Affordability Draft Recommendations

Focus Area: Financial Literacy/Financial Wellness

Recommendation 1: We recommend that Congress require the U.S. Department of Education (ED) to enhance existing financial literacy tools and to require consumer testing on all new or improved tools. We also recommend that these products be made available to all students, not just student borrowers.

- **Rationale:** A key component of affordability is ensuring students have access to accurate, transparent, and complete information about the total cost of attendance for their desired educational program, so they can make informed financing decisions. Current financial literacy tools have varying levels of ease of use for consumers, are not housed in a way that encourages a one-stop shop for students, and show different kinds of information that may not be explained clearly enough for students and families who are not well versed in the details of funding a degree program. Requiring the use of existing financial literacy tools would be a burden on students and institutions and would likely impede access to financial information. However, improving existing tools by increasing their usability would improve students' abilities to make good decisions about funding their educational program.

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Recommendation 2: We recommend that Congress require ED to develop and add a dynamic, user-tested truth-in-lending calculator and annual debt letter to entrance counseling/studentloans.gov. ED should make this available at the time of loan disbursement but should not make it a requirement (i.e., roadblock), to students getting their loans. This would be something ED would develop and distribute, not the school. We also recommend that private lenders be required to report to the National Student Loan Data System (NSLDS).

- **Rationale:** Students and families who take loans to pay for educational expenses don't always have a full idea of what the impact will be once they are no longer enrolled due to attrition or degree completion (the latter being the ultimate goal). While it may seem that loans make attending college "affordable," students and families may later need to delay making major life decisions, such as getting approved for a mortgage to buy a home or taking a loan to purchase a vehicle, because of their student loan obligations. These delayed life decisions may affect families in a variety of ways, impacting everything from the kinds of employment they seek to the geographic areas where they can afford to live. By receiving a true estimate of their future borrowing totals, students and their families can have a better understanding of the long-term impact of borrowing decisions.

Focus Area: Improving Existing Aid Programs

Recommendation 3: We recommend permitting students to file a FAFSA that would allow financial aid consideration for multiple years (e.g., a one-time FAFSA).

- **Rationale:** Anecdotes and studies show the FAFSA to be an obstacle to the neediest students and families. It is overly complicated and confusing, and verification requirements—in which the lowest income students are specifically targeted—create a barrier to access for the students that Title IV programs are supposed to help. For many, the requirement to file a FAFSA annually is accurately described as poor people being forced to prove repeatedly that they are poor. Preliminary results from

a soon-to-be-published Center for American Progress study[1] of over a quarter-million FAFSA filers show that for more than half of filers, the expected family contribution (EFC, the result of the formula that uses the FAFSA data) changes annually by only $2,000 or less. For students eligible for Pell Grants, this figure grows to 75 percent. For both Pell-eligible and non-Pell-eligible students, the largest group is those whose EFC did not change by even so much as a dollar (Center for Academic Progress, in press). Making these students submit a new FAFSA annually is an unnecessary exercise. A one-time FAFSA should lead to schools assessing a student's financial aid eligibility for multiple years, even the duration of their program, enabling long-term financial planning that is now nearly impossible. Most students entering college are asked to make an enrollment decision armed only with information about the cost of the first year; they must take a leap of faith that subsequent years will be similarly affordable. Sometimes they are similar, sometimes they are not, and what the EFC formula recognizes as a change in eligibility is rarely an event that, in reality, gives the family more disposable income. We do not force consumers to make other major purchases (such as a home or a car) this way, and we are doing students and their families a disservice by making them follow this completely unpredictable model. All changes would be contingent upon studying FAFSA filing data to ensure that this method would provide the most benefit to students.

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Recommendation 4: We recommend that Pell-eligible students be allowed to use up to two semesters (100%) of Pell Grant funds while completing dual-enrollment programs, while in high school, or while completing remedial courses, without such usage counting toward their Pell Grant Lifetime Eligibility Usage (LEU) limit.

