Strengthening the Federal Student Loan Program for Borrowers
Congressional Testimony

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Chairman Harkin, Ranking Member Alexander, and Members of the HELP Committee: I am deeply appreciative of the opportunity to participate in this hearing discussing strategies for strengthening the federal student loan programs.

My name is Michelle Asha Cooper, and I am president of the Institute for Higher Education Policy (IHEP). IHEP is a nonpartisan, nonprofit organization committed to promoting access to and success in higher education for all students, with a focus on students who have been underserved by our postsecondary educational system. Based in Washington, DC, we believe that all people, regardless of background or circumstance, should have the opportunity to reach their full potential by participating and succeeding in higher education. And working together, we can do more to make that dream a reality.

We believe that institutional leaders and policymakers must support strategies that enhance the quality of the postsecondary experience in ways that are appropriate and relevant to the demands of the 21st century. As such, it is necessary to reassess and, in some cases, redesign our policies to ensure that they open doors and facilitate the success of today's students–a growing percentage of whom are low-income, first-generation, students of color, and returning adults.

The reauthorization of the Higher Education Act is an opportunity to examine Title IV financial aid programs, including student loans, within this context. In seeking to improve these programs, we must ensure that our policies and strategies help today's students complete college with manageable debt levels that can be repaid in an affordable, easy, and timely manner. In support of this goal, IHEP offers the following recommendations for federal policymakers that reflect three strategic areas:

Informed Choices

- Provide students with better information—more useful data presented in a useable format—that can inform decision-making about how to choose and how to pay for colleges that offer real value.

- Improve student loan counseling—the timing, content, and delivery—so that it helps more students make better borrowing and repayment decisions, which may help them avoid delinquency and default.

Simplified Options

- Streamline federal loan repayment options and ensure that information about eligibility and terms are sensible and simple.

Shared Accountability

- Improve the shared accountability framework used in college finance by holding states and institutions more responsible for high loan debt and defaults.

Details about each of these recommendations are provided in this testimony. As background on these recommendations, we provide the following overview of recent trends in student aid.

I. Trends in Student Aid

Programs authorized under Title IV of the Higher Education Act (as amended in 2008) include all federal grant, loan, and work study programs, as well as various eligibility and accountability criteria and authorizations for federal higher education data collection. In 2012-2013, approximately $185 billion

FINANCIAL AID EFFECTIVENESS: WHAT DOES THE RESEARCH SAY?

Although more research is needed on the effectiveness of financial aid, we do know several things:

- For low-income students need-based grants are more likely to be effective in increasing access and completion than other forms of aid. This is true provided that grants cover a meaningful percentage of students' cost of attendance.
- The increase in the use of student loans as a financing strategy has had detrimental effects on low-income and underserved students. Though loans may be helpful for middle- and upper-income students, some low-income students are more averse to borrowing and work more and study less as a result. Other low-income students have no other choice and end up with higher debt loads than their more advantaged peers upon leaving school.
- Timing and delivery matter. Although the types and dollar amounts of financial aid are important, students are more likely to utilize financial aid, and it is much more likely to be effective, when it is communicated clearly and early, provided through a simple enrollment and delivery process, and coupled with robust student counseling and support services.

was provided in undergraduate student aid—including federal grants, loans, work-study, and tax benefits, as well as state, institutional, private, and employer grants; an additional $53 billion supported graduate student aid. For undergraduates, Pell Grant funding comprised 17 percent ($32.3 billion) of the total, while federal loans represented 37 percent ($67.8 billion). Over the past decade, the federal government has increased total financial aid for undergraduates and graduates by 105 percent overall, and this federal aid composes more than two-thirds of the total aid to students from all sources.[1]

While the overall increase in federal student aid is significant, it must be understood in the proper context. Increases in federal aid have occurred simultaneously to decreases in per-student state support for higher education[2]—which has led to increases in tuition[3]—while family incomes overall have stagnated, with low- and middle-income families actually witnessing declines over the past decade.[4]

Together, these trends help to explain why, over time, federal aid has covered less and less of college costs. Despite an increase in the overall maximum award for the Pell Grant, the current purchasing power of the grant has declined because college costs have increased. In 2012-13, the maximum Pell Grant covered 32 percent of the cost of attending the average four-year public institution; whereas it represented 77 percent of these costs in 1979-80.[5]

With tuition increasing and grant aid failing to keep pace, more and more students face the need to work while enrolled and/or acquire student loans. As such, 60 percent of federal aid is disbursed now in the form of student loans[6]—with more than 16 million students receiving federal loans in 2012-13[7] and 37 million holding outstanding debt.[8] Nationally, the federal government holds over $1 trillion in student debt.[9]

