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THE STUDENT DEBT BURDEN AND ITS IMPACT ON RACIAL JUSTICE, BORROWERS, AND THE ECONOMY

HEARING

BEFORE THE

SUBCOMMITTEE ON
ECONOMIC POLICY

OF THE

COMMITTEE ON
BANKING, HOUSING, AND URBAN AFFAIRS
UNITED STATES SENATE

ONE HUNDRED SEVENTEENTH CONGRESS

FIRST SESSION

ON

EXAMINING THE IMPACT OF STUDENT LOANS ON RACIAL JUSTICE, BORROWERS, AND THE U.S. ECONOMY

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THE STUDENT DEBT BURDEN AND ITS IMPACT ON RACIAL JUSTICE, BORROWERS, AND THE ECONOMY

TUESDAY, APRIL 13, 2021

U.S. SENATE, SUBCOMMITTEE ON ECONOMIC POLICY
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, DC.

The Subcommittee met at 2:30 p.m., remotely, via WebEx, Hon. Elizabeth Warren, Chair of the Subcommittee, presiding.

OPENING STATEMENT OF CHAIR ELIZABETH WARREN

Chair WARREN. This hearing will come to order. This hearing is in virtual format. A few reminders as we begin. Once you start speaking there will be a slight delay before you show up on the screen, and to minimize any background noise please click the mute button until it is your turn to speak or to ask questions or answer questions.

You should all have one box on your screens labeled "Clock" that will show you how much time is remaining. For witnesses, you will have 5 minutes for your opening statements. For all Senators, the 5-minute clock still applies for your questions. At 30 seconds remaining for your statements and for your questions you will hear a bell ring to remind you that your time has almost expired. It will ring again when your time has expired.

If there is any kind of technology issue we will move to the next witness or the next Senator until it is resolved. And to simplify the speaking order process, Senator Kennedy and I have agreed to go by seniority for this hearing.

So with that, let's begin.

Good afternoon and welcome to this year's first hearing of the Banking Committee's Economic Policy Subcommittee. And thank you to Ranking Member Senator Kennedy for working with me and with my staff to help make this a very successful hearing.

This Subcommittee has a mandate to examine the economy and how to make sure it works for all Americans. Given this mandate, there is no better topic for our first hearing than student loans and their impact on racial justice, on borrowers, and on the economy.

The student loan debt burden is massive, and it affects millions of families. About 43 million Americans owe more than $1.7 trillion in student loans. That is an average of almost $40,000 per borrower. Student loan debt takes a real bite out of personal finances. It can mean that borrowers cannot afford a new car or cannot get a mortgage or cannot launch a business or cannot start a family. This hurts them individually, but it also hurts the whole economy.

The burden is so heavy that when the pandemic hit, Republican and Democratic policymakers recognized that loan payments would just sink families. So first President Trump and then President Biden paused student loan payments and canceled accumulated interest. It was a smart move. But in a few months, those payments are scheduled to go up again.

America is facing a student loan time bomb. That, when it explodes, could throw millions of families over a financial cliff. The average borrower will have to start paying nearly $400 a month to the Government instead of spending that money out in the economy.

Student debt also makes racial disparities in America even worse, compared with White students. Black and Hispanic students are forced to borrow more money to go to school, borrow more money while they are in school, and have a harder time paying off their loans after graduation.

I am just going to do one statistic around this. Twenty years after taking out their student loans, median White borrowers owe about 6 percent of their original amount. The end is in sight. But after 20 years, median Black borrowers still owe 95 percent of the original amount they borrowed. Their path seems to stretch on forever.

We can help. Leader Schumer and I have urged President Biden to address this economic problem by using his existing authority to cancel $50,000 in student debt for each borrower. New data I obtained from the Education Department reveals the benefits of debt cancelation. The data show that if we cancel $50,000 in student loan debt, 36 million borrowers would be completely relieved of their debt burden. A significant number of these borrowers who would finally be free of student loan debt, 3.1 million people, have already been carrying debt burden for over 20 years.

It is time to act now. Republican and Democratic Presidents have a long history of using their statutory authority to cancel student loan debt. President Obama used this authority to cancel old debt for tens of thousands of students, and President Trump used this authority to cancel some debt, accrued interest, for 37 million Federal borrowers.

Canceling $50,000 in student loan debt would also help close the Black–White wealth gap among borrowers by 25 points. For Latinos, the gap would close by 27 points. This is the single most powerful executive action President Biden could take to advance racial equity and give everyone in America a chance to build a real future.

So I want to thank all of our witnesses for coming today. I look forward to hearing your testimony. And with that I will turn to Ranking Member, Senator Kennedy, for your opening remarks.

OPENING STATEMENT OF SENATOR JOHN KENNEDY

Senator KENNEDY. Thank you, Madam Chair. I will try to be brief. We have a distinguished panel of witnesses that I would like to hear from today. I think this is a timely subject. I have many questions, and I hope to get educated today.

Why student debt? Why not credit card debt? Why not automobile loan debt? Why not mortgage debt, if we are going to forgive debt? How do we be fair to all Americans? What role, if any, did our universities play in the accumulation of all of this student debt? I am not sure that this is the right place to address education policy but if anybody knows the answer I would like to know why some college textbooks cost as much as I paid for my first car.

And these are the kinds of issues that I hope that we can address today. What are the demographics of the people who owe student debt? Is there really—and I am not suggesting there is not; I do not know—is there a racial gap? How equitable is it to ask taxpayers who have not gone to college to pay for those who have gone to college? These are the kinds of issues that I hope we can address today, and as I say, my mind is open, and I am looking forward to hearing the answers.

And with that I will turn it back over to our distinguished Chair, with whom I have worked closely setting up this hearing, and I enjoyed every minute of it.

Chair WARREN. Thank you very much, Senator Kennedy, and I have enjoyed working with you, and I appreciate it.