- **Rationale:** The Pell Grant was established specifically for students with exceptional financial need. These same students often require remedial courses before beginning their college-level courses or would benefit from taking college-level courses while in high school to ensure they are well prepared to pursue their educational goals. Providing funding to these at-risk students without reducing their overall Pell Grant LEU provides them with an affordable option to gain the skill set needed to succeed in college-level courses.

Recommendation 5: We recommend simplifying loan repayment plans to only three options—income-driven repayment (IDR), extended repayment, or standard repayment—while preserving existing deferment, forbearance, and cancellation provisions.

- **Rationale:** There are currently too many loan repayment options, and the process for applying for the various options is too complex, meaning students often choose the wrong option and increase their risk of defaulting on loans. Simplifying loan repayment options to IDR, extended, or standard would allow students to more clearly understand the repayment options and make the choice that works best for them. Data show that many students fail to follow through on completing the application for an IDR plan even when they have been given the information that doing so would lower their monthly payments. Barriers to completing the application include confusion about which income-based plan to select and the length and complexity of the application. In order to lower the number of defaults and assist students in repaying their loans, the options for repayment and the application process should be simplified.

Recommendation 6: We recommend allowing federal student loan refinancing through a federal government program should the variable annual interest rates decline. Borrowers refinancing at a fixed, lower interest rate

[1] Center for American Progress. (2018). Manuscript in preparation.

would forgo loan deferment, forgiveness, cancellation, and discharge provisions.

- **Rationale:** This recommendation would increase affordability by permitting individual borrowers (students and parents) who took loans at higher interest rates to receive the same loan interest rates that benefit contemporary borrower cohorts. The federal student loan program offers generous (and costly) deferment, forbearance, forgiveness, cancellation, and death/disability discharge provisions as a safety net. However, many high earners with existing federal student loan debt take advantage of refinancing in the private market to lower monthly payments and the total cost of repayment, thereby destabilizing the federal loan portfolio. Retaining high-performing loans is necessary to offset low-performing loans and to balance the financial risk to taxpayers of diluting federal assets.

Recommendation 7: We recommend restoring the purchasing power of the Pell Grant by mandating 100 percent funding, making it a true entitlement program.

- **Rationale:** While tuition and living costs for students are at an all-time high, the Pell Grant is at its all-time lowest purchasing power in its almost 50-year history. We urge Congress to use this opportunity to demonstrate an unwavering commitment to higher education and absolutely reverse the downward trend of the Pell Grant's purchasing power for our students now and in the years to come. This is a critical investment we can make in the human potential of our country's future. This recommendation would revive the spirit of the Pell Grant by mandating 100 percent funding for the greatest positive impact possible.

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Focus Area: Keeping Costs Down

Recommendation 8: We recommend excluding 529 savings plans from the FAFSA needs analysis calculation (Federal Methodology) to encourage parents to save for their children's education without worrying that these savings will raise their student's EFC.

- **Rationale:** 529 plans provide a convenient way to save for college. These plans offer the advantage of saving over time, with the option of low, flexible contribution levels, while benefiting from tax-free growth. Currently, the Federal Methodology need analysis calculation includes the value of 529 plans, thus increasing the EFC and ultimately discouraging use of these plans. Encouraging saving resources over time as opposed to borrowing money and paying interest is good public policy and will reduce the total cost of higher education.

Recommendation 9: We recommend discontinuing [origination fees](https://www.nasfaa.org/uploads/documents/Issue_Brief_Origination_Fees.pdf).[2]

- **Rationale:** Origination fees were created in the Higher Education Act of 1965 when student lending programs were bank-based, which is no longer the case over 50 years later. Today, origination fees essentially impose an unjust tax on student loan borrowers. We urge Congress to take this simple step: Eliminate origination fees to help improve college affordability.

