Student Borrowers of Color

Comments of NASSGAP Members

In response to the request from Senators Jones, Warren, Harris and Cortez Masto for input from the higher education community, the National Association of State Student Grant & Aid Programs (NASSGAP) reached out to its membership seeking comment. NASSGAP is composed of the state student grant agencies that provide about $12 billion annually in grant and scholarship aid to students pursuing higher education. Because our members represent fifty states which have diverse education systems and financial aid policies the comments below are provided from any member submitting comments to ensure the Senators have a broad cross-section of feedback from our members. The comments presented below, therefore, do not necessarily reflect a consensus NASSGAP opinion, and may or may not represent the official position of one or more states. To the extent multiple commenters had very similar comments, they may be paraphrased to avoid excessive repetition.

The racial disparities in student debt are very complex as they are tied to and influenced by many other factors: the labor market, household wealth, systemic racism and racial disparities in intergenerational wealth. Suggestions are included related to how changes to the student loan debt repayment system could potentially improve the outcomes for borrowers of color. Most of these suggestions help all borrowers, but implementation could focus on students of color. Even though the request for comments references *student* borrowers of color, we start with some observations relating to PLUS loans, especially Parent PLUS loans, because these loans can create an intergenerational asset/wealth gap, if not an economic downward spiral, that will impact future generations of students.

Address issues pertaining to Parent – and Grad - PLUS loans

- Parent PLUS loans are a growing concern for older Americans in part because there is no limit to the amount they can borrow, apart from the absence of bad credit.
- Although borrowers with Grad PLUS loans typically have higher degrees and therefore higher incomes, many times borrowers are over-borrowing and then struggling with high monthly payments after graduation.
- **Review the PLUS credit check** to ensure it appropriately assesses ability to accumulate and repay debt.
    - The last time PLUS credit criteria were tightened it caused a fire-storm among HBCUs but if a family is permitted to borrow beyond capacity, it contributes to the severe financial stress experienced by students of color. Increased and easier access to PLUS loans is not necessarily the answer and consideration should be given to include standard debt-to-assets ratios in determining ability to pay parent loans.
- If there was an "**ability to pay" metric with PLUS loans** then it would put a cap on the amount that a borrower can reasonably repay and prevent over-borrowing.
    - "The government already collects information on a family's ability to repay through the FASFA and its calculation of EFC. EFC could be used in tandem with adverse credit history to determine a family's loan limit." If a student has a zero EFC, then allow the student to borrow additional loans up to the independent lending limit, as is done for

parents that do not qualify for Parent PLUS loans due to creditworthiness. – New America "The Wealth Gap PLUS Debt"

- **Expand repayment and cancellation opportunities** for Parent PLUS Loans. Currently the only IDR plan that Parent PLUS borrowers are potentially eligible for is the Income Contingent Repayment Plan which caps payments at 20% of their monthly discretionary income. This is often times too high of an amount to pay. Borrowers should be allowed to repay Parent PLUS loans on ANY of the repayment plans.
    - Additionally, reducing PLUS loan interest rates would enable more borrowers to repay the amount they've borrowed before it grows to an amount that is insurmountable. PLUS loans have interest rates that are 2.55% higher than undergraduate unsubsidized Stafford loans and origination fees that are quadruple the Stafford fees. With an interest rate that high, parents and borrowers with graduate student debt are paying more for their student loan debt than they would for most mortgages.
- "For those borrowers currently in the system, struggling with debt and facing labor market discrimination and/or degrees with little value, there must be a way to cancel debt sooner than signing up for an IDR plan and waiting 20-25 years for forgiveness while interest accrues." New America.
    - Parent PLUS loans are particularly dangerous for older borrowers as they get closer to and enter retirement. If Parent PLUS loans are cancelled at a certain age then borrowers will not have to enter retirement with the threat of having their social security or other fixed income garnished.
    - Or as New America suggests "those who fall delinquent on their loans should be able to have their debts canceled if, for example, they have received a mean-tested federal benefit such as enrollment in Medicaid, SSI, or SNAP for a determined number of consecutive years of repayment."

