SUPPORT THE STUDENT AID AND FISCAL RESPONSIBILITY ACT
H.R. 3221

US House of Representatives
Education and Labor Committee
2205 Rayburn House Office Building
Washington, DC 20515

July 20, 2009

Dear Representatives,

On behalf of current college students across the country, we support HR 3221, the Student Aid and Fiscal Responsibility Act of 2009, and we urge its swift passage. The bill will fundamentally address problems that undercut the impact of programs meant to keep college affordable and accessible.

The social and economic health of the country relies on the numbers of people who can attain a college degree, but the costs are skyrocketing. The average cost of tuition at a public four-year college increased by 29 percent between 2000 and 2007. Too many young adults from lower or middle incomes who play by the rules and do everything right are finding it hard to get into college, securely stay there, and to thrive after graduation. Students who are successful at overcoming these barriers and actually graduate from college are held back by another financial liability: student loan debt. The number of students graduating with over $25,000 worth of student loan debt has tripled in the last decade.

The economic downturn has laid bare the problem. States are experiencing shrinking revenue so they are dramatically cutting public college budgets, causing tuition to increase. In 2009, at least 28 states have cut public colleges and universities and/or levied large increases in college tuition to make up for insufficient state funding, with cuts proposed in many other states. Against that backdrop, parents who may have helped are losing career jobs and their savings are shrinking, students are losing part time work, and other forms of financing have dried up. Qualified students ask themselves if the debt is worth the degree in this economy, and many are opting out right at a time when we need them to stay in school. Ninety percent of the fastest growing job categories, 60 percent of all new jobs, and 40 percent of manufacturing jobs now require some form of post-secondary education. While the need for college graduates has never been more deeply felt, the risk they assume when relying on loans to pay for it has only worsened.

The Student Aid and Fiscal Responsibility Act is an historic investment that will bring relief to the millions of students struggling in this uncertain economy to attain a college degree.

Pell Grants

To offset the impact of rising costs, students and families of modest means have traditionally turned to need based grant aid. The federal Pell Grant program, established in the early 1970s to make sure that no qualified student was turned away from college due to cost, now helps almost 7 million college students pay for college. As college costs have risen, the purchasing power of the grant has diminished. Thirty years ago, the maximum Pell Grant funded 77 percent of the cost of attending the average four-year public school but today's maximum grant covers only 35 percent of the cost of attending a four year school. In 2008, the Advisory Committee on

Student Financial Assistance estimated that between 1.7 and 3.2 million qualified students would skip college over the next decade because of the cost.

The bill will raise the Pell Grant maximum for a student from the most modest means to $5,550, and allow several hundred thousand more students who don't qualify right now to receive the aid. Most importantly, the bill ensures stronger purchasing power for the Pell Grant by creating a hybrid funding model to increase the Pell Grant by the cost of living plus 1% each year. The Appropriations committee will fund the Pell Grant maximum at $4,860 each year; on top of that amount, an entitlement program will provide the students the difference. The Pell Grant maximum will begin at $5,500 in 2010 and increase reliably from there. These changes comprise an historic investment in the Pell Grant that not only increases funding levels, but re-establishes the Pell Grant as the cornerstone aid program that students and families can count on, year after year.

Access and Completion

As our workforce transforms into one where some post-secondary education is critical to succeed, qualified students from lower incomes experience tremendous barriers to getting into college and completing their degree. High school graduates from wealthier families are moving on to higher education, but only half of graduates from the poorest families do so. Among students with the highest test scores, 74 percent of high-income students get four-year degrees, but only 29 percent of students from lower incomes do. For those who can afford to start college, they aren't making it to graduation. Only about half of college students graduate within six years; for low-income students, the completion rate is closer to one quarter.

To maximize the number of students who get to graduation, the Act creates a federal-state partnership which will grant funds to states for work in improving degree attainment, especially among low income families. The federal government will continue to fund the most successful of these retention programs, and will bring these best practices to scale nationally. In addition, the bill continues the mandate set under the College Cost Reduction and Access Act of 2007 to increase funding by $1.3 billion for the neediest students at our nation's minority serving colleges and universities.

Community Colleges

Jobs requiring at least an associate's degree are growing at twice the rate as jobs requiring no college experience. But at current rates of degree attainment, the U.S. is projected to fall 16 million college degrees short of meeting workforce needs in 2025. Our competitors in the global economy are outpacing the US; rates of college degree attainment are increasing in foreign countries faster than in the United States. Community colleges educate the most students due to their low cost and easily accessible locations. However, community colleges have lacked the resources to get students the training they need to move into the work force.

The Act modernizes community college facilities and designs on-line curriculum. In addition, it creates Community College Challenge Grants, managed by the Department of Education, which will help under-funded community colleges with limited capacity to build and leverage partnerships with schools and businesses. This grant program will spur the development of innovative pilot programs and policies that will improve and enhance job training programs at community colleges.