Now I am going to introduce today's witnesses. We have two panels today, and in the first panel here I am pleased to introduce my friend, Congresswoman Ayanna Pressley, who represents Massachusetts' 7th Congressional District, and who has been a powerful voice for borrowers. I am also pleased to introduce Congressman Byron Donalds, who represents Florida's 19th District. Welcome, Congressman Donalds. It is good to have you here.

And I will go ahead and do the rest of the introductions for our second panel. We have Massachusetts Attorney General Maura Healey, who has helped thousands of borrowers escape unfair debt. We have Dr. Dominique Baker, an Assistant Professor of Education Policy at Southern Methodist University. We have Ms. Darimir Perez, a middle school guidance counselor in the New York City Public Schools.

We also have witnesses from two of the country's largest student loan servicers with us today, Mr. James Steeley, who is President and CEO of the Pennsylvania Higher Education Assistance Agency, otherwise known all around the country as PHEAA, and we have Mr. John Remondi, who is President and CEO of Navient. Welcome to both of you.

In addition, we have Dr. Beth Akers, a Senior Fellow at the American Enterprise Institute; Dr. Constantine Yannelis, an Assistant Professor of Finance at the University of Chicago Booth School of Business; Mr. Alex Holt, a Policy Analyst at the Committee for a Responsible Federal Budget; and then finally we have Dr. Adam Looney, the Executive Director of the Marriner S. Eccles Institute and Professor of Finance at the University of Utah.

I want to thank all of you for being here with us today, and to begin our first panel, Congresswoman Pressley, you are recognized for 5 minutes.

STATEMENT OF REPRESENTATIVE AYANNA PRESSLEY OF MASSACHUSETTS

Ms. PRESSLEY. Good Afternoon, Madam Chairwoman, Mr. Ranking Member, and distinguished Members of the Committee. Thank you for the opportunity to testify here today.

As lawmakers, we are in a position to fundamentally change the lives of the people we represent with the stroke of a pen, and that is why we must center the people in the work we take on together. When the history books are written, this moment will be defined by the actions we took, or failed to, in the face of unprecedented crises and economic pain.

I have become all too familiar with the gentle tug of my sleeve or the panicked expression as I meet the eyes of someone drowning in student debt. The grandmother, who is still paying off student loans. The young parent who cannot afford childcare or rent and her student loan payments. The teacher who fears losing his teaching license because he cannot come up with that monthly student loan payment, not even the minimum.

The student debt crisis is not naturally occurring. This crisis was crafted in these hallowed halls. Policy decisions were made that ensnared generations in the student debt trap. Congress crafted, through policy and deregulation, an economy where college degrees are increasingly essential for economic survival, but their sticker price is far too out of reach for most families.

Make no mistake, despite the dominant narrative, the student debt crisis has always been both a racial and economic justice issue. In the city of Boston, the city my family calls home, the average median wealth of a White family is $247,500, while the average median wealth of a Black family is $8. Eight. That is not the result of ingenuity, work ethic, or initiative. That is the result of precise and intentional policy decisions made in the halls of this institution and at every level of Government. Discriminatory policies that systematically denied families of color the opportunity to own a home or to build wealth.

So for our students who do not have the benefit of intergenerational wealth—specifically our Black and Brown students—signing on the dotted line for those student loans has been the only way to pursue a degree. That was certainly true for me. I know what it is to lie awake at night, panicked over student loan in default, despite working 12-hour days. All people who call this Nation home deserve the freedom to build a full life, to pursue their unique gifts and contribute to every sector of our economy. We have to take bold action to address the inequities and disparities in our country and use every tool available to provide our communities with the critical relief they so desperately need.

Our Nation and this Committee are facing an economic crisis.

Canceling student debt by executive action is one of the most effective ways President Biden can provide sweeping relief to millions of families, while helping to reduce the racial wealth gap, and to lay the groundwork for an equitable and just long-term recovery.

Congress gave the President the authority to do so through the Higher Education Act. I implore him to use this authority in the pursuit of economic and racial justice.

In a matter of months, student debt payments will resume for millions of people across this country. Families who are now struggling with pandemic-related financial stress, through no fault of their own, will have an additional bill at their doorstep.

So as we work to ensure an equitable and prompt recovery to the current economic crisis, let us not repeat the mistakes of the past. Let us be intentional and precise. Student debt cancelation is efficient and effective. It will provide millions of families across this Nation with economic relief and opportunity.

Student debt cancelation is good economic policy because it invests in the people. That is why Senator Warren, myself, and Majority Leader Schumer and our colleagues have a resolution that lays out a pathway for President Biden to cancel $50,000 in student loan debt. With the stroke of a pen, he can provide direct relief to tens of millions of families.

I will close today where I began, centering the people, in their own words. A constituent of mine recently shared their story: "We are a family of five with a child with disabilities," he said. "I have over $100,000 in student debt. I put myself through my bachelor's and master's with children. I have had to file bankruptcy because of my student debt. Please don't forget about us in this process. Please think of us when talking about debt relief. Lord knows it would change our lives."

The economic anxiety and pressure caused by student loan debt is an experience far too familiar to too many. That father is one of millions calling on us to act. I implore this Committee and President Biden to listen to them. Thank you.

Chair WARREN. Thank you very much, Congresswoman Pressley. I appreciate you being here.

Congressman Donalds, you are now recognized for 5 minutes.

STATEMENT OF REPRESENTATIVE BYRON DONALDS OF FLORIDA

Mr. DONALDS. Chairwoman Warren, Ranking Member Kennedy, thank you for inviting me to testify in front of the Committee on the important discussion surrounding student debt.

Let me begin with one word of absolute truth: nothing in this world is free. Someone is always paying.

Even with charity, if a doctor sees a patient and decides not to charge them, then the doctor himself pays that debt through services provided without being compensated. When our Government doles out two trillion dollars in emergency spending, like we did last month, no matter how good or noble the cause may seem, it is either this generation or the next who must pay the tab.