Increase grant aid to HBCU and MSI institutions

- Acknowledging how a change to Parent PLUS loans could affect access to HBCUs and MSIs, **increase student grant aid to these institutions**, particularly for those students whose parents were denied a PLUS loan.
    - Also worth noting is that the tighter credit checks disproportionately impacted enrollments at for-profit institutions of dubious value. One could argue the tighter credit checks were the most effective tool in the crusade against unscrupulous for-profit institutions.
    - Replacing some of the Parent PLUS loan eligibility with additional grant aid, reduces the student and parent's debt burden while also potentially increasing student graduation.
- Increasing targeted grant aid could also aim to correct the historical inequity of higher education funding for black and white students arising from the GI Bill of 1944.
    - The GI Bill is regarded by some economists as one of the greatest investments the US government ever made as it increased wages for those that used it by between $10,000 and $15,000. (Buzzfeed)
    - However, the overwhelming majority of its beneficiaries were white men. Black veterans could not access it as much because many colleges at that time did not accept black students and HBCUs were overcrowded with students and underfunded. As a

result, the white middle class benefited both academically and economically from this bill while the black middle class largely did not. (Never a Level Playing Field)
    - Providing extra grant aid to HBCUs or directly to non-white students could be a step in the process of trying to correct the historical inequity of the GI bill and higher education funding and the resulting expansion of the asset/wealth gap.

Strengthen regulation of student loan servicers

- **Review and strengthen the loan servicer contracts** to ensure that borrowers are provided clear and complete information about their best repayment options. Hold loan servicers more accountable, but also make sure student (and parent) borrowers know who their servicer is and how to communicate with them.
    - Reducing the number of payment plans would enable servicers to explain the repayment plan options in less time, with less confusion, and help borrowers make an informed choice.
- The Department of Education must ensure that **Public Service Loan Forgiveness** is implemented as intended. With the current microscopic forgiveness approval rates, many student borrowers find themselves with unexpected debt after 10 years of public service.

More data needed to fully understand the problem

- We know who is impacted the most by student debt, but a **rigorous evaluation to determine differences and intersectionality across student groups** would be helpful in arriving at solutions. The specific causes seem to be largely anecdotal at this time. How does student debt – and the repayment burden - held by rural students compare with that held by students of color from middle/upper income suburban families? Is first-generation student status more likely to result in higher debt burdens and unfinished degrees at low quality, high cost for-profit institutions?
- Additionally, some sort of outcomes data (or student unit record) is needed so that prospective students can see salary data and debt levels by institution and by major to better evaluate their institution choice, program of study and level of indebtedness.
- At the state level, the highest cohort default rates in the nation and the highest student loan delinquency rates in the nation do not correlate with the states with the highest minority population in the state. Therefore, we would encourage any proposal to look at income, first-generation status, rural/suburban/urban and quality of school district(s) as well as race when developing a program so as not to leave out anyone who needs assistance with student debt.

What can be done at the local level

- **Require "educational finances"** (including the good/bad of student loans) as a module within personal finance courses presented in high school.
    - First-generation students often don't understand the ramifications of accumulating debt. They may also not know anyone else who has had to navigate the financial aid system, so this course would ensure they receive some guidance.
    - These modules can also put loan debt into a projected lifestyle so that students can become more intentional about their debt.

- Challenge institutions to implement measures to **increase progression and completion**, especially for students of color. Unequivocally, the #1 affordability strategy is degree-completion.

Change the collective message about post-secondary education

- **Increase emphasis on shorter term, lower cost post-secondary credentials that lead to living wages**. The data shows that much of the loan defaults occur in areas where there is high unemployment and fewer jobs requiring a degree.
  - In these areas, a college-degree might be overkill for the job market, meanwhile a credential program lasting only a few months and costing a couple thousand can lead to jobs making anywhere between $40k-$80k, sometimes more.
  - Many states have begun emphasizing and funding career credentials with a great deal of success and community colleges are coordinating with local employers to ensure they are providing students with the skills needed to fill local jobs requiring credentials and/or degrees.
- More honesty in promoting a college degree. The average increased earnings may be $1 million or more for a degree-holder, but that is the average and the income numbers look decidedly less for some career paths. Some degrees are upside-down... students are borrowing more than their projected earnings can support.
- We have high school students feeling that college is inaccessible and we have high school students driven to obtain a degree at any cost. Both approaches are problematic and lead to poor choices. We need strategies to help students make a more informed and intentional college choice.

Verify comprehension in entrance/exit counseling

- Loan entrance counseling should include '**verification of comprehension'** - former Senator/Chair Harkin's term from the Smarter Borrowing Act ("the SBA").
  - The SBA language on entrance counseling was based on the success of states that experimented with having a "test" at the end of entrance counseling to ensure that students were actually reading/listening to the content and not just clicking through screens.
  - These programs had/have low single digit default rates. The 'test', easily added to the end of an online module, is an open book test, so there is no record of a student ultimately being unable to borrow because they couldn't pass the test, and the test documents that the student (or parent) knows they are taking out a loan, not a grant, they know their interest rate, monthly payment, repayment options and loan servicer, among other critical information.
  - One could argue that federal student loans should be subject to Truth in Lending Act (TILA) disclosures, as they are likely the first credit transactions for many students, and they should be educated on the process of reviewing TILA disclosures, much as the "Schumer box" is standard for credit card disclosure. Other than Federal Direct loans, It is unlikely another loan in America can legally be made without TILA disclosure.

