



Statement before the Senate Committee on Health, Education, Labor and Pensions  
On Reauthorizing the Higher Education Act: Accountability and Risk to Taxpayers

# **Costs and Risks in the Federal Student Loan Program**

How Accountability Policies can Protect Taxpayers

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## **Introduction**

Chairman Alexander, Ranking Member Murray, and members of the committee, thank you for the opportunity to testify about the risks and costs in the federal student loan program and the need for accountability policies for higher education institutions.

The federal government's Direct Loan program dominates the student-loan market today, issuing 90 percent of all loans made across the country each year. Students pursuing everything from short-term certificates to master's degrees qualify for nearly \$100 billion in loans every year at terms more generous than most private lenders would offer.

The federal role in higher-education lending has grown ever since lawmakers enacted the first loan program under the National Defense Education Act of 1958. The Higher Education Act of 1965 expanded access to loans to more colleges and students through the Guaranteed Student Loan Program, but the interest rate subsidies it provided were restricted to students from low-income families. In 1980, Congress created a loan program for parents of undergraduates (Parent PLUS), and then in 1992, eliminated annual and lifetime borrowing limits for those loans. That year, lawmakers also authorized the Unsubsidized Stafford Loan program, which allows all undergraduate students to borrow federal loans regardless of their financial circumstances. In 2006, Congress created the Grad PLUS loan program, which removed limits on the amount graduate students could borrow.<sup>1</sup> This expansion, along with rising college costs and increasing student enrollments, has led to a rapid increase in the stock of outstanding debt in recent years. Now at \$1.3 trillion, the student loan program rivals the Federal Housing Administration's largest mortgage program in size.<sup>2</sup>

Given the size and scope of the loan program, it is important to understand that the loan program imposes costs on taxpayers. Such costs speak directly to the need for policies that guard against fraud, waste, and abuse along with policies that provide information about loan performance. Borrowers who attend poor quality or overpriced programs will struggle to repay their debt and in turn impose losses to taxpayers.

## **Loan-Based Accountability Policies and their Limitations**

In the early 1990s, Congress enacted its first loan-based accountability policy: the cohort default rate. The cohort default rate measures the share of an institution's former students who borrow federal loans and default within three years of entering repayment.<sup>3</sup> Institutions with high default rates lose eligibility for federal student aid programs because lawmakers saw high default rates as a proxy for low-quality institutions of higher education.

The Obama administration's "gainful employment" regulations again sought to use loans as a proxy for value and quality, but in a different way. The initially proposed rule included a measure of whether borrowers who completed a particular program paid down principal on their student loans. The final rule does not include that measure but instead uses the amount of debt a student takes on (relative to his earnings) to gauge eligibility for federal aid by program.

Then there are proposals for a third loan-based accountability measure: risk sharing. These

proposals – advanced by think tanks, researchers, advocates, and some lawmakers – would require institutions that pass the other measures of accountability to pay penalties to the federal government commensurate with the amount of loans that perform poorly.<sup>4</sup>

Despite the sound rationale for loan-based accountability policies, these measures still have limitations. By design they exclude all students in programs or institutions who do not borrow. Programs and institutions that mainly use federal Pell Grants, and few loans, are also excluded from the accountability measure. This implies that there is not a need for accountability measures for grant aid or for students who pay out of pocket. If the accountability measure is supposed to prevent taxpayer resources from supporting overpriced and low quality programs – or protect consumers from squandering their time and limited federal aid – then focusing accountability only on loan performance falls short of that goal.

Even the loan-based metrics themselves are imprecise. While defaulting on a student loan is clearly a bad outcome, policymakers should be careful when interpreting that event as a signal that borrowers' debts are unaffordable, that their earnings are low, or both. Data suggest that about one in seven borrowers with incomes between \$60,000 and \$70,000 default within four years of entering repayment.<sup>5</sup> That is a high default rate for borrowers who do not appear to have low incomes.