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[1] "Trends in Student Aid 2013" (New York, NY: College Board, 2013). Retrieved from: https://trends.collegeboard.org/sites/default/files/student-aid-2013-full-report.pdf

[2] "State Higher Education Finance FY 2012." (Boulder, CO: State Higher Education Executive Officers, 2013). Retrieved from: http://www.sheeo.org/sites/default/files/publications/SHEF-FY12.pdf

[3] "Trends in College Pricing 2013." (New York, NY: College Board, 2013). Retrieved from: https://trends.collegeboard.org/sites/default/files/college-pricing-2013-full-report.pdf

[4] "Trends in College Pricing 2013." (New York, NY: College Board, 2013). Retrieved from: https://trends.collegeboard.org/sites/default/files/college-pricing-2013-full-report.pdf

[5] IHEP calculations using "Digest of Education Statistics 2013" Table 330.10. Retrieved from: http://nces.ed.gov/programs/digest/d13/tables/dt13_330.10.asp

[6] "Trends in Student Aid 2013" (New York, NY: College Board, 2013). Retrieved from: https://trends.collegeboard.org/sites/default/files/student-aid-2013-full-report.pdf

[7] IHEP calculations on data from the Federal Student Aid Data Center, 2012-2013 Award Year Direct Loan Volume by School, http://studentaid.ed.gov/about/data-center/student/title-iv.

Impact of Student Loans on Today's Students

Over the years, the increase in college costs has affected all students, but the shift from grants to loans as a primary mechanism for financing college disproportionately hinders the access and persistence of low- and moderate-income families.[10]

Despite the commonly-held myth that the Pell grant program "takes care of needy students," Pell grant recipients—with average family incomes near $20,000[11]—are actually *more than twice* as likely as other students to have loans. Of those who complete a bachelor's degree, their average debt at graduation is $3,500 higher than their peers.[12] (Note: In 2012, average student loan debt among graduates who borrowed for a bachelor's degree was $29,400).[13]

Federal loans do provide a better value to students relative to those found on the private market, but they still represent a means of financing college through future earnings, rather than simply lowering the overall cost to the student. The best way to reduce student debt burdens would be to lessen the need to borrow by encouraging colleges and universities and states to reduce the cost of attendance, while maintaining access and quality. At the federal level, it is critical that the federal government maintain its commitment to the Pell grant, which serves as the bedrock source of financial aid for more than 9 million low- and moderate-income students. Pell grant funding should be made entirely mandatory in the federal budget, the maximum award should be increased to make up for its lost purchasing power and reflect the realities of college costs today, and the maximum award should remain indexed to inflation.

And while student loans can be a useful college financing strategy, it is important to note that they are not a risk-free or even risk-neutral investment. In fact, for some students borrowing comes with considerable risk, and current policies are placing more of this burden on the student and less on states and institutions. For the student, the impact of overwhelming debt, alongside a degree/credential with minimal personal or professional value, or no credential at all, can be devastating.

As the number of student borrowers has increased and their cumulative indebtedness has grown, so too have concerns about whether the resulting debt levels are manageable and what the long-term impact of student loan debt will be on their life choices and chances. The fact that more than two-fifths (45

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[8] Meta Brown, Andrew Haughwout, Donghoon Lee, Maricar Mabutas, and Wilbert van der Klaauw, "Grading Student Loans." (New York, NY: Federal Reserve Bank of New York, 2012). Retrieved from: http://libertystreeteconomics.newyorkfed.org/2012/03/grading-student-loans.html

[9] Rohit Chopra, "Student Debt Swells, Federal Loans Now Top a Trillion." (Washington, DC: Consumer Financial Protection Bureau, 2013). Retrieved from: http://www.consumerfinance.gov/newsroom/student-debt-swells-federal-loans-now-top-a-trillion/

[10] Mark Huelsman and Alisa F. Cunningham. "Making Sense of the System Financial Aid Reform for the 21st Century Student." (Washington, DC: Institute for Higher Education Policy, 2013). Retrieved from: http://www.ihep.org/assets/files/publications/m-r/reimagining-aid-design-and-delivery-final-january-2013.pdf

[11] IHEP calculations on data from the U.S. Department of Education, National Postsecondary Student Aid Study, 2011-12.