- Sensitize students to accumulating debt annually. **Annual notices advising of accumulated debt**, projected debt to graduation, and estimated monthly payment amounts would open some eyes.

Too many students have no idea what they have committed themselves to for the next 10+ years. States have found that this approach reduces student borrowing levels.

- Students usually only borrow when they need to, but they rarely borrow only what they need. Measures to right-size borrowing would go a long way. Some institutions have had success making "recommended loan amounts" based only on what is needed to pay off the school bill.
    - This is supported by nudge theory. The "nudge" is applied to influence positive behavior, without taking away options. Here, the school is nudging the student to borrow an affordable amount, while not restricting them from borrowing more than this.

Make Income Driven Repayment (IDR) plans the repayment plan for all borrowers, subject to an opt-out, & make re-enrollment in IDR plans automatic

- Not being able to hit the ground running after graduation to pay their debt off has a big impact on student borrowers of color. They may be more likely to be under- or un-employed out of college. So not having that immediate income impacts their debt by increasing their capitalized interest and therefore increases the total amount they will have to repay. (Dr. Fenaba Addo, Third Way). An auto-enrollment in IDR could help students move ahead with their repayment without going into default or deferment or forbearance.
- As repayment stands now, the Standard Repayment Plan is the repayment plan that a student automatically gets enrolled in.
    - If the borrower cannot afford this amount, and they are offered the alternative of a deferment/forbearance many times they will choose this option as the path of least resistance, even if it has a higher ultimate cost.
    - Even if the student is offered the possibility of an IDR plan, there is a big start-up cost - in time and effort, precious commodities for a struggling borrower who may also have children and/or a second job - to applying for the IDR plan by way of a long application, choosing an IDR plan, and then obtaining and sending income information to all of their servicers. Whereas, deferment or forbearance has a low barrier to entry – a student simply calls and requests one over the phone or signs a short attestation. Reducing the number of IDR plans could expedite the process of helping borrowers make an informed choice.
    - Servicers should be required to automatically enroll borrowers in the repayment plan that will require the lowest/most affordable monthly payment. If borrowers want to choose for themselves, then they can do so but they will have to take deliberate action.
- If the FAFSA (Faster Access to Federal Student Aid) Act bill passes then the IRS could easily share income info with ED's Office of Federal Student Aid, who could then disseminate this information to the servicers.
    - Rules based on tax credits could also be explored. For example: Borrowers that receive the EITC (based on their tax transcript info) can be automatically given a $0/month payment.

- Moves onus of re-enrollment from students
    - Make it an automatic process unless they do not file taxes, in which case they likely do not earn enough income to file taxes and would have a $0/month payment.
- Allow for students to opt-out of their auto IDR plan
    - For borrowers that want to pay their debt off as soon as possible, they could opt to enroll in a non-IDR plan.
    - They also have the option of making extra payments toward their debt if they would like to prevent their payment from ever growing too high.
    - Behavioral economics tells us that auto-enrolling people in the thing that would benefit them the most increases positive outcomes (repayment) and decreases negative outcomes (loan default). Similar theories in behavioral economics are being applied to encouraging retirement savings.
        - "Default effect" – Making an option a default increases the likelihood that it is chosen *(Note that in this section "default" refers to the option a borrower gets unless they opt out, not to being over 270 days delinquent on their loan)*
            - "Cognitive effort" – if a borrower is indifferent or conflicted between options, it may involve too much cognitive effort to choose based on an evaluation of their best option so they just go with the 'default' option. Reducing the number of IDR plans, would in theory require less cognitive effort for a borrower to decide which repayment plan is the best fit.
            - "Switching costs" – if a borrower faces costs (time, effort or financial) when diverging from the 'default' option that appear to exceed the possible benefits from switching to another option, then it is rational to stick with the 'default' option. Costs of diverging from the 'default' option might involve costs for the search of information (time), and costs for registering the choice (time, postage, etc.)
                - If a borrower is in deferment but is too overwhelmed or confused to determine the best repayment plan to switch to, then they may choose to stay in deferment.
            - Scarcity – people's minds are less efficient when they feel they lack something, whether it's money, time, etc. Bandwidth – and money - must first go to basics, such as food, shelter, caring for family and holding down a job. Failure to critically plan ahead and problem-solve can lead to self-defeating actions.
                - When borrowers can't afford the Standard repayment plan (the one that all students are auto-enrolled in now), they opt for deferment/forbearance which costs them more in the long run, because they can't think critically and optimally about their options.
                - This constraint could also be applied to borrowers who are not low-income, but have a scarcity of time to devote to doing an analysis of their student loan options. If students are struggling to understand all of the jargon and repayment plan options, and

they feel that they are scarce on time, they likely will not pick the best option for them.