While those figures suggest default rates may overstate what the accountability metric seeks to measure, benefits in the loan program that allow borrowers to postpone payment and avoid default can *understate* the extent to which an institution's students are struggling. Recent research shows that lifetime loan default rates are much higher than the rates captured in the three-year cohort default rate window.<sup>6</sup>

Another limitation comes from the income-based repayment programs. Borrowers can enroll in income-based repayment options that allow them to pay down debt slowly. In some cases they may never have to make payments on the loan if their incomes are low enough. These borrowers would be avoiding default despite making no payments. Meanwhile, the highest default rates occur among borrowers with post-enrollment incomes between \$10,000 and \$20,000 – income levels at which most borrowers would qualify for \$0 payments under income-based repayment if they enrolled.<sup>7</sup> Using loan repayment rates like the Obama administration's original gainful employment regulation might be more precise for overcoming that limitation, but that metric entails other limitations. For example, educational programs that lead to careers in public service may be more likely to exhibit low repayment rates as their graduates may be more likely to enroll in income-based repayment plans. Some policymakers, however, may not consider those educational programs to be of poor quality or low value despite the low repayment rates.

## **The Cost and Risks of Federal Student Loans**

Keeping these limitations in mind, my testimony will now detail how the loan program imposes costs and risks on taxpayers to illustrate why accountability policies are necessary. While my discussion focuses on costs, this is not to suggest that loan program is not valuable for students and the economy as a whole. Generally, I believe a well-designed federal student loan program plays an important role in our higher education system and is worth the budgetary costs.

However, my goal today is to focus on the cost side of that cost-benefit analysis.

My testimony today examines the loan program by looking at four categories of costs: loan defaults; Income-Based Repayment and loan forgiveness programs; loan discharges for fraud and closed schools; and lastly, comprehensive budget cost estimates for the entire loan program. These categories are not mutually exclusive, but they provide a useful framework for evaluating the major costs within the loan program. In discussing costs in these categories I also dispute the erroneous view that the government profits when borrowers default on their loans and that it profits on the overall loan program. In my concluding remarks, I offer some general principles that I believe should guide any reform to accountability policies for federal student aid.

### *The Cost of Student Loan Defaults*

When borrowers default on their federal student loans they impose costs on taxpayers on average. Recent data have revealed that these costs have been rising in recent years.

There are over eight million borrowers currently in default on their loans and that number has increased sharply in recent years. In 2013, just over six million borrowers were in default. Based on my calculation of Department of Education data, about one in five borrowers whose loans have come due were in default at the end of 2017.<sup>8</sup> The Department of Education projects that 16.6 percent of loan dollars issued in fiscal year 2018 will default at some point in their repayment. But a default, which is defined in the program as 270 days without an on-time payment (or 360 days for the cohort default rate measure), is not necessarily a measure of loss to the government as is often implied.<sup>9</sup>

The federal government contracts with private collection agencies to recover defaulted loans and has its own recovery techniques such as wage garnishment and offsets of payments like tax refunds. While the Department reports that these efforts allow it to recover most of the money owed on defaulted loans, a significant amount is never recovered. The Department's latest report puts its estimated recovery rate at just 76.9 percent of dollars in default (See Figure 1).<sup>10</sup> That equates to a cost to the government from defaults of \$4 billion per year, or at least \$40 billion over the congressional 10-year budget window. The recovery rates are in line with recovery rates for defaults on home mortgages.<sup>11</sup>

**Figure 1: Student Loan Default and Recovery Rates, FY17 & FY18 Estimates**

FY2017	Lifetime Default		Recovered	Net Loss
	Disbursed	Rate		
Undergraduate	\$49.4	25.6%	\$12.6	84.6% \$10.7 \$1.9
Graduate	\$39.5	7.7%	\$3.0	83.6% \$2.6 \$0.5
Parent	\$12.8	8.8%	\$1.1	83.0% \$0.9 \$0.2
<b>Total</b>	<b>\$101.6</b>	<b>16.5%</b>	<b>\$16.8</b>	<b>84.3% \$14.2 \$2.6</b>
FY2018				
Undergraduate	\$49.3	26.2%	\$12.9	77.4% \$10.0 \$2.9
Graduate	\$41.1	7.8%	\$3.2	75.1% \$2.4 \$0.8
Parent	\$14.3	8.8%	\$1.3	77.1% \$1.0 \$0.3
<b>Total</b>	<b>\$104.8</b>	<b>16.6%</b>	<b>\$17.4</b>	<b>76.9% \$13.4 \$4.0</b>

