Testimony on “The Challenge of College Affordability: The Student Lens”

Presented by

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Written Testimony:

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Thank you Chairman Harkin, Ranking Member Alexander, and other distinguished Senators for giving me this opportunity to speak about the student perspective on college affordability. My name is Ethan Senack, I am the Higher Education associate with the U.S. Public Interest Research Group (U.S. PIRG). Thank you for inviting me to speak. U.S. PIRG is a federation of state based consumer protection groups, which has 75 campus chapters in 20 states across the country. On behalf of those student chapters, our project works to promote affordable and manageable student loan policy, to increase grant aid, and to protect student consumers on campus.

Less than a year ago, I was a student at the University of Connecticut, so college affordability is a very important and relevant topic to me.

As a member of our student PIRG chapter at UConn, I was part of the successful effort to keep the interest rate on low on the subsidized Stafford student loan program. Thanks to the President and to Congress, in particular the Senators sitting here now from both sides of the chamber, a bipartisan agreement was reached to temporarily extend the low rate. To help make the point, the student PIRGs hosted 27 student watch parties, garnered over 800 press hits across the country and gathered 600,000 petition signatures to Congress.

I care to organize around these issues because I just experienced and interacted with a number of the programs that fall under the topic of this hearing. I appreciate you giving me the opportunity to speak on behalf of students across the country and share my thoughts on keeping college within reach for all Americans.

Background:

College costs are rising. The national recession has led to weak state economies, which in turn have squeezed college budgets. As a student leader, I led other students to the capitol in Connecticut to ask lawmakers to reprioritize higher education. The issue wasn’t just the amount money going to higher education; it was that the proportion of the budget going to higher education had shrunk.

The same scenario is playing out across the country. States are spending 28% less per student on higher education; 11 states have cut funding by more than one-third per student, and two states have cut that spending per student in half.[i] While state investments in higher education have plunged, tuition costs have skyrocketed.

On top of that, student loan debt has grown enormously. On April 25, we’ll note the first anniversary of when the country’s collective student loan debt hit $1 trillion dollars.[ii]

Thankfully, I graduated with less debt than the national average but considering that 2/3 of my colleagues graduated with debt at an average $26,600[iii], that accomplishment seems hollow.

For the millions of students like me that graduate with debt, the burden limits opportunity. Whether it's holding back graduates back from building a family, buying a home, starting a business, or even continuing their education, high loan debt has serious impacts.

Beyond its impact on the individual, student loan debt is bad for the country as a whole, contributing to the persistent economic stagnation we currently face. The Federal Reserve Bank of New York recently identified high student loan debt as a risk to economic growth.[iv]

Recent Steps Forward:

To make college affordable, we need strong investment in higher education. At the federal level, we have seen real progress. Specifically, the Pell grant program is the nation's cornerstone student aid program, providing need-based, scholarship aid to nearly 10 million students this year. In the big picture, the Pell Grant program should ensure that all students who are qualified to attend college can do so without financial barriers. The Pell Grant supports nearly a third of all students attending college each year.

It is absolutely critical that the Pell grant remain strong and fully funded - the more students can rely on higher amounts of grant aid to pay for college, the less they rely on student loans. In 2008, federal lawmakers invested more than $40 billion in Pell grants, and put the maximum award on track to hit $5,975.[v] The legislation also stabilized the program, which faced a severe budget shortfall due to the larger number of students and workers qualifying for the award. In 2011, the program was exempted from the automatic cuts that are being imposed as of March of this year,[vi] enabling students to rely on their grant for college during this time of economic uncertainty. I'm sure the 3,500 students at UConn that rely on Pell Grants appreciate your efforts, as well as millions of students across the country.

And of course, last year's extension of the low rate on subsidized Stafford loan demonstrated a real commitment from Congress and the President to help students manage their high cost loans.

But even with all of these improvements, we still have a major affordability problem. I will walk through a variety of suggestions on both the front end, when students and families are shopping around for a college and signing on the dotted line, and on the back end, when student borrowers enter into repayment.

Improving Potential Students' Knowledge and Understanding:

One of the most complicated decisions for students and families to make is where to go for college. Millions of Americans make the decision every year – and a large portion say that financial cost weighs most heavily on their decision.[vii]

Financial aid certainly played a major role in my decision to attend the University of Connecticut. Never having had debt or initiated a major financial decision, I found it hard to entirely understand the magnitude of choosing to attend a school with tuition in the range of $40,000 or $50,000.

The unfortunate reality is that, like me, most students feel unprepared to interpret the financial decisions they must make. Over 76% of students expressed desire for increased training in personal finance before going to college.[viii] Because of this, we must continue to improve access and ease of understanding of financial information. Fortunately for students and families, there are some notable efforts underway already.

Financial Aid Shopping Sheet:

Many students and families have complained about the lack of transparency in college pricing and financial aid packages, which may lead them into higher debt levels than they anticipate.

When I received my financial aid package, I was faced with the choice between a private school offering enough financial aid to cover the full cost of attendance – over $20,000 in grants and an additional $20,000 in loans – and a public school offering enough grant aid and subsidized loans to cover the majority of costs but leaving a small amount unfilled. The private school letter showed a 'net cost' of $0, and while the public school letter showed a 'net cost' of a few thousand dollars. That alone is misleading, because the private school would have left me with $80,000 in debt, while I ended up graduating from the public school owing only $14,000.

Even more confusing is that schools calculate costs differently. Some include tuition plus room and board. Other schools incorporate the cost of textbooks. Beyond that, there are manifold costs that may or not be accounted for in the school's assessment: transportation or parking, school supplies, etc. Without a detailed breakdown or explanation, potential students and families may be slammed with higher costs than expected down the road.

