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Higher Education and Workforce Development Subcommittee

"Breaking the System: Examining the Implications of Biden's Student Loan Policies for Students and Taxpayers"

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Chairman Owens, Ranking Member Wilson, and members of the Subcommittee: Thank you for inviting me here today to share my assessment of challenges of the president's student loan policies and potential reforms. Federal student aid, and the student loan program specifically, represent a critical aid pipeline that feeds the nation's civic and economic well-being. It is also a markedly inefficient funding channel: roughly 4 in 10 federal loan borrowers in repayment prior to the start of the pandemic held debt but no degree. This issue at hand today is both timely and warranted.

I am honored to be able to share the insights I have gleaned from more than two decades as a professional researcher, entrepreneur, and industry analyst of the postsecondary education finance space. Since the beginning of my research career at the United States Government Accountability Office, I have worked to better understand the economics of how students and families choose where to enroll, as well as how to implement affordable financing solutions that promote student success.

BACKGROUND

Each year approximately 8-million students receive $130-billion in combined federal loan and grant aid to help finance postsecondary degree programs.[i] These dollars eventually make their way to thousands of higher education institutions.

This continued and massive investment is supplemented by billions of dollars in additional aid from state programs, as well as private and institutional scholarships. Combined these resources exist to boost access and completion yet core education outcomes remain frustratingly low. Today only around 3 in 5 students will have completed their degree program after six years[ii] and more than 1 in 4 first-time students do not return for a second year.[iii]

Surveys that look to understand why students struggle to enroll and complete routinely list cost as one of the main barriers to success. College may be expensive, but the real issue with cost is not the dollar amount as much as it is the complicated way students are forced to buy it.

The challenges students, and particularly those who must borrow, face successfully navigating the existing federal financial aid system are well documented.[iv] Students must shop for, and apply for admission, only to have to wait months to be accepted and receive aid offer notifications letting before understanding precisely how much they to cover out-of-pocket.

Even then, approximately 60 to 70 percent of student families still report finding the phrasing or amounts on these awards unclear or confusing.[v] State grant aid programs offering additional support routinely leverage the Free Application for Federal Student Aid (FAFSA) as their own application, yet many lower-income and older, returning students file the FAFSA so late in the aid cycle that they miss access to key grant aid that can reduce their costs.[vi]

The frustrations with federal student aid continue long after students leave school. Borrowers who struggle while in repayment often must choose amongst multiple, often similar, economic hardship and repayment options that lead to capitalized interest and higher monthly payments, longer repayment terms and even negatively amortizing balances that grow rather than shrink over time.

A COMPOUNDED CRISIS

Financing a college degree today is a highly uncertain undertaking that forces millions of borrowers, young and old, to estimate everything from how long it will take to finish to how much they may eventually expect to earn afterwards. The assumptions student borrowers make throughout the financing lifecycle shape everything from how much debt they take on to how they eventually elect to pay that debt back.

The metaphor that best describes the current administration's efforts to effectively manage the student borrowing crisis has been to mop the floor while letting the faucet continue to run. From the president's student loan forgiveness initiative to the Department's rewrite of income-driven repayment regulations, to the continued repayment pauses long after the rest of the economy moved on from the COVID pandemic, the Department of Education has expended extraordinary resources on providing debt relief while almost completely failing to maintain or improve the aid system that drives excessive borrowing and unmanageable payments.

Excessive focus on debt relief intuitively feels like it should provide borrowers clarity and comfort. Instead, it sends a mixed signal to millions of former, current, and future borrowers that their student loan debt obligations are someone else's responsibility. In the absence of meaningful program reform by Congress, it is near certain that loan balances, loan delinquencies and loan defaults will increase, not decrease, in the coming years.

Examples of contradictory messaging and the confusion it has created are not difficult to find. When the president's student loan forgiveness proposal application was launched last fall, borrowers found some loans were included and some were not. [vii] Millions of borrowers who took on loans for the current academic year found out those recently taken on loans would not be eligible for forgiveness.