The most recent projected recovery rate reflects a significant downward revision from the past years when the Department estimated recoveries at 84.3 percent of defaulted dollars (see Figure 1).<sup>12</sup> That changed caused the Department to effectively write down the value of loans issued in the past that are still outstanding by \$14.6 billion, as the Department put it, “reflecting lower actual collections on defaults.”<sup>13</sup>

While the Department shows that defaults do indeed impose a cost on taxpayers, some observers have erroneously claimed that the federal government actually makes money when borrowers default. They claim that the penalty fees and additional interest that borrowers accrue while in default nets the government more money than if the borrower repaid on time without penalty. While some budget documents do appear to support the “government profits on defaults” view by showing a recovery rate that exceeds 100 percent, these estimates do not net out the fees the government must pay to collection agencies to recover the loans and do not factor in the time-value of money, effectively valuing a dollar recovered 20 years from now as worth the same as a dollar collected today.<sup>14</sup> Once this misleading accounting is corrected and recovery rates are adjusted for costs, the Department reports the 76.9 percent recovery rate stated above, meaning a default costs taxpayers 23.1 percent of all loan dollars that go into default.<sup>15</sup>

#### *Income-Based Repayment and Loan Forgiveness*

Another category of costs and risks in the loan program are the losses taxpayers face when students repay their loans through the Income-Based Repayment (IBR) program. Under the most recent version of IBR, which Congress and the Obama administration enacted in 2010 and made available to all new borrowers beginning in July 2014, borrowers pay 10 percent of their discretionary income toward the loan. After a 20-year repayment period, any remaining balance is forgiven. Borrowers who complete 10 cumulative years of payments in any public sector or most nonprofit jobs qualify for the Public Service Loan Forgiveness (PSLF) program and have their debts forgiven at that point, 10 years earlier than other borrowers using IBR.<sup>16</sup>

IBR can provide a large benefit to borrowers at substantial cost to the government. The Department projects that many borrowers who use IBR will not repay their loans in full and thus receive forgiveness either through PSLF or after 20 years of payments for those working in the

for-profit sector. The Department estimates that it costs taxpayers \$27 for every \$100 of loans a borrower repays through IBR due to forgiven interest and principal.<sup>17</sup> The Department also estimates that of the 2018 cohort of loans, \$47 billion will be repaid in IBR.

The benefits that the program provides are not limited to borrowers with perpetually low incomes. The changes that the Obama administration made to the program in 2010 – reducing the share of income on which payments are based from 15 percent to 10 percent and reducing the time to loan forgiveness from 25 to 20 years – allow borrowers with higher incomes to benefit if they borrow large sums to finance a graduate education.<sup>18</sup> Indeed, the Department recently estimated that the majority of debt repaid under IBR will be for graduate degrees and among those borrowers, most will earn over \$100,000 on average during repayment.<sup>19</sup>

An accountability measure that looks at defaults alone is unlikely to capture the costs to taxpayers associated with IBR as these borrowers can generate costs *without defaulting*. An accountability measure that includes how quickly borrowers pay down principal, like the metric the Obama administration proposed, would identify institutions or education programs where large shares of former students both use IBR *and* have earnings that are low relative to their loan balances. For many borrowers, using IBR is not a negative outcome per se. What matters for accountability purposes is whether students from a particular program or school use IBR and pay down their loans at an unusually slow rate due to low incomes. That means IBR is not an impediment to using a loan repayment rate for accountability purposes, but it does need to be factored into what the minimum level for repayment rate should be.

#### *Borrower Defense to Repayment and Closed School Discharges*

A third category of costs in addition to losses from default and IBR are loan discharges in the case of fraud and school closures. In these cases, lax accountability policies can expose taxpayers to losses because they do not sufficiently guard against fraud or screen out institutions likely to close for some other reason.