- Auto-enrollment in IDR would significantly decrease the default rates for all borrowers.
    - The Brookings Institute's report states that "black borrowers remain more than three times as likely to default within four years as white borrowers (7.6 percent vs. 2.4 percent). Hispanic borrowers, despite having about the same level of debt as white graduates, are more than twice as likely to default (5.7 percent)."
    - If IDR plans were the default option, then these borrowers of color who are more likely to default would avoid default because they were given a more affordable option to repay their debt from the start.
    - In 2015, the CFPB released a report stating that not all those who are eligible for IDR are enrolling in repayment plans. In fact, many who are struggling to make payments are defaulting despite qualifying for a lower monthly payment with an IDR plan: "70 percent of borrowers in default had income that would entitle them to a reduced monthly payment under one of these plans."

Allow students to request to **lower their IDR payment if needed**

- Currently, IDR plans require a borrower to pay a certain percentage of their discretionary income to their student loan debt, ranging from 10-20% depending on the exact repayment plan. However, this percentage does not account for any of the monthly expenses that the borrower has.
- If a borrower is in default and chooses to rehabilitate their loans, they can request an alternative repayment amount by completing the "Loan Rehabilitation: Income and Expense Information" form. It asks the borrower to detail all sources of monthly income and gives them 12 lines to report their monthly expenses, such as: food, housing, childcare, transportation, etc. This allows a borrower with high monthly expenses to report that they simply do not have 15% left in their monthly income to put towards their debt.
- Furthermore, for borrowers who are low income and/or have a low credit score, they may have high cost debts (payday loans, high interest credit cards) that take up a large part of their income and they may not have 15% of their income available. The one-size-fits-all 15% of income for an IDR payment is often unrealistic for borrowers. If borrowers can demonstrate that they have other high cost expenses but can still make a payment, then let them negotiate a lower payment and avoid default. Once they can pay down some of their high cost debt, then they will be in a more stable financial situation and can resume making a larger payment toward their student debt without risk of financial instability.
- Other borrowers who could benefit from this are Parent PLUS borrowers. The only IDR repayment plan they have available requires them to pay 20% of their income toward student debt. This is the highest monthly payment for any IDR plan and as Parent PLUS loans have no cap and can be very large amounts, these payments are often unaffordable for these parents. They have higher amounts of debt and their best option is still not affordable, which puts them in - or exacerbates their - financial distress and leaves them with no good option. They can pay the amount and cut back in another area (likely perpetuating the financial distress), choose a deferment/forbearance which delays their repayment and increases the amount they owe, or

simply not pay, default on their loan and then have their wages garnished (including social security income).

- Another payment alternative also exists to a certain extent but is highly underutilized. ED authorizes the use of Alternate Repayment Plans to allow servicers to lower a borrower's monthly payment if they can demonstrate that they have "exceptional circumstances". ED states:
    - "All Department servicers are required to offer alternative repayment plans. The alternative repayment regulations at §685.208(1) CFR state that the Department may provide an alternative repayment plan for a borrower who demonstrates to the Secretary's satisfaction that the terms and conditions of the other available repayment plans are not adequate to accommodate the borrower's exceptional circumstances. The regulations also authorize the Department to require a borrower to provide evidence of exceptional circumstances before approving an alternative repayment plan. The regulations do not define exceptional circumstances; Department servicers currently have discretion to identify exceptional circumstances in the context of their work with the small number of individual borrowers who believe they require terms not available under the other repayment plans. The Department is currently working with our servicers to determine whether additional standardization would benefit borrowers." [January 8, 2016]
    - This plan is rarely employed and is somewhat subjective to the servicer. If there were more standardized guidelines for when a student can request an alternative repayment plan, more borrowers could benefit and seek relief while they build their financial health without going into default or incurring more debt via deferment and forbearance.

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Summary of Suggestions

- PLUS Loans
    - Re-evaluate the credit check requirements
    - Consider an automated "ability to pay" metric to cap amount borrowed
    - Expand repayment and cancellation options
    - Increase student grant aid to HBCU institutions and MSIs
- Loan Servicing
    - Review and strengthen the loan servicer contracts
    - Evaluate and improve Public Service Loan Forgiveness implementation
- Income Driven Repayment
    - Automate enrollment for IDR
    - Allow lower IDR payments as needed
- Expanded Data
    - Conduct a rigorous evaluation to determine differences and intersectionality across student groups

- Improved Information and Counseling
    - Increase emphasis on shorter term, lower cost post-secondary credentials that lead to living wages
    - Verify comprehension of student loan counseling information
    - Annual notices advising of accumulated debt and other information
- Local Solutions
    - Require "educational finances" as part of financial literacy in high school
    - Improve completion strategies