Money that this Government spends does not disappear. It is why right now we are nearly $30 trillion in debt. Each time Washington spends money, it adds up, and there will come a day when the bill comes due, and it will not be pretty and may ultimately be the undoing of this republic if Congress is not more prudent in how it spends other people's money.

On the topic of today's hearing, Democrats in Congress and the President himself have made clear their desire to "cancel" student loan debt. This, while clearly a political ploy meant to keep Democrats in power by hoodwinking the American people into thinking their debt will not impose a cost on society, will not solve the problem that all of us recognize needs fixing. If this policy moves forward, it will result in even higher tuition costs for students who plan to go to college in future years, with disastrous collateral damage elsewhere to the economy, including and especially to lower-income families and African-American communities.

Who should we suppose will pay the hundreds of billions of dollars that are currently owed? Do we force colleges and universities to repay money paid to them for the asset of a college degree? Where would universities get the funds to pay if the students who fund their livelihoods in exchange for a degree so that they can go out and get a job do not actually have to pay for the invaluable education they receive?

Or perhaps the "wealthiest among us" should, once again, be called to pay more. These are the very job creators who newly graduated college students will need to hire them. If we start taking more money from the rich, this will not solve the problem.

Last, do we call upon people who did not go to universities to pay for those who did? Ultimately, it is very likely that this is what this Democrat proposal will do, forcing individuals at the lower end of the income spectrum, which trends Black more than White, to pay for privileged students with their liberal arts degree.

A study conducted just last year found that under a universal loan forgiveness policy like the one that the President and Democrats in Congress have proposed, individuals at the top of the earnings decile would receive more than five times the loan forgiveness as an individual in the lowest income bracket. Furthermore, the study determined that "households in the top 30 percent of the earnings distribution will receive almost half of all dollars forgiven."

I am no stranger to student loan debt myself. In fact, at this very moment I still have student loans, and I am paying back each month. I would not be here without my education from Florida A&M University and Florida State University, for which I am incredibly grateful. There is no question that my education was worth far more than what I am still paying back, and it is my responsibility to pay for it.

But as we know, not everyone who attends college ends up with a degree that is worth the dollars spent attaining it. Time is too short to deliberate here today what types of degrees are worth more than others, but it is time we look to ensure that public dollars spent on the education of our people have a positive return on investment. That is not to say that everyone should not be able to choose whatever field of study they desire, but if public dollars are involved there needs to be a correlation to the economic good of the individual.

That said, the priority of this Congress and this Committee should be on controlling the ballooning costs and expenses of colleges and universities in our country. A 2017 study by the Federal Reserve Bank of New York found that for every dollar of subsidized Federal loans, tuition increased 60 cents. If the ultimate goal is to increase the cost of going to college, the Democratic plan will do just that.

This is irresponsible governing, and it is something we must all fight against.

Once again, I am grateful to have been invited to participate in today's hearing, and I encourage all of us to look at the very real problem of the rising costs of tuition and seek to address this in a way that is not a short-term fix but a real long-term solution. Thank you.

Chair WARREN. Congressman Donalds, thank you very much for being here with us today. I appreciate both of you showing up.

And now we are going to proceed to our second panel. Attorney General Healey, you are recognized for 5 minutes.

STATEMENT OF MAURA HEALEY, ATTORNEY GENERAL, STATE OF MASSACHUSETTS

Ms. HEALEY. Chair Warren, Mr. Ranking Member Kennedy, and Members of the Subcommittee, thank you for inviting me to testify today. I am Maura Healey, the Attorney General in Massachusetts, and I appreciate the opportunity to share some of my insights as to why debt cancelation is really so essential to aid struggling borrowers and to boost our economy and help close the racial wealth gap.

The Higher Education Act was intended to keep the college door open to all students, regardless of socioeconomic background. But today millions of hard-working Americans are stuck in a quagmire of student loan debt, and my office has been on the front lines of this $1.7 trillion-and-growing crisis, fighting on behalf of student borrowers here in Massachusetts.

And here is what we have learned. We have learned that the student loan system is fundamentally broken and taking a devastating toll on countless Americans. It is a system that has enabled for-profit schools to deceive and to defraud vulnerable students, particularly targeting students of color, a system that has recklessly saddled parent borrowers with loans that they cannot possibly afford to repay. A system that has failed to deliver on the promise of loan forgiveness to thousands of public servants. And a system that has hollowed out the futures of millions of young people and left them with broken dreams and a lifetime of insurmountable debt.

Loan servicers, who are paid with taxpayer money, have failed to help borrowers access repayment and forgiveness programs, rendering these programs inadequate to address the current crisis. The Department of Education has the authority, has the legal authority to provide necessary debt relief, and should do so swiftly and aggressively.

Today, nearly a quarter of borrowers are in default on their Federal student loans. We have seen borrowers forced to delay traditional life milestones—getting married, starting a family, buying homes or cars, starting businesses. They lack the fundamental financial stability to weather a recession, and are more likely to enter retirement with little or no savings.

The burden, of course, of student debt falls disproportionately on people of color. Studies show that Black students must borrow more frequently, graduate with more debt, pay off their student loan debt at a slower rate, and have much higher rates of default.

Four years after graduating with a bachelor's degree, Black college graduates have nearly $25,000 more in student loan debt than the typical White graduate.

For-profit schools have had a particularly large impact on students of color. While Black and Latinx students together make up about 36 percent of all students enrolled in undergraduate study, they represent more than half of undergraduates at for-profit colleges.

I come here today having established a Student Loan Assistance Unit as soon as I was elected in 2014, and addressing the student loan crisis has been one of my office's top priorities. This unit offers an inside view into the problems that borrowers and their families confront every single day, the complexities of the systems they are forced to navigate.

Many call us, of course, after reaching a dead end with their student loan servicer. My office receives nearly 4,000 requests a year—hotline calls, emails, other requests for assistance. You know, and we work to do the best we can to generate refunds and savings, and help these students get into better plans. But it is too much. It is overwhelming.