Under current law, a federal student loan borrower who believes that he was deceived by an “act or omission” of his institution may assert a “defense to repayment,” which would entitle that borrower to full or partial relief from his student loan obligations, potentially including amounts already paid on the loan.<sup>20</sup> For most of its existence, borrower defense was a little-used provision. That changed with the 2015 collapse of Corinthian Colleges when tens of thousands of former Corinthian students had loans discharged, with a cost of \$247 million as of October 2016.<sup>21</sup>

In 2016, the Obama administration issued a regulation to clarify the standard for borrower defense.<sup>22</sup> This rule expanded the range of actions by an institution that could justify a loan discharge, including “statements with a likelihood or tendency to mislead under the circumstances.” Secretary of Education Betsy DeVos postponed the regulations and proposed a new set of rules that would create a stricter standard (relative to the Obama rules) for discharges.<sup>23</sup>

Estimating the future cost to taxpayers of borrower defense discharges is difficult, as the

discharges are a recent phenomenon. In late 2017, the Department estimated that an increased number of borrower defense discharges on outstanding student loans would cost taxpayers \$5.1 billion.<sup>24</sup> The Obama administration estimated that its version of the borrower defense rules would cost taxpayers \$14.9 billion over ten years, though this estimate is highly uncertain.<sup>25</sup> As of October 2017, over 135,000 student borrowers had applied for loan relief under borrower defense.<sup>26</sup>

The closure of an institution of higher education can also allow students to have their federal student loans discharged. The Secretary of Education may cancel loans for borrowers who were enrolled in an institution at the time of its closure, or withdrew fewer than 120 days before the institution closed.<sup>27</sup> If a student completes his degree program or successfully transfers his credits to another institution, he is not eligible for a closed school discharge.

While school closures are rare, their number has increased in recent years. During the 2015-16 academic year, 66 degree-granting institutions closed their doors, up from just 11 in 2005-06.<sup>28</sup> In addition, the closure of one large chain of institutions can result in significant costs to taxpayers. When Corinthian Colleges closed in 2015, it left its 56,000 students potentially eligible for a closed school discharge; those students accounted for 64 percent of all students in schools which closed that year.<sup>29</sup> Another major chain, ITT Technical Institute, closed in 2016 and will generate \$461 million in closed school discharges according to a court filing in March 2017.<sup>30</sup> Estimating how much taxpayers will lose on future closed school discharges, however, is difficult and not included as a line item in the federal budget.

#### *Overall Budget Cost of the Loan Program*

So far my testimony has discussed different types of costs in the federal loan program to illustrate why accountability policies are necessary. Another case for accountability policies in the loan program is that the program as a whole imposes costs taxpayers. It should therefore include policies to limit those costs and prevent limited resources from being wasted.

Some observers have argued that the federal loan program does not impose budgetary costs on the government and instead earns a profit from lending. Like the earlier case of default costs, this view is also based on misleading accounting.

While the Congressional Budget Office publishes estimates each year showing that the loan program appears to earn a profit for the government, the agency has criticized the accounting rules – written by Congress in the Federal Credit Reform Act of 1990 (FCRA) – that require it to publish such figures. According to those rules, federal student loans issued over the coming 10 years will earn the government \$28 billion. CBO argues that the accounting rules that require it to produce that estimate, “do not provide a comprehensive measure of what federal credit programs actually cost the government and, by extension, taxpayers,” and the agency has suggested a more comprehensive measure called fair-value accounting.<sup>31</sup> Under that method, CBO reports that the loan program will cost taxpayers \$183 billion over the next 10 years. Fair-value accounting, CBO explains, includes a more comprehensive measure of risk that effectively assigns a cost to the loans because the interest rate the government charges borrowers is not enough to fully compensate for the risk of losses from default and loan forgiveness.

## **Guiding Principles for Federal Student Aid Accountability Policies**

My testimony today has detailed the ways in which the federal student loan program entails financial risk for taxpayers and results in budgetary costs. Those risks and costs are the underlying reason why accountability policies are an essential feature of the loan program. Low-quality education programs, overpriced courses, and sham credentials exacerbate costs in the loan program by driving up defaults, loan forgiveness, and discharges. This is not to suggest, however, that the current set of accountability measures are optimal. To conclude, I will suggest several guiding principles that I believe will lead policymakers to adopt fair, consistent, and efficient accountability policies for federal student aid programs.

### *Go Beyond Loans*

The introduction of my testimony already made the case for accountability measures that go beyond student loans. At a minimum, accountability measurements should include federal grant aid, and possibly even gross tuition prices that cohorts of students paid. They might also include federal tuition tax credits as another source of aid. After all, current policies use loans as a proxy to gauge both federal funding and price. If policymakers want to measure those things for accountability purposes, there are more comprehensive ways to go about it.