Why should loans disbursed only a year earlier be so economically shackling as to qualify for relief, yet loans distributed just weeks before the president's announcement was made were not? At issue for millions of current and prospective borrowers was not payment relief, it was confusion about why the same government that wanted to cancel billions of dollars in former students' debt was perversely pushing them to obtain the very same loans.

While the Department of Education devoted considerable time and energy over the past couple years towards attempting to shore up the widely criticized Public Service Loan Forgiveness (PSLF) program, millions of borrowers who will eventually have to resume making payments continue to receive no guidance about how this will eventually happen. Under the current system, borrowers get a six-month repayment grace period so they can prepare to fold that cost into their personal budgets, as well as for student loan servicers to establish contact, provide guidance, and complete administrative processing. And yet, amongst the last 4 repayment pauses, not one was announced with more than 3 months' lead time before payments were set to resume and the second to last was announced just days beforehand.

Leaving tens of millions of borrowers to wonder and worry about how to add an additional expense at the last minute is no less than a complete policy failure. Servicers traditionally responsible for helping borrowers manage repayment stress, and who act on the Department of Education's behalf, found themselves unable to serve their basic function in some cases because they too were learning about some of the repayment extensions the same way students were, by reading about it in the press.

The loan servicing community is well aware that borrowers who cannot be contacted cannot be effectively helped and none of this even starts to address the Department's Fresh Start initiative. Approximately 7.5-million borrowers are likely to see their defaults lifted but their balances, and quite likely the economic circumstances that drove them to default, will remain.[viii]

Servicers continue to warn the Department of Education of unnecessary delinquencies and months of resolution time unless both borrowers and servicers are given ample time to plan.[ix] If the case in front of the Supreme Court is announced in June and payments are set to turn back on in August, there is already less than 6 months for borrowers to adequately prepare.

Students and servicers have not been the only stakeholders who have seen the administration's actions compound the federal aid system's confusion. Within days of the president's student loan forgiveness announcement last August school financial aid offices found themselves inundated with phone calls and unprepared to offer guidance on the inquiries they were receiving about how to receive relief and, astonishingly, inquiries about whether they could immediately apply for federal student loans.

This school-managed uncertainty continues to this day. The FAFSA Simplification Act, passed more than two years ago and designed to help make it easier for millions to obtain federal aid, has already seen implementation pushed back a year and the Department has signaled it may need to push implementation beyond the start of the next aid cycle in October this year.

Again, for millions of students and the advocacy community, the Department of Education's unwillingness or inability to commit to a timetable risks unnecessary delays that will hamper access and delivery of much needed aid. For thousands of financial aid administrators across the country who require months of advance notice to educate staff, ensure regulatory compliance and process aid applications,[x] it is a logistics nightmare. Absent firm commitments, the nation's financial aid offices will struggle to execute a rushed implementation that will create aid processing delays, leading to student financing shortages, and ultimately result in some students leaving school before finishing their degree program.

COMPONENTS OF A MORE RESPONSIVE, FAIR AND ACCOUNTABLE FEDERAL STUDENT AID SYSTEM

Optimizing and maximizing student loan forgiveness may be a worthwhile policy objective, but it is an ancillary one that only helps students after they have left. A fairer and more economically aligned federal financial aid system should serve students, taxpayers, and institutions equally well throughout the entire buying process.

One way is to achieve better outcomes is to establish more balanced accountability. Today students and taxpayers almost exclusively shoulder the loan financing burden even though the quality of the education programs institutions provide directly shapes loan repayment success. Greater accountability and equity can be achieved by asking colleges and universities to act as co-signers on the Title IV loans they expect their students to take out to cover tuition and fees.[xi]

The bargain is straightforward. Colleges and universities maintain reasonably priced academic programs that don't overload students with debt and help them secure career-related employment. Where this doesn't happen, schools should be obligated to step in and help repay part of the loans that they induced those students to take on to begin with.

Students would benefit from all kinds of new academic and career support services, as colleges would be incentivized to help graduates and dropouts alike obtain employment and encourage them to proactively direct resources to struggling students in order to help them get over the finish line in the least time and at the lowest cost. Unnecessary spending by students would translate into unnecessary potential repayment liability for institutions later.