We have also taken action to hold student loan servicers accountable and protect borrowers' rights to obtain loan forgiveness. In 2017, we brought a case against PHEAA, formally known as the FedLoan Servicing entity. We alleged that it mismanaged the Public Service Loan Forgiveness program, and income-driven repayment plan applications. We spent 3½ years of hard-fought investigation, litigation.

We ultimately reached a settlement that requires PHEAA to conduct individual loan account audits for every Massachusetts Federal student loan borrower who submits a claim. This could require over 200,000 reviews for Massachusetts alone, and provides borrowers with loan account corrections and monetary payments.

State attorneys general and the CFPB have also filed lawsuits against Navient, alleging that rather than taking the time to counsel borrowers and to help them enroll in affordable IDR plans, Navient instead steered borrowers into costly, long-term forbearances that resulted in hundreds of millions of dollars being added to their loan balances. We have also alleged that Navient made millions of dollars in high-risk loans to students at predatory, for-profit colleges.

My office has brought actions against over a dozen of those for-profit schools, that lured students in with false promises and left them with worthless degrees, few job prospects, and insurmountable debt. As a result, the Obama administration granted tens of millions of dollars in borrower defense discharges to thousands of Massachusetts students who attended Corinthian or the American Career Institute. And yet today many more discharges are still owed to borrowers.

Chair WARREN. Attorney General Healey, I appreciate it, but we are going over 5 minutes here. How about if we submit the rest of your testimony for the record, and we will have some questions, if that is all right.

Ms. HEALEY. I appreciate that. Thank you.

Senator WARREN. Thank you very much. And I am now going to go vote, so I am going to hand over the gavel to our Ranking Member, Senator Kennedy, who I think will be calling on Dr. Baker.

Senator KENNEDY [presiding]. Yes. Can you hear me, Madam Chair?

Chair WARREN. Yes. It is all yours.

Senator KENNEDY. Dr. Baker.

STATEMENT OF DOMINIQUE BAKER, ASSISTANT PROFESSOR OF EDUCATION POLICY, SOUTHERN METHODIST UNIVERSITY

Ms. BAKER. Thank you. Can you all hear me? Good.

Chair Warren, Ranking Member Kennedy, and Members of the Subcommittee, thank you for inviting me to testify. As a scholar of education policy, I am honored to discuss the evidence on student debt and its role in the larger economy, especially its impact on racial justice.

If there were equitable returns to a college degree, all college graduates should be able to access a more economically prosperous life. But racial wealth gaps complicate this narrative. For instance, according to national data on bachelor's recipients, 4 percent of White graduates defaulted on their loans, compared to 21 percent of Black graduates. Even more startling, Black graduates defaulted at a higher rate than White students who left higher education without a degree. This means that Black college graduates actually struggled to repay their student loan debt more than White students without degrees.

This example of racial disparities in student loan repayment is not due to some innate issue within Black people. Instead, the burden of student loan debt disproportionately falls on these students due to centuries of structural forces, shaped by the deliberate decisions of those in power. Structural racism has denied Black families the ability to build wealth to pay for college, while also shaping their residential and K–12 experiences. Together, this means that Black students are more likely to enroll in either systematically underfunded or outright predatory colleges that saddle them with high debt, little chance of earning a degree, or both.

Then, those same students face a discriminatory labor market that pays them less than their peers for the same amount of education, equivalent in 2016 to an 8 percent pay cut for the median Black graduate.

At the same time, they mut also navigate other structures that impede their ability to accrue wealth. This example underscores why it is necessary to think about the ways that race, racism, and student loans work together to create an untenable situation in the United States, particularly for borrowers of color.

Canceling a portion of student loans is not a panacea for the issues facing college affordability or the larger repayment process. Additional Federal policy solutions must work to create a high-quality, affordable higher education system, hold colleges, universities, and States accountable for contributing their share, and overhaul the current repayment system. Yet student loan cancelation can be a powerful supplement to these other reforms. True reform necessitates that Government works to both overhaul the system and provide relief for past policy failures. For the student debt crisis, loan cancelation is part of that relief.

Research shows that a reduction in an individual's student loan balance can increase their income. It can also decrease constraints on occupation choices, the amount of debt held, and the share of delinquent credit accounts. This evidence, combined with recent research showing that other forms of consumer debt relief can strengthen employment levels in the United States signals that student loan debt cancelation could be boon to the overall economy.

The key benefits of debt cancelation are its simplicity and transparency. One reason for having an inclusive policy is that broad relief would reduce administrative burdens. These burdens include the cost for individuals to prove they deserve help, and disproportionately deter individuals of color from accessing benefits for which they qualify. Further, simulations of loan cancelation often fail to include racial breakdowns for the benefits of the policy. For example, some simulations assume that the risk of missing payments on student loans is completely random or that earnings for people of color grow at the same rate as White individuals, both of which are unlikely in practice. As a result, such simulations likely underestimate the benefits of loan cancelation on closing racial wealth gaps.

For decades, the Federal Government has made students an implicit promise: If you borrow this money and work hard in college you will find a good job and be able to pay it back. Far too often, that promise is broken. We can and should acknowledge this reality by taking concrete steps to reduce the burden for those who simply did as they were encouraged on their quest for economic prosperity.

It is an honor to be here today, and I am happy to answer any questions you might have. Thank you.

Senator KENNEDY. Thank you, Doctor. Next is Ms. Perez. Ms. Perez, the floor is yours.

STATEMENT OF DARIMIR PEREZ, STUDENT LOAN BORROWER

Ms. PEREZ. Thank you. Hello Chairwoman Warren, Ranking Member Kennedy, and Members of the Committee. Thank you for giving me the opportunity to participate in today's hearing and to share my story.