[12] "Pell Grants Help Keep College Affordable for Millions of Americans." Save Pell Coalition, 2013. http://www.edtrust.org/sites/edtrust.org/files/Overall%20Pell%20one-pager%20FINAL%2011-25-13.pdf

[13] "Student Debt and the Class of 2012," (Oakland, CA: The Institute for College Access and Success, 2013). Retrieved from: http://projectonstudentdebt.org/files/pub/classof2012.pdf

percent) of all college entrants—and 59 percent of low-income students—do not graduate within six years centralizes the importance of this issue.[14] Borrowers who leave postsecondary education without graduating are more likely to experience difficulty in repaying their loans. In fact, 59 percent of undergraduate borrowers who left without a credential became delinquent or defaulted,[15] and default is more likely among low-income students, who have fewer family resources upon which to fall back.[16] Default and delinquency also is more common among students who attend for-profit institutions.[17] The consequences of default are severe, particularly because student loans are not dischargeable in bankruptcy. Defaulted borrowers suffer from reduced credit scores and can have their wages garnished, their income tax refunds intercepted, and even their social security payments withheld.

II. Recommendations for Strengthening Student Loans

The reauthorization of the Higher Education Act is an opportunity to reassess student loan policies with an eye toward addressing the needs and challenges of today's students. We offer these recommendations for strengthening the student loan program:

- **Informed Choices**
  - Provide students with better information—more useful data presented in a useable format—that can inform decision-making about how to choose and how to pay for colleges that offer real value.
  - Improve student loan counseling—the timing, content, and delivery—so that it helps more students make better borrowing and repayment decisions, which may help them avoid delinquency and default.
- **Simplified Options**
  - Streamline federal loan repayment options and ensure that information about eligibility and terms are sensible and simple.
- **Shared Accountability**
  - Improve the shared accountability framework used in college finance by holding states and institutions more responsible for high loan debt and defaults.

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[14] IHEP calculations on data from the U.S. Department of Education, Beginning Postsecondary Students study 2003/09. In this analysis, students are considered low-income if their family income is below 200 percent of the poverty line.

[15] Alisa F. Cunningham and Gregory S. Kienzl, "Delinquency: The Untold Story of Student Loan Borrowing." (Washington, DC: Institute for Higher Education Policy, 2011). Retrieved from: http://www.ihep.org/assets/files/publications/a-f/delinquency-the_untold_story_final_march_2011.pdf

[16] Jacob P.K. Gross, Osman Cekic, Don Hossler, and Nick Hillman, "What Matters in Student Loan Default: A Review of the Research Literature." *Journal of Student Financial Aid*, 39:1 (2009). Retrieved from: http://www.nasfaa.org/research/Journal/subs/What_Matters_in_Student_Loan_Default__A_Review_of_the_Research_Literature.aspx

[17] Alisa F. Cunningham and Gregory S. Kienzl, "Delinquency: The Untold Story of Student Loan Borrowing." (Washington, DC: Institute for Higher Education Policy, 2011). Retrieved from: http://www.ihep.org/assets/files/publications/a-f/delinquency-the_untold_story_final_march_2011.pdf

These recommendations–reinforced by numerous studies written by IHEP and others–could make the financial aid process more equitable and efficient, while simultaneously making the best use of taxpayer funds to better support students.

1. Informed Choices

Policy Option 1.1: Provide students with better information—more useful data presented in a useable format—that can inform decision-making about how to choose and how to pay for colleges that offer real value.

Students need better information to help them make more informed postsecondary decisions. At a time when college tuitions and fees are increasing faster than inflation and family income, data on college costs are critical. As it stands, too many of today's college students are paying far too much at institutions that offer them far too few chances for success.

Finding answers to students' basic questions about how much college will cost—not just in their first year, but their entire time at an institution—and how much they could end up borrowing would be a simple way to start. Existing data provide a useful picture of the tuition and fees, cost of attendance, and net price that students will face their first year. However, students are left to guess about how much they will pay in subsequent years and how much debt they will likely accrue during their college career.

We recommend amending the Integrated Postsecondary Educational Data System (IPEDS) to include college-level cost information—tuition and fees, cost of attendance, and net price—not just for freshmen, but also for continuing and transfer students. Also, we recommend adding to IPEDS data the amount of student loan debt accumulated for a certificate, associate's degree, bachelor's degree, or graduate degree, and the amount accumulated by non-graduates. Current debt data on the College Scorecard can produce confusing results by combining completers and non-completers, which allows colleges with high churn rates to appear more affordable than those where more students graduate.[18]

Data on cost are important, but data on outcomes also are necessary to provide an understanding of students' chances of success in college and beyond. We recommend that the U.S. Department of Education begin collecting graduation rates for Pell grant recipients, non-Pell grant recipients who receive subsidized Stafford loans, and students who receive neither Pell grants nor subsidized Stafford loans, so students can gauge *their* chances of success at an institution. Also, we recommend that the U.S. Department of Education release data on repayment rates by institution on an annual basis (using the National Student Loan Data System, NSLDS) and disaggregate data on student loan volume and default by undergraduate/graduate status. Furthermore, technical issues currently make it difficult to combine and match data from Federal Student Aid with data from IPEDS. We recommend that the U.S. Department of Education further study the scope and magnitude of these limitations and develop strategies for addressing them, including a crosswalk tool.

