

Issue: Federal Loans and Student Debt

In recent decades student loans have increasingly become a larger part of the financing of a college education. But as the number of borrowers increase, and the individual and total amounts increase to levels of public dismay, how should NAICU position itself on the various policy questions relating to student loans? Is student borrowing out of control? Which are the best options for providing access and avoiding excess borrowing?

Overview

Total student loan debt reached \$1.08 trillion in the fourth quarter of 2013, an increase of \$114 billion that year alone. However, in the face of such a large dollar amount, growing number of borrowers, loan delinquencies, and defaults, it is important to accurately evaluate the level and extent of individual student debt. This can be difficult since the data used are collected and presented in various ways.

Frequently, the figure of about \$29,000 is given as the average debt burden for a private college graduate (\$25,000 at public universities). The median amount is much lower, and the level of individual borrowing varies greatly. In 2012, 40 percent of borrowers, including graduate students from across all sectors of higher education, owed less than \$10,000; only 4 percent of all borrowers had student debt of \$100,000 or more. While having a clear picture of student borrowing is important, student borrowing remains a key policy driver, and actions can be taken to lower debt and ease loan repayment.

While NAICU has long supported the Stafford, PLUS, and Perkins Loan programs and worked to ensure adequate federal student loan availability and the best borrower benefits, we are aware that the socio-economic environment has changed and the programs need to be reexamined and restructured. Various groups have proposed a variety of front-end and back-end solutions to lower costs and loan debt for students. Legislation has been introduced related to some.

Front-end proposals:

- Provide adequate federal loans so students can avoid more costly private loans. (*See Campus-based Aid Issue Paper.*)
- Let colleges limit borrowing for certain kinds of programs.
- Lower student loan interest rates.
- Eliminate loan origination fees.
- Improve loan counseling and encouraging saving and frugality.
- Change eligibility standards.
- Re-instate the no interest grace period on subsidized loans.

- Provide in-school interest subsidy for graduate students who have undergraduate subsidized loans.
- Introduce Pell and Loan Flex. (*See Pell Grant and Loan Flex Issue Paper.*)
- Exclude beneficial state and nonprofit student loan programs from the preferred lender requirements.

Back-end proposals:

- Expand income-based repayment to more borrowers, (e.g., President Obama’s PAYE and the Petri plan).
- Improve loan forgiveness for public service.
- Change loan capitalization provisions.
- Provide re-financing for student loans.
- Enable distressed borrowers to include student loans (federal and/or private) in bankruptcy.
- Encourage innovative institutional solutions, (e.g., insurance to assist alums, who have low paying jobs, pay their loans).
- Maintain student loan interest deduction. (*See Tax Reform Issue Paper.*)
- Require institutions to share default costs.

NAICU Position

- Student loans should be as low-cost as possible, adequate, efficiently administered, and their availability, eligibility, and terms clear and as simple as possible. The federal government should not make money from the student loan programs.
- NAICU supports the ability of colleges to limit borrowing under certain circumstances.
- NAICU favors keeping the standard, 10 year loan repayment plan as the default option. Use IBR as a safety net for borrowers who need it. IBR doubles the repayment years, raising the cost of the loan significantly.



NAICU Action to Date

- NAICU has supported lower interest rates, restoration of the grace period, restoration of the in-school interest period for graduate students, and not allowing loans to provide a federal profit.
- NAICU included the recommendation to review and update the student loan programs in its response to the House Education and the Workforce Committee’s request for HEA suggestions in July 2013.
- NAICU included facts and data on student debt in our *9 Myths* document and video that have been used extensively with our members, the media, and policy makers.

Membership Engagement

- Members have used NAICU’s Talking Points, “Leave Behind” documents, and *9 Myths* used by member presidents during our Hill Advocacy Day in 2013 and 2014, and in Congressional visits throughout the year.

Next Steps

- Continue to monitor proposals and legislation on federal student loans.
- Continue to publicize campus innovations to cut costs and reduce student debt.