My name is Darimir Perez, and I am a middle school guidance counselor in Washington Heights, in New York City. I immigrated to the United States from the Dominican Republic with my siblings when I was 13 years old, and unfortunately my father passed away soon after. As a result, my 18-year-old sister dropped out of college to help support the family. Her sacrifice enabled me to become the first member of my family to graduate from college. I was very aware of the cost of college, turning down partial scholarships to attend private universities. Instead, I attended the City College of New York and was able to graduate from undergrad with no student loan debt. I got married and started a family. I am the proud parent of twin children, who are now 18 years old.

When my children were young, I began working as a paraprofessional in New York City schools. I noticed the need for bilingual counselors and the difficulties parents experienced. I was reminded of my own struggles navigating the school system. It inspired me to provide consistent support to students while holding them to high standards, an opportunity I had not received.

Knowing that I wanted to work in schools, and being fully aware of all my responsibilities as a mother and the first college graduate in my family, I needed to be careful about student loans, so I did my research. TEACH.org is a website led by Microsoft and the U.S. Department of Education. I used the website to find a local college where I could get my graduate degree and that would make me eligible for student loan repayment assistance.

I graduated with my master's degree in the spring of 2010, with about $50,000 in student loans. I found a full-time job in New York City schools and was promised loan repayment assistance from a city program. More than 10 years later, I still have about $35,000 worth of loans from my own education, and last year I took out PLUS loans to help my children attend college and have a "real American" college experience.

How is it that more than 10 years later, having put money toward my loans every year, while working full time in public service, I still have so much debt? Every time I called my loan servicer and tried to explain I needed a different payment plan because I could not afford it, they rushed me off, offering forbearance to eliminate my headache. To be honest, it was like a magic pill I took without knowing the side effects.

The loan pause during the last year has made a great difference in my life. I was finally able to fully repay one of my loans, early repay it. I was also able to pay off some medical bills, help my mom and family, put some money toward my kids' education and cover current medical bills due to COVID–19.

Having this student loan debt has affected my life in many ways. I had always wanted to have three kids, to buy a house in a peaceful area, to enroll my twins in all the extracurricular activities they were interested in, and to have the choice to not take on extra work so I could spend more time with my family, but those things were not an option with my loans.

I am a college graduate, and I cannot even afford to send my own kids to college. My friends who never went to college, their kids are better off than mine. Even though I did everything right for my own kids—supporting them, and keeping them focused achieving top grades and working toward positive things in a neighborhood with a lot of negative distractions—I sadly do not feel that they are better off than I was, because of the cost of college and student loan debt.

I truly believe that education can change lives. That is why I have stayed in my job. But having some relief from my student loans would make a wonderful, positive difference in my life.

Please know that I am not speaking only for myself. I am one of hundreds of thousands of public servants who selfishly decided to work toward creating a positive change in our society and support our communities. Yet we are struggling to better ourselves and support our own families.

Thank you for taking the time to listen to my story today. I will gladly answer your questions.

Senator KENNEDY. Thank you, Ms. Perez. Who is next?

Mr. Remondi.

STATEMENT OF JOHN F. REMONDI, PRESIDENT AND CEO, NAVIENT

Mr. REMONDI. Thank you, Senator. Good afternoon, everyone, Chairperson Warren, Ranking Member Kennedy, and Members of the Subcommittee. I am Jack Remondi, President and CEO of Navient, the leader in education loan management, providing vital services to students and college graduates. I am grateful you are holding this hearing and appreciate the opportunity to participate.

Federal student loan services like Navient begin to work with students only after they have borrowed, after Congress has set the loan terms, the college has set tuition, and the loan proceeds have been spent. We work hard to help students realize the benefit of their education, but also help struggling borrowers navigate today's complex loan repayment options.

The value of a higher education for individuals and society is without question. Decades of data show a college degree is still among the surest paths to prosperity. The median bachelor's degree recipient earns more than $2,000 more per month and typically experiences half the rate of unemployment compared to peers with a high school diploma. The value of a college education was particularly clear this past year, during the pandemic.

We also know higher education is critical to helping address the racial wealth gap. Black Americans who hold degrees are more likely to be employed, earn more in their jobs, 1.8 times more, own a home, and express higher levels of optimism about their future. For many, the system works. At Navient, half-a-million borrowers each year pay off their loans in full. Our over 45 years of experience in data insights have helped us design solutions to help people avoid default and pay off their loans. In fact, borrowers who are serviced by Navient are 34 percent less likely to default than borrowers serviced by other companies.

This success extends to African-American borrowers. For example, alumni of historically Black colleges and universities were 39 percent less likely to default when their loans were serviced by Navient.

However, while many have benefited from a college degree made possible by student loans, the system does not work for all. Through my regular call listening, I hear the challenges some borrowers face, including people who left school with debt but no degree, or student borrowers who discovered too late that the value of their education did not match the debt they took on. And even for many people of color with a college degree, the racial gap has widened.

There are steps that could be taken to fix the system and address the unfairness that pervades it, especially unfairness that creates barriers for people of color. Navient stands ready to work with policymakers, Members of Congress, and the Biden–Harris administration to bring about important reforms.

Today I would like to raise three proposals that would help current borrowers who feel trapped by their debt and that would ensure better outcomes for tomorrow's borrowers. First, we should increase assistance to those who have borrowed in the past but did not attain the hoped for outcomes. According to a 2016 Obama administration report, two-thirds of all the defaults in the Federal program are from students who borrowed less than $10,000, generally an indication of leaving school without a degree.

Reform should also include debt forgiveness for borrowers who have been in default for more than 10 years, and we should make Federal and private student loans dischargeable in bankruptcy.

Second, we need to implement faster forgiveness programs for current and future borrowers. We propose replacing today's nine different income-driven repayment plays, which most experts agree are too complex and difficult to understand, into a new, single, forgive-as-you-go repayment plan. Unlike today's complex programs that defer any forgiveness for 10 to 25 years, and often lead to loan balances increasing materially in the interim, forgive-as-you-go would reduce balances each month as borrowers make payments they can afford.