Consider that the federal Pell Grant program, which disburses approximately \$28 billion in aid annually, has far fewer accountability measures attached to it than the loan program.<sup>32</sup> Many in the policy community advocate for further accountability measures based on loan payments (e.g., risk sharing and repayment rates) but ignore the Pell Grant program. An accountability measure could be based on a “grant-to-income” ratio or a “total-aid-to-income” ratio like the one that exists for loans under the gainful employment regulation. Furthermore, institutions of higher education can already opt out of the loan program to avoid its accountability measures while maintaining access to Pell Grants and their relatively lax quality assurance policies.<sup>33</sup>

Low-tuition institutions, such as community colleges, that still participate in the loan program but whose students infrequently borrow also skirt accountability measures that rely solely on loan repayment measures. Their students’ small loan balances may make it appear as if the institutions provide good value, but that may not be the case if former students’ earnings are measured against Pell Grant aid or total tuition.

Of course, loans offer a convenient but crude proxy for gauging a student’s post enrollment earnings in a way that grants or out-of-pocket tuition payments can never capture. Grants and out-of-pocket payments do not generate a repayment cash flow like loans, so there is no way to infer whether a student has sufficient earnings. Policymakers could, however, measure earnings more directly by querying payroll tax information as they have done under the Obama administration’s gainful employment regulation.

### *Apply Accountability Standards Consistently to All Institutions or Programs*

There are a number of places where statute and regulation impose different accountability

standards on institutions of higher education depending on whether an institution is for-profit. Policymakers are rightly concerned about taxpayer and consumer protections for federal student aid spent at those institutions. But bad student outcomes are no less worrisome if they occur at public or private non-profit institutions.

For example, there are likely many graduate degree programs at private non-profit and public universities whose graduates have low earnings or low repayment rates relative to the price students paid and the federal loans they borrowed. Yet the gainful employment statute (and therefore the regulations) does not apply to degree programs at such institutions, only those at for-profit institutions. Graduate certificate programs, however, are treated equally across institution types which resulted in a revealing case in 2016 when a Harvard University graduate certificate in theater and drama performance ran afoul of the gainful employment regulation's debt-to-income test. Had this credential been a *degree* and not a certificate it would have escaped the accountability measure because Harvard is a non-profit institution.<sup>34</sup> (Harvard shuttered the program after the finding.)

This case illustrates why it makes sense to treat institutions and programs consistently. If former students end up with high debt and relatively low earnings, the type of institution or credential should not have a bearing on whether accountability measures to protect taxpayers and consumers should apply.

Of course, the Harvard example is one program and one school, albeit a high-quality prestigious one. A more comprehensive analysis shows weak loan performance across institution types. For example, one recent study found that 74 percent of students who attended a for-profit institution owed more on their loans two years after beginning repayment in 2012 than when they entered repayment.<sup>35</sup> That is clearly a troubling statistic. These students either defaulted or entered into a forbearance to postpone payments on their debts. Yet public and private nonprofit two-year institutions performed nearly as bad. Among their students, 64 percent owed more on their loans after the two-year mark.

#### *Resist the Urge for Central Planning in Accountability Policies – Set a Floor Instead*

There is a temptation in designing accountability measures to overreach and use federal policies as a central planning system. Under this view, accountability measures should channel federal funds to the “best” programs or the “most in-demand credentials” and cut them off for others. The Obama administration’s abandoned attempt to rate institutions of higher education falls within this type of policy. Another is a plan in Kentucky to provide free short-term credentials at public community colleges, but only in fields approved by policymakers.<sup>36</sup> These fields are supposed to be in high demand in the labor market, except policymakers are not likely to be good judges of that criteria and will surely make politically-driven decisions about which credential to support. The same dynamic can be expected to occur at the federal level, which is why policymakers should strive to leave such decisions to the market. Instead, accountability measures should strive to set a reasonable floor that guards against waste and fraud.