[18] Mamie Voight, Alegneta Long, Mark Huelsman, and Jennifer Engle. "Mapping the Postsecondary Data Domain: Problems and Possibilities." (Washington, DC: Institute for Higher Education Policy, 2014). Retrieved from: http://www.ihep.org/assets/files/publications/M-R/mapping_postsecondary_data_part_1_final_march_2014-v2.pdf.

As stated, much of the relevant cost data is already in IPEDS or can be attained through modifications to current data collection. Table 2 in the Appendix provides a comprehensive overview of currently available cost data and recommendations for improvement to better aid consumer choice, policymaking, and institutional improvement.[19]

Policy Option 1.2: Improve student loan counseling—the timing, content, and delivery—so that it helps more students make better borrowing and repayment decisions, which may help them avoid delinquency and default.

Better information (see Policy Option 1.1)—when consumer-tested and presented accurately and simply—can help nudge students toward better choices. However, far too few students, especially low-income college goers, have access to the high-touch, data-driven counseling they need to help them interpret information about college outcomes and costs, and student loans in particular. In fact, high school counselors spend, on average, only 38 minutes per student per year on college counseling.[20] Even the perfect tool likely will suffer from limited use and effectiveness, unless it is put into the hands of counselors, teachers, aid administrators, and others who can spend adequate time directly advising students.

Student loan counseling needs to begin early (i.e., pre-college level) and continue throughout college (i.e., entrance counseling, annual aid renewal periods) and graduation/departure (i.e., exit counseling). At the pre-college level, this type of counseling can be required of TRIO and GEAR UP programs, for example, including the Educational Opportunity Centers program focused on returning adults. Four tools—the College Scorecard, net price calculators, the Financial Aid Shopping Sheet, and the Financial Awareness Counseling Tool—already developed by the federal government can also be improved to facilitate counseling at this level.

Table 1: Summary of Financial Aid Tools to Facilitate Student Decisions

Existing Federal Tools	Objectives	Recommended Changes
College Scorecard	Examines average costs and student outcomes at nearly 4,000 degree-granting colleges that participate in federal student aid programs and operate on a traditional calendar system. Helps students and families understand the typical amount borrowed and the chances of completing and/or defaulting at a particular school.	More comprehensive data needed, including the percent of students who borrow, as well as recommendations suggested in Policy Option 1.1 and Table 2 (Appendix) and more comprehensive coverage of schools needed (such as including those that do not operate on a traditional calendar system); Conduct more consumer-testing to ensure usability.
Net Price Calculators	Mandated to appear on colleges' websites, these reflect estimates of what students pay for college after grant and scholarship awards at individual	Need to be more accessible and understandable for students, allow for easy comparison of results

[19] Ibid.

[20] Patricia M. McDonough. "Counseling and College Counseling in America's High Schools. (Alexandria, VA: National Association for College Admissions Counseling, 2005). Retrieved from http://www.inpathways.net/McDonough%20Report.pdf

	institutions. Puts the sticker price in context and provides a more realistic, early estimate of what college costs.	across multiple institutions, and prominently identify the net price figure in the results.[21] Conduct more consumer-testing to ensure usability.
Shopping Sheet	Model financial aid award letter that makes it easier for students and families to understand and compare the real cost of attendance and available aid options, including loans.	Require all colleges receiving federal aid to use the standardized format. Conduct more consumer testing to ensure usability.
Financial Awareness Counseling Tool (FACT)	Offers tutorials to increase financial literacy, including a walk-through on the basics of student loans.	Integrate this information into other tools and college access programs to streamline offerings. Ensure usability through consumer testing.

While counseling at the pre-college level is designed to help students access and understand the information needed to make informed choices, at the undergraduate level the goal is different as it should help students understand their available aid, make wise decisions (i.e., at entrance and annually), and select appropriate repayment options (i.e., exit counseling). Both entrance and exit counseling are already mandatory for federal student loan borrowers, and can be provided in person, in writing, or online, although an expert in financial aid is required to be available to answer questions.[22] However, in a recent survey, about 40 percent of high-debt borrowers reported that they did not receive (or did not recall) student loan exit counseling. Also nearly two-thirds of private loan borrowers indicated that they did not understand the differences between their private and federal student loan options.[23] This lack of awareness and understanding signal a need to improve the process.