Third, incoming college students should receive better support before they borrow and while they are in school to help them achieve their, and our, goal of graduation. This support should help students and their families understand the total cost to earn their degree, the amount they need to borrow, and how their program of study, the career choices, will help them repay that debt.

My written testimony details these proposals and other steps to help student loan borrowers.

I thank you for this opportunity and I look forward to your questions.

Chair WARREN [presiding]. I am back, Senator Kennedy, and I want to say thank you to Mr. Remondi.

Mr. Steeley, you are now recognized for 5 minutes.

STATEMENT OF JAMES H. STEELEY, PRESIDENT AND CEO, PENNSYLVANIA HIGHER EDUCATION ASSISTANCE AGENCY

Mr. STEELEY. Thank you. Chair Warren, Ranking Member Kennedy, and Members of the Subcommittee, thank you for the opportunity to speak with you today.

PHEAA was established by the Pennsylvania General Assembly with the primary mission of creating affordable access to higher education. With a union workforce, PHEAA offers student aid services throughout the commonwealth. We are a contracted Federal student loan servicer and an administrator of Pennsylvania's student aid programs.

Unlike other servicers, PHEAA engages in loan servicing because it aligns with and supports our public service mission, most importantly, the funding of our need-based grant awards. Such awards play an important role in decreasing the need for students to borrow to pay for college. We have learned that Pennsylvania grant recipients who are also eligible for Pell awards borrow nearly $9,000 less over 4 years of education.

PHEAA also uses its earnings to support outreach initiatives, much of which are focused on helping students make wise choices early in their planning process so they can avoid unnecessary debt. This outreach is more important now than ever, as student debt levels continue to rise, which, unfortunately, are higher for Black graduates than they are for White graduates. According to a 2016

Brookings study, Black students with a bachelor's degree owe an average of $7,400 more than their White counterparts.

PHEAA encourages all students to avoid unnecessary loan debt and has been leading efforts in the commonwealth with FAFSA completion events, online tools, and other resources.

PHEAA also administers several Pennsylvania programs specifically to assist minority students and those from underserved backgrounds. This includes the Higher Education of the Disadvantaged Program, or Act 101, which enhances both the education opportunities and achievements of undergraduate students.

PHEAA co-administers the Cheyney Keystone Academy Program, which provides scholarships to gifted students enrolled at America's oldest HBCU, Cheyney University. Additionally, PHEAA co-administers the Bond–Hill Program, which provides scholarships to students from Cheyney University and Lincoln University, another of Pennsylvania's HBCUs.

As a loan servicer, we began servicing Federal student loans in 2009. We are required to adhere to the laws as written by Congress and rules set forth by the U.S. Department of Education. It is not within PHEAA's purview to unilaterally change or override program rules. However, we regularly advocate on behalf of the customers we serve with policy changes that could improve the experiences and outcomes of these customers.

The PSLF Program was established in 2007, and establishes an opportunity for the balance of a borrower's Federal direct loan to be forgiven after 10 years of qualifying payments and qualified employment. While the program was created in 2007, the first servicing contract was not awarded until 2011, at which time PHEAA became the primary servicer.

Prior to this, public information was limited to what was written in the law. There was no guidance available from the Department of Education to assist borrowers to ensure that they were meeting the steps they needed to for forgiveness. At program inception, 75 percent of all Federal borrowers had FFELP loans, which were, by statute, ineligible for PSLF. It was only with the phase-out of FFELP in the 2010–2011 academic year that all Federal borrowers became eligible for forgiveness.

Unfortunately, some of the headlines surrounding the program claim that because applicants have been denied forgiveness, the program and PHEAA's servicing of the program was broken. In fact, only about 5 percent of interested PSLF borrowers have been in repayment of a qualified Federal direct loan for 10 years, while working for a qualified employer.

Approvals have recently begun to increase as more borrowers have met the 10-year mark, and by this time next year we expect to see over $1 billion in loan forgiveness in the program.

As I conclude my remarks, I want to express PHEAA's desire, not just as a Federal loan servicer but as a State-based aid agency, to be part of the solution to reducing student debt levels.

On behalf of PHEAA's workforce, including our 1,200 union-covered employees, thank you for the opportunity to appear here today.

Chair WARREN. Thank you very much, Mr. Steeley. Dr. Akers, you are recognized for 5 minutes.

STATEMENT OF BETH AKERS, RESIDENT SCHOLAR, AMERICAN ENTERPRISE INSTITUTE

Ms. AKERS. Thank you. Chair Warren, Ranking Member Kennedy, and Members of the Subcommittee, thank you for inviting me here to share my assessment of this important issue. The volume of student loan debt in the economy has now surpassed $1.6 trillion, which is an alarming milestone. With 45 million Americans now holding student debt, this has rightly become a national concern.

When considering the impact of student debt on individuals, it is important to recognize the appropriate counterfactual for the comparison. While borrowers would unequivocally be better off if they did not have to repay their debt, most are better off with debt and a degree than they would be if they had not pursued higher education. Graduates with bachelor's degree programs have an average of $30,000 in debt. Research suggests, however, that their degree will earn them an extra $2.8 million over the course of their lifetime, through a combination of higher wages and less frequent unemployment.

For the typical borrower, access to student debt through the Federal Loan Program creates an opportunity for economic mobility that would otherwise be unavailable. Some students, however, are left worse off financially. These borrowers often fall into categories: those who start but do not complete a degree and those who complete a degree but find that it does not deliver employment opportunities that justify its cost.

Low-income, first-generation, and minority students are disproportionately represented in these groups. For example, in 2019, Black students made up 21 percent of the population at for-profit institutions, which have tended to produce poor outcomes, even though they make up just 13 percent of students enrolled in public colleges.