#### *Data and Information Alone Can be an Effective Accountability Policy.*

Finally, policymakers should consider that information can be an effective accountability tool – even if it does not include triggers for punitive actions. Consumer information plays a vital role in a smooth functioning market. Institutions and programs that offer low returns on investment – but not low enough to trigger accountability measures – would be disciplined by market forces. The role for accountability policy here is that unlike a publicly traded company that must disclose its own detailed financial statements each quarter, universities cannot be made to disclose information on student outcomes because they have no way to reliably collect this information. The federal government can, however, collect that information through payroll tax and other data collection efforts. The Department of Education is making some of this information available, but could go further.<sup>37</sup>

To offer one specific example, the College Scorecard data could be expanded to include graduate schools and programs. Those data are currently excluded. Meanwhile, in recent years the federal government has greatly expanded financial aid to graduate students by eliminating borrowing limits in the federal loan program and offering more generous income-based repayment plans. That likely has contributed to the large increase in borrowing among graduate students.<sup>38</sup> Emerging evidence shows that graduate degrees have a wide range of returns in the labor market, and most alarmingly, some degrees lead to earnings no higher than those for associate degrees.<sup>39</sup> When those degrees are financed with federal loans and generous income-based repayment plans that include loan forgiveness, policymakers have an interest in exposing and mitigating the risk of taxpayer losses that stem from such outcomes.

That concludes my testimony today and I look forward to answering any questions that you may have about federal student loans and accountability policies.

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## Notes

<sup>1</sup> For more information about the history and expansion of the federal student loan program, see: Jason D. Delisle, *Private in Name Only: Lessons from the Defunct Student Loan Program*, American Enterprise Institute, February 2017, [www.aei.org/wp-content/uploads/2017/02/Private-in-Name-Only.pdf](http://www.aei.org/wp-content/uploads/2017/02/Private-in-Name-Only.pdf).

<sup>2</sup> Board of Governors of the Federal Reserve System, “Mortgage Debt Outstanding,” March 2017, [www.federalreserve.gov/econresdata/releases/mortoutstand/current.htm](http://www.federalreserve.gov/econresdata/releases/mortoutstand/current.htm).

<sup>3</sup> To be counted as a default in the cohort default rate, a borrower must miss making a payment for 360 days or more. For more information, see Cornell Law School, “Calculating and Applying Cohort Default Rates,” [www.law.cornell.edu/cfr/text/34/668.202](http://www.law.cornell.edu/cfr/text/34/668.202).

<sup>4</sup> Ben Miller and Beth Akers, “Designing Higher Education Risk-Sharing Proposals,” Center for American Progress, May 22, 2017, [www.americanprogress.org/issues/education-postsecondary/reports/2017/05/22/432654/designing-higher-education-risk-sharing-proposals/](http://www.americanprogress.org/issues/education-postsecondary/reports/2017/05/22/432654/designing-higher-education-risk-sharing-proposals/).

<sup>5</sup> Constantine Yannelis, “Strategic Default on Student Loans” (working paper, New York University, New York City, 2016), <http://faculty.chicagobooth.edu/workshops/financelunch/past/pdf/Strategic%20Default.pdf>.

<sup>6</sup> Jennie H. Woo et al. “Repayment of Student Loans as of 2015 Among 1995–96 and 2003–04 First-Time Beginning Students,” (National Center for Education Statistics, 2017), <https://nces.ed.gov/pubs2018/2018410.pdf>.

<sup>7</sup> Ibid., 36.

<sup>8</sup> Jason Delisle and Clare McCann, “Who’s Not Repaying Student Loans? More People Than You Think,” Forbes, September 26, 2014, [www.forbes.com/sites/jasondelisle/2014/09/26/whos-not-repaying-student-loans-more-people-than-you-think/#51d8345e4c0c](http://www.forbes.com/sites/jasondelisle/2014/09/26/whos-not-repaying-student-loans-more-people-than-you-think/#51d8345e4c0c).

<sup>9</sup> 20 USC 1085(l) defines a technical default as a 270-day period over which a borrower fails to make a payment. This definition applies for all uses of default except for cohort default rate, which is defined as a 360-day period in 34 CFR 668.202(c)(1)(iv). For more information, see Department of Education, “Definition of Default for Student Eligibility and Cohort Default Rate Calculations,” February 25, 2011, <https://ifap.ed.gov/eannouncements/022511DefiDefaultEligiCDR.html> and Cornell Law School, “Calculating and Applying Cohort Default Rates,” [www.law.cornell.edu/cfr/text/34/668.202](http://www.law.cornell.edu/cfr/text/34/668.202).