To improve student loan counseling, it must be seen as an essential component of the aid process, instead of an item on a checklist. We recommend improving the timing of counseling, presenting borrowers with customized information relevant to their particular situation, and increasing the frequency of loan counseling. For example, the entrance session should occur before a student signs the promissory note. At the entrance session, counselors may incorporate some of the tools and resources referenced in Table 1, but go into more detail about terms in these tools and implications of them. For example, counselors—or a personalized, online counseling module—can use the shopping sheet to explain the difference between grants and loans and between types of loans, including subsidized Stafford loans, unsubsidized Stafford loans, and private loans. Counselors, counseling tools, and counseling materials also should explain the benefits of using federal student loans instead of private loans and/or credit cards to finance college costs, while also communicating to students that they are not required to borrow the full amount offered to them if they do not need it. And at the exit session, the advantages and disadvantages of various repayment options should be discussed carefully, alongside personalized data and guidance on the implications of different repayment plans based on

[21] For detailed recommendations on how to improve net price calculators, see "Adding it all up 2012: Are college net price calculators easy to find, use, and compare?" (Oakland, CA: The Institute for College Access and Success, 2012). Retrieved from: http://www.ticas.org/files/pub/Adding_It_All_Up_2012.pdf.

[22] In 2010-11, about 6.4 million borrowers received entrance counseling through the Department's online tool. "Memo: Framework for testing the effectiveness of and improving student loan counseling." (Oakland, CA: The Institute for Access and Success, November 22, 2011).

[23] Jen Mishory and Rory O'Sullivan. "The Student Perspective on Federal Financial Aid Reform." (Washington, DC: Young Invincibles, 2012). Retrieved from: http://younginvincibles.org/wp-content/uploads/2012/11/Student-Perspective-on-Federal-Financial-Aid-Reform.pdf

individual student's circumstances. At present, loan counseling is required twice during a student's academic career; however, we recommend that colleges and universities send students annual updates on their balance, interest rates, and repayment options. Additionally, students should be required, as a part of the financial aid renewal process, to review their loan balance, available through the NSLDS. While reviewing this information, students also could be provided an online tutorial on loan terms, interest rates, and repayment options. Loan counseling, including new tools and delivery methods, should be consumer tested and refined to be as applicable and useful for students as possible.

More research is needed to understand fully the most effective strategies in student loan counseling. While better information and improved counseling offer no guarantee that all students will make better decisions, it does offer a significant improvement over current practice, as it allows for more nuanced data to be integrated into existing tools that can easily be improved for usability. These recommendations operate in tandem, as we need both better data and better loan counseling supports. After all, in the end, data do not counsel people on how to get into, pay for, and graduate from college; people do.

2. Simplified Options

Policy Option 2.1: Streamline federal loan repayment options and ensure that information about eligibility and terms are sensible and simple.

At the federal level, we have made significant contributions to simplifying the federal aid process through HEA reauthorizations. For example, in the 1992 reauthorization, the financial aid application was redesigned, application fees were eliminated, and a single need analysis formula was developed. Subsequent reauthorizations (e.g., Higher Education Opportunity Act, 2008) and other legislation (e.g., College Cost Reduction and Access Act, 2007) have been important steps in helping reduce the barriers of confusion and complexity that confront hopeful students. Yet despite these advances, some areas of simplification are still needed, as in the case of the student loan repayment options.

At present, there are many repayment options (see Table 3, Appendix), not including deferment and forbearance. For each plan, there are different eligibility criteria and a different payment formula. There are currently four income-driven repayment options—income-based repayment, Pay As You Earn, income-contingent repayment, and income-sensitive repayment, with another slated to begin in July 2014. While well-intentioned, these programs are unnecessarily confusing, and despite their benefits to borrowers, they are underutilized. According to the Federal Student Aid's data, only about 11 percent of federal loan borrowers are enrolled in some type of income-driven repayment program.[24]

Reducing the number of repayment options would reduce complexity and make loan options (and terms) more transparent to borrowers. We recommend maintaining the standard repayment plan and offering a single income-based plan, which would allow borrowers to benefit from more manageable monthly payments and the assurance of loan forgiveness if they experience extended financial hardship.

[24] Analysis of "Direct Loan Portfolio by Repayment Plan," Federal Student Aid, U.S. Department of Education, Retrieved from: http://studentaid.ed.gov/about/data-center/student/portfolio

This single income-based plan should aim to target protections to borrowers in most need of support, while not offering large forgiveness benefits to high-income, high-debt borrowers.[25]

Simplifying student loan repayment options will not only minimize confusion and complexity for students, if students are aware of and counseled about these options using the strategies outlined in Policy Option 1.1 and 1.2, they could realize debt relief. Offering debt relief to borrowers, in the aggregate, has the potential to significantly decrease defaults.

3. ***Shared Accountability***

Policy Option 3.1. Improve the shared accountability framework used in college finance by holding states and institutions more responsible for high loan debt and defaults.