Ideally, borrowers who find their loan payments unaffordable due to a lack of earnings would take advantage of the existing safety nets, namely the set of income-driven repayment programs. But evidence suggests that the safety net created by these programs is falling short. This is because IDR is administered through a complex variety of programs. The result is a system that is excessively difficult to navigate, with many borrowers not even aware of the benefits available to them.

Some might argue that these facts justify a blunt intervention, like mass loan cancelation, which would not require borrowers to jump through hoops. But that is not the case. The complexity of the current safety net is not due to the income-based eligibility criteria. It is complex because of how it was created, through a combination of piecemeal, nonconforming policy changes.

In addition to being an unnecessarily blunt fix, widespread student loan cancelation would create additional problems. The distortion of incentives would likely exacerbate the problems of ballooning loan balances and rampant tuition inflation. If mass loan cancelations were implemented, we would likely find ourselves having this same conversation again, but with larger balances to contend with.

Not only would widespread loan cancelation create more hazard, but it would also deliver more benefits to well-off borrowers than to needy ones. Dr. Yannellis' research has indicated that a comprehensive loan forgiveness program would deliver ten times more benefits to borrowers in the top 10 percent of the income distribution than it would provide to borrowers in the bottom 10 percent of earners. It would be a boon for rich, highly educated, and mostly White borrowers.

Higher education is an essential mechanism for social mobility in this country, so it is crucial that our financing system protects borrowers from ruin. Aspiring students should not have to fear that college will leave them worse off financially than where they started, and at the same time, those who benefit generously from college and access to the Federal Loan Program should be expected to repay their debt to taxpayers.

We can achieve this by simplifying the student loan safety nets that could be more readily understood and navigated. The current set of IDR programs should be replaced with a single, universal program, and the application process should be streamlined.

Since investments in education, on average, provide a net positive return, spending on education is generally a wealth-enhancing activity, both individually and collectively, even taking into account the cost of borrowing.

I urge you all to consider that nuanced reforms might better serve disadvantaged students and accomplish our collective goal of supporting this pathway to economic prosperity.

Thank you for the opportunity to give testimony in this important hearing. I look forward to answering your questions.

Chair WARREN. Thank you very much. And now we have Dr. Yannelis. You are recognized for 5 minutes.

STATEMENT OF CONSTANTINE YANNELIS, ASSISTANT PROFESSOR OF FINANCE, BOOTH SCHOOL OF BUSINESS, UNIVERSITY OF CHICAGO

Mr. YANNELIS. Dear Chair Warren, Ranking Member Kennedy, and distinguished Members of the Committee, thank you for inviting me and the opportunity to testify today.

Education is the single highest return investment most Americans will make, and getting our system of higher education finance right is of fundamental importance to the American economy.

A key point that has to be made whenever discussing student loans is that the outcomes of borrowers vary widely. It is undeniable that a significant number of borrowers are struggling and are sympathetic candidates for some kind of relief. At the same time, the majority of borrowers end up earning high amounts and do not have difficulties repaying their loans.

The core of the problem in the student loan market lies in a misalignment of incentives between students, schools, and the Government. This misalignment comes from the fact that borrowers use Government loans to pay tuition to schools. If borrowers end up getting poor jobs and they default on their loans, schools are not on the hook—taxpayers end up paying the costs.

How do we address this incentive problem? One common proposal is some form of blanket student loan cancelation. This is an extremely aggressive policy. It provides more assistance to higher-income rather than lower-income borrowers. This is primarily because people who go to college tend to earn more than those who do not go to college, and people who spend more on their college education, like those who attend medical or law schools, tend to earn more than those who spend less on their college education, like dropouts and associate degree holders.

My own research, which is joint with Sylvain Catherine at Wharton, shows that most of the benefits of universal loan cancelation would accrue to high-income individuals. Individuals in the top 20 percent of the earnings distribution would receive six to eight times as much debt relief as individuals in the bottom 20 percent of the earnings distribution. These basic patterns are still true for policies that limit forgiveness up to $10,000 or $50,000.

That student loan cancelation is regressive is the consensus of economists. The panel of prominent economists run by the Initiative on Global Markets at the University of Chicago asked economists whether "having the Government issue additional debt to pay off current outstanding loans would be net regressive." The results of the survey were telling. Not a single economist disagreed with the idea that student loan forgiveness was regressive. This is because the facts are clear on this issue. To borrow a phrase commonly used, "the science is settled." Student loan forgiveness is a regressive policy that mostly benefits upper and middle class individuals.

One of the topics of this hearing is the effect of student loan forgiveness on racial inequality. Racial inequality is a very important topic. However, student loan forgiveness is not the way to close this important gap. The policy would cost about $1.7 trillion and shrink the racial wealth gap by about 3 percent. Surely there are more effective ways to invest $1.7 trillion if the goal of policymakers is to close the racial wealth gap.

Now how can we provide relief to borrowers who need it while avoiding making large payments to well-off individuals? There are a number of policy options for legislators to consider. One option to provide relief is to bring back bankruptcy protection for student loan borrowers. Another option is expanding the use of income-driven repayment, or IDR. These are plans that link a borrower's payments to their incomes. Depending on the plan, after 20 or 25 years, remaining balances are forgiven. Put simply, higher-income people pay more and lower-income people pay less. IDR is thus a regressive policy.

There have been problems with the implementation of IDR plans in the United States, but the problems are fixable, and some of have been fixed by recent legislation. Many countries, such as the U.K. and Australia, successfully operate IDR programs that are administered through their respective tax authorities. While providing relief to struggling borrowers is important, policymakers can fix the larger underlying problem by directly aligning incentives between schools and borrowers. For example, Brazil has had similar problems with their student loan program. Recently they gave schools "skin in the game" and required them to pay a fee based on dropout and default rates. Making revenues go directly to schools from IDR plans, or income-share agreements, where individuals pay an uncapped portion of their income, could also help align the incentives of schools, students, and taxpayers.