Recommendation 10: We recommend an interest rate reduction and a flat add-on amount across the federal student loan programs. This value should be set at the 10-year Treasury note with a flat add-on in an amount

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[2] National Association of Student Financial Aid Administrators. (2017, November). *Issue brief: Origination fees.* Retrieved from https://www.nasfaa.org/uploads/documents/Issue_Brief_Origination_Fees.pdf

not to exceed 2 percent.

- **Rationale:** Many other consumer products have lower interest rates than federal student loans. Federal student loans, intended to make college more affordable, should not have excessive interest rates. It is confusing and difficult to have disparate interest rates for different classes of loans. A single, lower interest rate will be easier to understand and more likely to be paid off. Uniform interest rates will also be easier to administer and collect. If an origination fee is used, it should likewise be uniform and stable, and it should not be used as a variable revenue source.

Recommendation 11: We recommend using Fund for the Improvement of Postsecondary Education (FIPSE) grant funds to create new avenues for postsecondary institutions to move toward the goal of affordable textbooks and other course materials (such as digital textbooks, textbook rental programs, and open educational resources [OER]) by 2030 to support student learning, persistence, and completion.

- **Rationale:** The 2014 National Student Financial Wellness Study of college students concluded there are three essential affordability concerns: tuition, housing, and textbooks. OER resources help to increase student-faculty engagement and lessen the burden of purchasing books and supplies. OpenStax, a nonprofit initiative created in 2012 to provide free textbooks and digital resources, is gaining traction at the community college level. Community college students can spend in excess of $500 per year on textbooks, and the cost can average $1,800 at the four-year level. According to a 2018 survey from Cengage Unlimited,[3] rising textbook costs are limiting academic success and student persistence, where students must decide between spending hundreds of dollars on books, meal plans, and transportation, or seeking alternatives (e.g., textbook rentals or no books).

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Recommendation 12: We recommend eliminating higher education tax credits and putting those funds into the Pell program.

- **Rationale:** Simply put, tax credits don't help anyone pay for college on the front end, given that they are available only after families have paid. Families in the lowest-income bracket with no tax liability do not benefit at all. The Pell Grant is the most effective and efficient way to advance access to higher education. Infusion of these dollars into the Pell program would expand eligibility to middle-class students, who might not now benefit from Pell.

Recommendation 13: We recommend eliminating the taxability of financial aid.

- **Rationale:** Current federal tax law stipulates that scholarships or grants are tax-free if the expenses were for 1) tuition and fees required to enroll at or attend an eligible educational institution, or 2) course-related expenses, such as fees, books, supplies, and equipment required for courses at an eligible educational institution. Scholarships or grants must be included in gross income if the funds were used for other education-related expenses, such as room and board, travel, and optional equipment. The Higher Education Act of 1965, as amended, defines the types of costs to be included in the cost of attendance (COA) used to establish students' financial need. The law requires that costs

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[3] Cengage Unlimited. (2018, June 26). *New survey: College students consider buying course materials a top source of financial stress* [Press release]. Retrieved from: https://www.prnewswire.com/news-releases/new-survey-college-students-consider-buying-course-materials-a-top-source-of-financial-stress-300687138.html

reflected in the COA must be appropriate and reasonable amounts. Since financial assistance offered as scholarships and grants can be used to meet the financial needs of students, scholarship and grant amounts falling within the COA reflect necessary educational costs that should not be taxed. The issues of access and affordability of postsecondary education are of great concern to legislators and the public. The taxability of scholarship assistance is counterproductive to these two national objectives. Taxing student aid can impact students from all socioeconomic levels; however, lower-income students are most adversely affected as they have little ability to pay the resulting tax. It is for this reason we recommend eliminating the taxability of scholarship assistance.

Recommendation 14: We recommend providing simplified and equitable federal loan repayment by establishing one standard 10-year repayment plan and one income-based repayment (IBR) plan. Borrowers in the IBR plan would be required to repay only the principal and interest they would have paid under a standard 10-year plan, as calculated when they entered repayment. IBR plans would continue to accrue interest over the life of the loan, and, after a set number of years of income-based payments, any loan amounts forgiven above the total cost of the standard 10-year plan would be taxable.