Historically, postsecondary college financing has benefited from a model of shared responsibility, with the federal government, state governments, and students all bearing some of the cost. Given the substantial taxpayer investment, the federal government and state governments are accountable to their constituents for their roles in this financing scheme. For their part, students are held accountable for making continued academic progress toward a degree/credential. Current policies tie eligibility for federal aid to "satisfactory academic progress," which means students need to exhibit minimal progress towards a credential, including maintaining adequate academic standing. Recent changes to federal aid programs have mandated additional requirements for students, including limitations on the length of time they are eligible for aid. And, as noted previously, students bear considerable risk when their investment in higher education through loans does not work out given the severe consequences of default. Yet, the role of the institution in this partnership is understated.

The investment in higher education is not a risk-neutral proposition for any party, but as it stands, the governments and students shoulder a significant, increasing proportion of the risk. HEA reauthorization provides an opportunity to redesign this partnership to reflect more accurately current realities. To do so, we suggest bolstering the use of accountability metrics for institutions at the federal level. The current mechanism used by the federal government is the application of cohort default rates to determine continued institutional eligibility for Title IV financial aid. Cohort default rates (CDR) reflect whether an institution's borrowers are successfully avoiding default. The U.S. Department of Education's most recent update to the cohort default rates found that they have increased from the previous year (9.1 percent to 10 percent for two-year CDRs and 13.4 percent to 14.7 percent for three-year CDRs). The direction of this trend line is troubling, especially since the increase has been steady over several years and that two-year default rates have now reached their highest point since 1995.[26]

Despite this available lever, very few institutions are sanctioned (i.e., cut off from federal financial aid) using existing thresholds. In the most recent release of two-year CDRs, only eight schools were subject to sanctions based on the 25 percent threshold for two-year CDRs, and 218 were required to develop

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[25] Jason Delisle and Alex Holt. "Safety Net or Windfall?" (Washington, DC: New America, 2012). Retrieved from: http://edmoney.newamerica.net/publications/policy/safety_net_or_windfall

[26] "National Default Rate Briefings for FY 2011 2-Year Rates and FY 2010 3-Year Rates." Federal Student Aid, U.S. Department of Education. Retrieved from: http://www.ifap.ed.gov/eannouncements/093013CDRNationalBriefings2YRand3YR.html

default prevention plans for having a three-year rate of at least 30 percent.[27] CDRs provide some measure of accountability by spotlighting the worst offenders. The all-or-nothing approach, however, allows other poor performing schools to hide in the shadows.

We suggest broadening accountability beyond the all-or-nothing approach, and risk sharing could be a useful tool for doing so. This idea, highlighted in different variations by The Institute for College Access and Success (TICAS)[28] and partners in the Redesigning Aid Design and Delivery (RADD) consortium on student loans,[29] could refine and expand to institutions the model already established for guarantee agencies in the Federal Family Education Loan Programs. In this case, institutions would be held liable for some portion of the school's loan balance based on their performance on a repayment measure like cohort default rates (although other measures like repayment rates might also be explored given the limitations of CDRs[30]). Another possibility would be to require institutions—on a sliding scale—to pay a penalty that is proportional to their defaulted debt.

For example, institutions could be required to pay into a risk-sharing fund an amount equivalent to a proportion of their total loan portfolio, with that proportion determined based by the loan repayment rate of their students. As a simple illustration, a 20 percent cohort default rate may translate to a risk-sharing payment equivalent to 20 percent of the loan portfolio, or less stringently, of the loan portfolio not in repayment. The funds paid into the risk-sharing pot could provide direct debt relief for struggling borrowers or be reinvested into loan forgiveness or the Pell grant program.

Some argue that a risk-sharing mechanism could lead institutions to pass the added expense along to students through higher prices. However, tying the size of the risk-sharing payment to the amount students are borrowing and/or the rate at which they are successfully repaying could help mitigate the risk of rising costs. Care must also be taken to protect access alongside a risk-sharing mechanism—or any institutional accountability system, for that matter—to prevent institutions from meeting performance benchmarks by limiting access. For instance, the system could prevent a risk-sharing

[27] "National Default Rate Briefings for FY 2011 2-Year Rates and FY 2010 3-Year Rates." Federal Student Aid, U.S. Department of Education. Retrieved from: http://www.ifap.ed.gov/eannouncements/093013CDRNationalBriefings2YRand3YR.html; and Rachel Fishman. "Shape Up or Lose Out: The 218 Institutions that Must Develop Default Prevention Plans." (Washington, DC: New America, 2012). Retrieved from: http://higheredwatch.newamerica.net/blogposts/2012/shape_up_or_ship_out_the_218_institutions_that_must_develop_default_prevention_plans-

