programs, and free trial periods – and if they can't or won't improve their outcomes, students can find better options elsewhere.

No college should routinely leave students with unaffordable debts. With the help of the postsecondary education community, we are working to identify the root causes of the debt crisis and the necessary solutions. Clear consumer information, lower tuition, more generous grants, higher graduation rates, and stronger ties to employers are needed to ensure that, when students do take on loans, they can repay them.

At the same time, we are investing in underresourced institutions that are inclusive and do the lion's share of serving underrepresented students. Our national college graduation rate has risen nearly 8 percentage points since 2010 and, while it is still too low, there are more and more institutions proving that continued progress is possible.[21] We will continue to bring together experts and changemakers through the Secretary's Raise the Bar Summits.

Congress created the Postsecondary Student Success Grant (PSSG) program, which provided $50 million over two years to help institutions use evidence and data to help many more students succeed. The President's Budget proposes $165 million for this program, additional increases for TRIO and GEAR UP, and new resources to create a technical assistance centerto connect institutions with proven strategies. It would also fund Career-Connected High Schools to give high school students career advising, college-level coursework, work experience, and an industry-recognized credential.

Conclusion

There are legislative proposals currently under consideration to cancel student debt relief, abruptly cancel the student loan pause, block the creation of more affordable repayment plans, and repeal Public Service Loan Forgiveness. The House of Representatives passed a budget plan that would cut domestic spending by 22 percent, which – if applied evenly – would jeopardize the operation of the student aid programs and cut the maximum Pell grant by $1,000, giving students $1,800 less than the President's Budget.

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[20] https://www.brookings.edu/blog/how-we-rise/2021/01/12/the-for-profit-college-system-is-broken-and-the-biden-administration-needs-to-fix-it/

[21] https://nscresearchcenter.org/completing-college/

President Biden has a very different vision of how to build a strong economy and create opportunity. I'm proud to advance his vision for a postsecondary education system that is inclusive, affordable, and valuable for all students.

Thank you. I look forward to answering your questions.