- **Rationale:** We believe it is unfair to tax loan forgiveness for borrowers who sought to repay under IBR because of low incomes that could not support their debt. The one-time tax liability can represent a significant hardship for those already in difficult financial circumstances. However, making all loan forgiveness tax-free could encourage overborrowing and provide little incentive for institutions to keep tuition low. Removing forgiveness but capping the total amount to be repaid protects lower-income borrowers while still discouraging overborrowing.

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Recommendation 15: We recommend free community college as a first-dollar program.[4] We would consider imposing a cap on eligibility based on income.

- **Rationale:** This model pays a student's tuition and required fees at an eligible college before the award of other grant assistance like Pell Grants or other state need-based grants. In such instances, Pell and state grant awards can be used to pay non-tuition-related expenses including books, transportation, housing and food. There are examples of these programs in Michigan and Arkansas, and the requirements vary. Some programs pay based on the length of time the student has been attending K-12 public schools and some are based on income. The principle argument in favor of first-dollar programs is that they allow low-income students to use Pell and state grants to address non-tuition-related costs, and this increases the likelihood that recipients will be able to stay in school and have more time to focus on their studies.

Recommendation 16: The Public Service Loan Forgiveness Program (PSLF) should be maintained for current and future eligible borrowers for the Federal Direct Student Loan program and any successors to that program. PSLF was signed into law in 2007 and requires 10 years of repayment before a borrower qualifies, so forgiveness only began in 2017. Between the time the bill was passed and forgiveness began, many lawmakers and pundits expressed concerns about the total cost, although that "cost" is only a reduction in incoming revenue and profits for the student loan program. There is currently no cap on the amount a borrower can have forgiven under this program. We recommend that PSLF continue, and we see the caps proposed by NASFAA and the Obama Administration as reasonable to help reduce this profit reduction. Those caps are full forgiveness of up to $57,500, and half the amount borrowed between that limit and up to $138,500.

[4] Association of Community College Trustees. (n.d.). *First-dollar vs. last-dollar promise models.* Retrieved from https://www.acct.org/page/first-dollar-vs-last-dollar-promise-models

- **Rationale:** PSLF was introduced to encourage students to follow academic and career pursuits that are less likely to result in higher salaries. The partial forgiveness of their student loan debt makes the education they need for these careers more affordable. Qualifying borrowers include largely service-oriented professionals in education, law enforcement, medicine, counseling, the legal system, social work, the military, libraries, all levels and branches of government, museums, emergency response units, and more. These are important jobs, found in virtually every community in the United States, that help our society function and our culture flourish. They all require postsecondary education, including, in many cases, an advanced degree. It can be argued that a better solution would be to make the educational credentials necessary for these careers more affordable and less burdened by debt, but until we reach that point, losing the PSLF program would result in shortages of trained, educated professionals in some of the most important jobs in our economy, performing many of the most important services in our communities.

Recommendation 17: We recommend decoupling eligibility for interest subsidy from cost of attendance and making it either EFC based or income based.

- **Rationale:** Eligibility for a subsidized (interest-free) Federal Direct Loan is determined by taking the cost of attendance (specific to the school) and subtracting the EFC and other financial aid. Students who demonstrate financial need qualify for a subsidized loan. Since the calculation is connected to the COA of the school, students who attend higher-cost schools have a greater possibility to qualify for a subsidized loan. The following example illustrates this point:

	School A	School B
Published COA	$62,000	$22,000
Student's EFC	$35,000	$35,000
Financial Need	$27,000	$0
Federal Direct Loan	Qualifies for subsidy	Does not qualify for subsidy

Basing the interest subsidy on either EFC or income would result in greater simplicity in the system, provide a predictable outcome for families, and offer greater equity by ensuring the lowest-income students receive the subsidy.

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