[28] "Aligning the Means and the Ends: How to Improve Federal Student Aid and Increase College Access and Success." (Oakland, CA: The Institute for College Access and Success, 2013). Retrieved from: http://www.ticas.org/pub_view.php?idx=873

[29] "Automatic for the Borrower: How Repayment Based on Income Can Reduce Loan Defaults and Manage Risk." RADD consortium on student loans. (Washington, DC: Young Invincibles, 2014). Retrieved from: http://younginvincibles.org/wp-content/uploads/2014/03/Automatic-for-the-Borrower-3.19.14.pdf

[30] See IHEP's recent report for an in-depth discussion of the limitations of cohort default rates as well as possible fixes and alternatives such as repayment rates. Mamie Voight, Alegneta Long, Mark Huelsman, and Jennifer Engle. "Mapping the Postsecondary Data Domain: Problems and Possibilities." (Washington, DC: Institute for Higher Education Policy, 2014). Retrieved from: http://www.ihep.org/assets/files/publications/M-R/mapping_postsecondary_data_part_1_final_march_2014-v2.pdf.

payment from being reduced if an institution improves its cohort default rate, but decreases its enrollment of Pell grant recipients.

III. Conclusion

In closing, I wish to thank you again for providing this opportunity to offer strategies to strengthen the federal student loan programs. The recommendations outlined above are important both for helping students meet individual postsecondary and economic mobility goals and for meeting the nation's economic competiveness goals. High student debt loads affects the U.S. economy in that they may force students to delay full participation on other key economic activities such as home-buying and saving for retirement. Student loan delinquency and default lead to further negative economic consequences in that students are left with poor credit ratings, limited future borrowing options, and additional financial penalties, while the federal government loses critical revenue and must spend additional resources to try to recover some of its initial investment.

As we move forward to reauthorize HEA, please know that I, along with my team at IHEP, are happy to serve as a resource and partners in this effort. Working together, will help us better serve students by offering them the tools and services they need in support of college access and success. By crafting a system that helps student borrowers make more informed decisions, leverage streamlined repayment options, and benefit from greater institutional accountability, federal student loan programs are better positioned to serve their intended role—to provide students with the financial resources necessary to successfully complete a postsecondary degree and fully participate in the U.S. economy.

APPENDIX

Table 2: Cost: Data Availability and Recommended Improvements[31]

Cost: Data Availability and Recommendations for Improvement

What questions need answers?	Which measures will answer these questions?	Are the data available?			How can the data be collected? (Already available, Amend IPEDS, Add to IPEDS, or Link to other data source)
		Yes	Partially available or needs improvement	No	
	Cost and Debt Measures				
COST: How much do students invest in college? *Consumers* need to know how much they will pay and borrow to attend an institution. *Policymakers* need to know the cost and debt burden that students must undertake to access and succeed in college, which reflects on how institutions invest public dollars. *Institutions* need to monitor the impact of cost and debt on access and completion for students.	Tuition and Fees		Tuition and fee data are reported in the IPEDS Institutional Characteristics (IC) Survey. In-state, in-district and out-of-state tuition and fees are reported for first-time, full-time undergraduates. Average tuition and fees are reported for all undergraduates. Tuition and fee data are not disaggregated for transfer or continuing students.		Amend IPEDS: Collect data for transfer and continuing students.
	Cost of Attendance		In-state, in-district, and out-of-state cost of attendance are reported for first-time, full-time degree/certificate-seeking undergraduates by living status (such as on campus, off-campus with family, and off-campus not with family) in the IPEDS Institutional Characteristics Survey.		Amend IPEDS: Collect data for transfer and continuing students.
	Net Price by Income		Average net price data are available for first-time, full-time undergraduates who receive grant or scholarship aid. Net price data are disaggregated by income bands for first-time, full-time undergraduates who receive Title IV aid. Both of these net-price data points omit students paying out-of-state tuition (at publics), transfer and continuing students, and students who do not receive financial aid (either Title IV or grants/scholarships).		Amend IPEDS: Collect data for transfer and continuing students and out-of-state students at public institutions. Collect net price by income for non-Title IV recipients, and calculate overall net price including non-grant/scholar-ship recipients.
	Cumulative Debt (disaggregated by loan type, income or financial aid category, and completion status, and ideally race/ ethnicity; also accompanied by the percentage who borrow).		The College Scorecard reports total federal loan debt (including Parent PLUS loans) among students leaving an institution, using NSLDS. It does not separate completers from non-completers, disaggregate by type of federal loan debt, include private loan debt, or report the percentage of students who borrow.		Link to other source: After the completion flag has been tested and verified, use NSLDS to disaggregate debt by income or financial aid category, completion status, and loan type. Add to IPEDS: Until NSLDS completion data are verified, report to IPEDS. Continue collecting the percentage of students who borrow in IPEDS. Explore: Options for institutions (or lenders) to collect/report data on cumulative private loan debt and percentage who borrow private loans.