For Congress and the Department of Education, making colleges and universities cosigners streamlines student loan servicing and would technically drive defaults to zero. It also encourages schools to actively work to ensure former student borrowers were aware of, and successfully got into, loan repayment plans that minimized chances monthly payments get missed.

Additional accountability should be accompanied by additional operating flexibility. In return, institutions could be given greater latitude to either raise or lower their own borrowing limits and Congress could also consider financially reward schools that provide exceptional value to graduates with additional institutional aid resources.

Another system improvement would be to streamline the student loan system to minimize borrower repayment confusion and better align debt relief with real economic outcomes. Congress could consider limiting borrowers' repayment options to just a standard plan and an income-driven repayment (IDR) plan. If forbearance is to be kept, it could be constrained to no more than two to three months to prevent borrowers from falling into the capitalized interest trap. In the case of IDR, Congress could improve on the current model by structuring a graduated monthly matching subsidy payment that would eliminate the problem of negative amortizing balances and tailor relief more towards those who need it most.

Patching up poorly designed debt relief programs like PSLF sis proving to be both costly and politically unpopular given the ambiguous groups it tends to benefit. A better strategy would be to sunset the existing PSLF program and replace it with a program of real-time micro loan forgiveness payments in return for acts of service rather than employment in public service.[xii]

State and local governments would create registries of public projects that borrowers could sign up for — think cleaning up a public park or working a food bank or , or possibly even employment opportunities that address key workforce needs in their state. In return, the federal government and states could share in the cost of providing small, immediate reductions in the participant's next student loan payment. Borrowers could participate in as many or as few projects as they would like, without caps or limits, and different projects could pay different amounts.

Micro loan forgiveness would allow borrowers to more actively incorporate debt relief into their school financing strategy since students could hypothetically perform those service acts while still enrolled. As a matter of equity, opening up repayment assistance to any borrower regardless of degree attainment, academic program, career path, or — critically — employment status — would fix to of the worst features of the current plan by also allowing unemployed borrowers and those with debt but no degree a forgiveness path.

Finally, borrowing uncertainty gets reduced when borrowers have access to the right data presented in the most valuable way.[xiii] Requiring all institutions publicly share, and financially be held accountable for, program-level return on investment (ROI) performance would align better with the fact that practically every student who enrolls in college today does so to obtain gainful employment. So too would rethinking the kind of data students care about when selecting, or choosing between, colleges. No student enrolls in a postsecondary degree program thinking they will drop out and annual costs are effectively meaningless to people who earn money and pay bills monthly. Adult and returning students in particular are more apt to care about the financial impact on their monthly budgets, night and weekend class availability or childcare access than the median salary of graduates 10 years after leaving school.

In terms of how the information gets delivered, for some students, cost of attendance may only mean covering tuition and fees while for others it also means supplementing basic living needs like room, board and transportation costs. Not every student necessarily needs money to support these latter expenses, yet today they're lumped together into an all-encompassing cost of attendance measure. For students whom we know already struggle to accurately budget, it's a recipe for under- or over-borrowing. A more straightforward way to help students budget for what they truly need to pay for education is to separate the process of paying for education into buying learning and buying living support.

The U.S. Department of Education's College Scorecard should present prospective students with income-adjusted tuition and fees and support costs estimates for those that want or need them. In the funding phase, pricing transparency can be boosted through the use of sequential aid offers that first present only tuition and fees less any grant or scholarship aid and then, for students and families looking for living expenses, a check-the-box option that says something like, "I would like to see a financial aid package to cover additional living-related expenses," and be presented with information about those expenses as well as a mix of financing options to pay for them.

CONCLUSION

The federal student aid system is a cornerstone of the public commitment to the United States' economic and civic well-being. If that system is to continue serving the critical role it plays, it is important to acknowledge its shortcomings and be strong enough to recognize that sometimes fixing poor policy is more expensive than building smarter new solutions. I commend you for considering what a reimagined federal student aid system would entail and it can be constructed to achieve the higher education system's access, completion, and affordability goals. Thank you for the opportunity to offer testimony in this important hearing. I look forward to presenting these comments and evidence to the committee and answering questions.

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