<sup>10</sup> Department of Education, Student Loan Overviews: Fiscal Year 2018 Budget Proposal,” [www2.ed.gov/about/overview/budget/budget18/justifications/q-sloview.pdf](http://www2.ed.gov/about/overview/budget/budget18/justifications/q-sloview.pdf).

<sup>11</sup> Constantine Yannelis, “Strategic Default on Student Loans” (working paper, New York University, New York City, 2016), <http://faculty.chicagobooth.edu/workshops/financelunch/past/pdf/Strategic%20Default.pdf>.

<sup>12</sup> Department of Education, “Student Loan Overviews: Fiscal Year 2018 Budget Proposal,” [www2.ed.gov/about/overview/budget/budget18/justifications/q-sloview.pdf](http://www2.ed.gov/about/overview/budget/budget18/justifications/q-sloview.pdf).

<sup>13</sup> US Department of Education, External Stakeholders Meeting on December 7, 2017, PowerPoint presentation.

<sup>14</sup> Office of Management and Budget, “Federal Credit Supplement: Budget of the U.S. Government Fiscal Year 2018,” [www.govinfo.gov/content/pkg/BUDGET-2018-FCS/pdf/BUDGET-2018-FCS.pdf](http://www.govinfo.gov/content/pkg/BUDGET-2018-FCS/pdf/BUDGET-2018-FCS.pdf).

<sup>15</sup> Even that rate may be overstated as the Congressional Budget Office reported in a 2007 working paper. When discounting the recovery rates for not just the time-value of money, but also the market risk inherent in the cash flow, recovery rates drop to 50 percent. For more information, see Congressional Budget Office, “Guaranteed Versus Direct Lending: The Case of Student Loans,” June 2007, [www.cbo.gov/sites/default/files/110th-congress-2007-2008/workingpaper/2007\\_09\\_studentloans\\_0.pdf](http://www.cbo.gov/sites/default/files/110th-congress-2007-2008/workingpaper/2007_09_studentloans_0.pdf).

<sup>16</sup> Under current law, borrowers must pay federal income taxes on the amount forgiven under the 20-year forgiveness benefit (not PSLF), but its political unpopularity makes it uncertain that this provision will go into effect, so the offsetting effects of this provision are ignored here.

<sup>17</sup> White House, Department of Education Budget Fiscal Year 2018,

<https://www.whitehouse.gov/sites/whitehouse.gov/files/omb/budget/fy2018/edu.pdf>.

<sup>18</sup> Jason Delisle and Alex Holt, “Winners and Losers in President Trump’s Student Loan Plan,” Brookings Institution, August 3, 2017, [www.brookings.edu/research/winners-and-losers-in-president-trumps-student-loan-plan/](http://www.brookings.edu/research/winners-and-losers-in-president-trumps-student-loan-plan/); Jason Delisle and Alex Holt, “A Student Loan Blind Spot,” Washington Post, February 20, 2015, [www.washingtonpost.com/opinions/the-22-billion-student-loan-blind-spot/2015/02/20/e3413e82-b6f5-11e4-aa05-1ce812b3fdd2\\_story.html?utm\\_term=.0d573827272a](http://www.washingtonpost.com/opinions/the-22-billion-student-loan-blind-spot/2015/02/20/e3413e82-b6f5-11e4-aa05-1ce812b3fdd2_story.html?utm_term=.0d573827272a).

<sup>19</sup> Department of Education, “Comparison of Total Originations to the Net Present Value of Payments in Each IDR

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- Repayment Plan: All Borrowers Expected to Enter IDR Repayment in 2016,”  
[www2.ed.gov/about/overview/budget/budget17/idrtables.pdf](http://www2.ed.gov/about/overview/budget/budget17/idrtables.pdf).
- <sup>20</sup> Cornell Law School, “20 USC 1087e – Terms and Conditions of Loans,”  
[www.law.cornell.edu/uscode/text/20/1087e](http://www.law.cornell.edu/uscode/text/20/1087e).
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