The U. S. Department of Education has developed and promoted a financial aid shopping sheet. The Department campaign is a voluntary effort through which colleges present their financing information in consistent and easy to understand format.[ix] Over 600 institutions have agreed to use the Department of Education's template in their letters this year[x] – creating a standardized way for students and families to compare and contrast different schools and aid awards. Last year, Senator Franken introduced a bipartisan bill, the *Understanding the True Cost of College Act*, which required all universities to conform their financial-aid award letters to a standard shopping sheet format. The bill also includes valuable consumer testing to improve the shopping sheet's ability to present and communicate the data clearly and effectively.[xi]

Fortunately, I ended up making the right choice, but we need to make sure there are strong systems in place give guidance to all students and families.

Improving Loan Counseling:

Senator Harkin recently introduced the *Smarter Borrowing Act* to improve student loan counseling.[xii] This is another positive step in building financial literacy among students. The legislation strengthens and reforms the current mandatory entrance and exit loan counseling requirements for federal student loans and notifies students annually of their cumulative debt, including their remaining eligibility for loans and grants. Efforts like this can only help students make the right education finance decisions as they complete their education.

Maintaining Grant Aid:

An enormous factor in deciding to attend college and where to go is how much scholarship aid a student receives. For as much progress that we've made recently to keep the Pell grant effective, the program's impact is eroding slowly, which is bad for college access. In 2011, as part of the Budget Control Act, Congress reached a bipartisan commitment to maintain a maximum Pell grant of $5,550 for low-income students and provided $17 billion in additional funding over two years for Pell grants.[xiii] To maintain that maximum, Congress eliminated Pell grants for summer learning, limited the length of time a student can receive a Pell grant, made it more difficult for low-income students to automatically qualify for the maximum Pell award and eliminated Pell eligibility for students without a high school degree who demonstrate the 'ability to benefit' from post-secondary education.[xiv] Over 140,000 students were squeezed out of the Pell grant program due to these cuts.[xv]

Keeping Debt Low and Repayment Manageable:

Once students are at the right college for the right price, the next concern is that their student loans stay manageable and affordable in repayment. Two thirds of college students graduate with debt.[xvi]

Maintain Low Interest Rates on Student Loans:

Unless Congress and the President act decisively, the interest rate on new subsidized Stafford student loans will *double* from 3.4 percent to 6.8 percent on July 1, 2013.[xvii] That will drive up loan costs by $1,000 per student, per loan, for over 7 million students.

I worked with students in Connecticut and all over America who couldn't afford to add to their debt burden. Students who stood up at press events, students who visited their legislators - and we heard stories from all of them about the crushing student debt our generation faces. The wave of outcry from students and the general public that built around the July 1st deadline shows that there is real consensus about investment in higher education. In the end, Congress echoed that call and passed a temporary extension of the 3.4% interest rate.

I recognize that we need comprehensive student loan reform, but students and borrowers in repayment need more time to bring their case to members of Congress. Forums like this help us shed light on the problems and concerns from our perspective – and allow us to work together with lawmakers to develop good long-term policy. I hope you will continue your efforts to reach out to students and young people on comprehensive reform as we move towards reauthorization of the Higher Education Act.

That said, it is just as critical to prevent the subsidized Stafford interest rate from doubling on students this July. If we are unable to develop a long-term solution that benefits all student borrowers now, before July 1st, then I urge Congress to extend the low interest rate for a short time, to give us the breathing room we need to work out a student-friendly and comprehensive policy.

Strengthen Income-Based Repayment:

Beyond interest rates, there are other methods of increasing affordability on the back end.

Income Based Repayment (IBR) is another tool that could use improvement. IBR is designed as a safety net to help borrowers in financial distress avoid the dangers of student loan default. The program driving down their payments to a small percentage of what they earn.

The problem with IBR is that far too few distressed borrowers are participating. Right now, there are only approximately 1.1 million students enrolled in IBR, while 5.4 million borrowers are currently late on their payments.[xviii] Several of my former classmates and peers have expressed their frustration with the enrollment process, citing a complex process and lack of knowledge about the program details. Congress should act to simplify the process and increase ease of transition into IBR, as well as increasing the emphasis of such fallback programs during loan counseling.

In Conclusion:

All of these improvements will require a strong political will. But I'm confident we can get there. I saw Congress and the President rise above political gridlock last year to keep student loan rates affordable. And I'm seeing significant change at the college level. 600 colleges have joined to movement to make costs and aid transparent. At colleges across the country, students are gearing up to make their voices heard once more as July 1 approaches.

I am excited to work with all of you as we undertake the daunting but achievable goal of keeping college within reach for millions of American students and families.

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[iv] Minutes, Minutes of the Federal Open Market Committee, The Federal Reserve, March 19-20, 2013.
[v] Issue brief, The Health Care and Reconciliation Act, The White House, 2009.
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[x] Ibid.
[xi] Press Release, Senator Franken Introduces Bipartisan Bill To Help Families and Students Understand the True Cost of College, Senator Al Franken, May 24, 2012.
[xii] Mikulski, Harkin Introduce Bill to Improve Loan Counseling
[xiii] Blog, Understand Why Federal Budgets Matter to Students, US News and World Report, 1/18/12; brief, Debt Ceiling Law Provides $17 Billion for Pell, National Association of Student Financial Aid Administrators, 8/3/11
[xiv] Issue Brief, Don't Double Our Rates, U.S. Public Interest Research Group, April 9. 2013.
[xv] Release, 143,000 Students Lose Their Pell Grant Next Year, U.S. Public Interest Research Group, December 19, 2011.
[xvi] Issue Brief, Don't Double Our Rates, U.S. Public Interest Research Group, April 9. 2013.
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[xviii] News story, Despite Student Debt Concern, Income-based Repayment Lags, Inside Higher Ed, October 23, 2012.