Student Loan Interest Rates

Millions upon millions of students and families have tapped into the federal Stafford student loan program to help pay for college since its inception in the mid sixties. But as the cost of attendance has risen dramatically over the past decade, so has the reliance on loans to pay for it. In the early nineties, less than one third of students graduating from four year public colleges had debt; now, close to 65% carry debt. Such debt can cause graduates to delay buying a home, getting married, or starting a family. Twenty-three percent of people who graduate from four-year public college have too much debt to start a career as a school teacher; thirty-seven percent have too much debt to start as a social worker. High debt can also lead to default, wage garnishment and ruined credit for borrowers in the long term.

To make repayment more manageable, the Act cuts the interest rates on Stafford subsidized student loans. Students from lower income and lower middle income backgrounds can qualify for a Stafford loan through which interest accrued on the loan while they are in college is paid for by the federal government. To ensure that lower income student borrowers can take advantage of low interest rates, yet can still be protected from higher rates, the policy caps interest charged at 6.8% with a variable rate underneath. We support this change but we would encourage Congress to consider similar changes to the unsubsidized Stafford loan program. Many students take out both loans from both programs. The different interest rates create complexity for borrowers, most of whom are taking out their first loans.

Student Lending

Most students are eligible for federal subsidized and unsubsidized Stafford loans, up to certain limits, to help pay for college. Parents can also qualify for federal PLUS loans to help pay for college; graduate students can use both the Stafford and the PLUS loan programs to pay for their education. Students and families access these loans through their college. The college supplies the loans through one of two ways; either through the Federal Family Education Loan (FFEL) or the Direct Loan (DL) program. In FFEL, banks and lenders are subsidized to originate and deliver the loans while the DL program relies on federal Treasury dollars to originate and deliver the loans. Recent turmoil in the credit markets necessitated the federal government to create another program to back banks and lenders in the event they could not fulfill their student lending obligations.

The Act moves all federal student lending into the Direct Loan program, which will allow the federal government to more efficiently use its education dollars. The legislation strengthens the federal student loan program by ensuring that all borrowers will have access to affordable loans, regardless of market conditions. One provision raises some concerns. The bill guarantees state-based non-profit lenders the right to service at least 100,000 borrowers in the states where they exist. The Department of Education has implemented a competitive bidding process to ensure that servicers in the federal student loan programs provide excellent service to borrowers and schools, and to keep students from defaulting on their loans. Guaranteeing volume to non-profit servicers could undermine the Department of Education's effort to ensure the highest standard of quality for every servicer involved in the program.

Perkins Loans

As a result of aggressive direct-to-consumer marketing, students have begun to take on risky, expensive private student loans to help pay for their degrees. These loans have little of the consumer protections and borrower benefits offered within the federal student loan program. The percentage of American undergraduates taking out private loans rose from 5% in 2004 to 14% in 2008. Worse, of private loan borrowers in 2008, 26% did not take out any federal Stafford loans, up from 22% in 2004. Raising federal Stafford loan limits for all undergraduate student borrowers is often suggested as a solution to address the rise in private student loan borrowing. But it is an inappropriate solution. The effect of raising loan limits to help a small subset of private student loan borrowers will be to further deepen the debt burden of all federal student loan borrowers.

Instead, the bill reworks the Perkins Loan program to tackle the problem. The Perkins Loan program has traditionally provided colleges with the access to low-cost student loans, and the flexibility to meet particular students' unique financial needs with those loans. Under the new proposal, the Perkins Loan program would be retooled in order to target $6 billion of additional federal loan aid at the smaller number of borrowers who have felt compelled to assume private loans to pay for college. We are looking forward to working with the Committee, with the Senate, and in conference committee to ensure that the Perkins Loan program reduces the demand for risky, private loans.

Graduate Student Loan In-School Interest Subsidy

Graduate students also have significant loan debt upon graduation, which carries with it the same negative consequences that undergraduate borrowers encounter. Graduate student borrowers are squeezed out of important careers, and can delay other important life milestones, as a result of significant educational debt burden.

Unfortunately, the Act eliminates the in-school subsidy for lower income borrowers attending graduate school. Any reduction in benefits to graduates students should be accompanied by a greater investment in affordable repayment options in order to help solve this problem.

Federal Aid Application

Another barrier to the college application process has been the student aid application process itself. The FAFSA (Free Application for Federal Student Aid) form asks applicants many onerous, complicated income related questions that take tremendous time and effort to complete. As a result, many applicants delay and then drop out of application process completely.

To streamline the process, the Act enables applicants to fill out the form using the same questions from their tax returns; a pilot program enables Spring 2010 applicants to automatically fill our their form by retrieving information directly from the Internal Revenue Service.

Support HR 3221

Federal aid programs are faltering, placing an excessive burden on students and families of modest means to pay for college, and hindering student opportunity. The problem has been aggravated by the sour economy. The Student Aid and Fiscal Responsibility Act of 2009, HR 3221, makes an historic investment that renews the impact of student aid programs for the tens of millions of students and families who rely on grants, loans, and access to community college to attain a college education. We look forward to working with Congress to further strengthen the nation's commitment to an effective student aid program, one in which all qualified students, regardless of background, can attain a college degree.

Sincerely,

Campus Progress Action
United States Public Interest Research Group
United States Student Association