31 Mamie Voight, Alegneta Long, Mark Huelsman, and Jennifer Engle. "Mapping the Postsecondary Data Domain: Problems and Possibilities." (Washington, DC: Institute for Higher Education Policy, 2014). Retrieved from: http://www.ihep.org/assets/files/publications/M-R/mapping_postsecondary_data_part_1_final_march_2014-v2.pdf

Table 3: Overview of Student Loan Repayment Options[32]

Repayment Plan	Eligible Loans	Monthly Payment and Time Frame	Quick Comparison
Standard Repayment Plan	Direct Subsidized and Unsubsidized Loans; Subsidized and Unsubsidized Federal Stafford Loans; all PLUS Loans	Payments are a fixed amount of at least $50 per month; up to 10 years	You'll pay less interest for your loan over time under this plan than you would under other plans.
Extended Repayment Plan	Direct Subsidized and Unsubsidized Loans; Subsidized and Unsubsidized Federal Stafford Loans; all PLUS Loans	Payments may be fixed or graduated; Up to 25 years	Your monthly payments would be lower than the 10-year standard plan; If you are Direct Loan borrower or FFEL, you must have more than $30,000 in outstanding debt in that respective program; You'll pay more for your loan over time than under the 10-year standard plan.
Graduated Repayment Plan	Direct Subsidized and Unsubsidized Loans; Subsidized and Unsubsidized Federal Stafford Loans; all PLUS Loans	Payments are lower at first and then increase, usually every two years; Up to 10 years	You'll pay more for your loan over time than under the 10-year standard plan.
Income-Based Repayment Plan	Direct Subsidized and Unsubsidized Loans; Subsidized and Unsubsidized Federal Stafford Loans; all PLUS Loans made to students; Consolidation Loans (Direct or FFEL) that do not include Direct or FFEL PLUS loans made to parents	Your maximum monthly payments will be 15 percent of discretionary income, the difference between your adjusted gross income and 150 percent of the poverty guideline for your family size and state of residence; Your payments change as your income changes; Up to 25 years	You must have a partial financial hardship; Your monthly payments will be lower than payments under the 10-year standard plan; You'll pay more for your loan over time than under the 10-year standard plan; If you have not repaid your loan in full after making the equivalent of 25 years of qualifying monthly payments, any outstanding balance on your loan will be forgiven; You may have to pay

[32] "Repay your Direct Loans and Federal Family Education Loan (FFEL) Program Loans." Federal Student Aid, U.S. Department of Education. Retrieved from: http://studentaid.ed.gov/repay-loans/understand/plans

			income tax on any amount that is forgiven.
Income-Contingent Repayment Plan	Direct Subsidized and Unsubsidized Loans; Direct Plus Loans made to students; Direct Consolidation Loans	Payments are calculated each year and are based on your adjusted gross income, family size, and the total amount of your Direct Loans; Your payments change as your income changes; Up to 25 years	You'll pay more for your loan over time than under the 10-year standard plan; If you do not repay your loan after making the equivalent of 25 year of qualifying monthly payments, the unpaid portion will be forgiven; You may have to pay income tax on the amount that is forgiven.
Income-Sensitive Repayment Plan	Subsidized and Unsubsidized Federal Stafford Loans; FFEL PLUS Loans; FFEL Consolidation Loans	Your monthly payment is based on annual income; Your payments change as your income changes; Up to 10 years	You'll pay more for you loan over time than you would under the 10-year standard plan; Each lender's formula for determining the monthly payment amount under this plan can vary.
Pay As You Earn Repayment Plan	Direct Subsidized and Unsubsidized Loans; Direct PLUS loans made to students; Direct Consolidation Loans that do not include (Direct or FFEL) PLUS loans made to parents	Your maximum monthly payments will be 10 percent of discretionary income, the difference between your adjusted gross income and 150 percent of the poverty guideline for your family size and state of residence; Your payments change as your income changes; Up to 20 years	You must be a new borrower on or after October 1, 2007, and must have received a disbursement of a Direct Loan on or after October 1, 2011; You must have a partial financial hardship; Your monthly payments will be lower than payments under the 10-year standard plan; You'll pay more for your loan over time than you would under the 10-year standard plan; If you have not repaid your loan in full after you made the equivalent of 20 years of qualifying monthly payments, any outstanding balance on your loan will be forgiven; You may have to pay income tax on any amount that is forgiven.