In closing, I want to stress that Federal student loans are an important part of college financing and intergenerational mobility. The root of our student loan problem is a misalignment of incentives. Since the student loan problem has been so slow-moving and continuous, I like the analogy of a frog slowly boiling in a pot of water over a flame. Policies like student debt cancelation are not extinguishing the flame—they are not fixing the underlying incentive problem. All you would be doing is moving the frog into a slightly cooler pot of water. And if we do not fix the core of the problem, even if you forgive $50,000 of debt for current borrowers, balances will continue to grow, and we will be having another hearing with a similar theme in 10 or 20 years' time.

Thank you.

Chair WARREN. Thank you very much, Dr. Yannelis.

And Mr. Holt, you are now recognized for 5 minutes.

STATEMENT OF ALEXANDER HOLT, POLICY ANALYST, COMMITTEE FOR A RESPONSIBLE FEDERAL BUDGET

Mr. HOLT. Thank you. Chair Warren, Ranking Member Kennedy, and Members of the Subcommittee, thank you for inviting me to testify.

The Federal student loan program is one of the country's most successful tools for expanding access to higher education and boosting lifetime earnings. But the program definitely needs improving, and in doing so we should consider a number of worthwhile goals already being discussed, including supporting the economic recovery, stemming the rise in the cost of college, reducing the racial wealth gap, and supporting low-income individuals trying to get ahead by getting a college degree.

Unfortunately, blanket debt forgiveness would do little to achieve these goals, particularly in light of its huge cost. I want to make three key points. First, blanket debt forgiveness offers a very low "bang for your buck" in terms of stimulating the economy and supporting the economic recovery. Second, broad debt forgiveness could create a moral hazard that increases borrowing and reduces incentives for schools to contain costs. Finally, blanket debt cancelation is very expensive. Given the national debt is already approaching record levels, we should not spend hundreds of billions or over $1 trillion on such a poorly targeted policy.

So first, economic stimulus. In November, the Committee for a Responsible Federal Budget estimated a multiplier for complete debt cancelation of between 8 and 23 cents on the dollar, which is very low relative to other relief efforts, and that was before the vaccinations started and Congress enacted an additional $3 trillion of COVID relief. The multiplier today would surely be on the lower end of what we estimated, and perhaps lower than that. And a new analysis we are currently working on suggests limiting forgiveness to $10,000 or $50,000 would not result in much improvement.

Blanket student debt forgiveness is not an effective stimulus because only a fraction of the money arrives immediately. Since borrowers pay back in monthly installments, the increase in income is mostly limited to the drop in monthly payments. A normal amount of student loan payments that are paid annually is around $70 billion to $85 billion, which is just over 5 percent of the $1.6 trillion portfolio.

Further, with an interest payment pause in effect through September, loan forgiveness would not increase monthly incomes at all to the 90 percent of borrowers who are already not paying their loans.

In addition, blanket debt forgiveness is effective stimulus because it is regressive, as others have mentioned. The policy disproportionately favors higher-income borrowers who are likely to save any additional dollars, and offers little or nothing to those with less education who are most likely to be unemployed in the current crisis.

Blanket debt forgiveness also comes with risks, namely moral hazard. If student debt were canceled without other significant changes to the student loan system, a reasonable person might expect the moral case for blanket debt forgiveness to be just as strong next year as it is now. The expectation that $10,000 or $50,000 or even all of their debt might be forgiven at some point could become an influential factor, driving more students to borrow more money than before.

That expectation would lead many borrowers to be less sensitive to tuition increase, which would alleviate pressure on schools to rein in costs, especially graduate schools, where student loan amounts are not subject to a strict cap. This could create a vicious feedback loop, where students borrow more, incentivizing schools to raise prices, which, in turn, forces students to borrow even more, and could lead to another even costlier round of debt cancelation.

In terms of the cost, I have already mentioned $1.6 trillion for full cancelation. Capping forgiveness at $50,000 per person would mean canceling $1 trillion of debt, and capping forgiveness at $10,000 would mean canceling $370 billion. This conversation needs to be framed in the larger fiscal context. Debt could reach a record 108 percent of GDP by the end of this year, and is on course to be twice the size of the economy within three decades.

Recent borrowing to address the pandemic was the right thing to do in response to an unprecedented national emergency. But we have already borrowed over $5 trillion for COVID relief. With the economy poised to take off as vaccinations increase and communities reopen, policymakers must return to paying for the fiscal priorities they wish to enact.

And I want to be clear—we should not ignore the very real challenges facing those struggling to repay their student loans. But the solution should be targeted to those who need relief, should ensure those who are able to pay back their loans do, including reforms to control higher education costs, and be fully paid for. A regressive policy like blanket debt forgiveness is not the solution.

Thank you, and I look forward to your questions.

Chair WARREN. Thank you, Mr. Holt. Now we come to our final witness for this afternoon, and that is Dr. Looney. You are recognized for 5 minutes.

STATEMENT OF ADAM LOONEY, EXECUTIVE DIRECTOR, MARRINER S. ECCLES INSTITUTE, UNIVERSITY OF UTAH

Mr. LOONEY. Thank you. Chair Warren, Ranking Member Kennedy, and Members of the Subcommittee, thank you for the opportunity to testify today.

Federal student loans impose a crushing burden on some borrowers, particularly those who enroll in programs where most students do not finish, where graduates are unable to find jobs, or where tuition costs are just too high. The borrowers who struggle are disproportionately from lower-income families, first-generation students, and students of color.

But that is only part of the story. Most borrowers, like college and graduate students in general, earn more, are better educated, live longer, are more likely to own a home, and come from more affluent backgrounds than other Americans. More than half of student debt is owed by households with a graduate degree. That is because programs where students borrow large amounts include professional programs like MBAs, law schools, or medical schools.

While we often hear stories of borrowers who owe more than $100,000, the reality is that only 7 percent of borrowers owe that much, and many of them are white-collar professionals who can afford to repay their loans.

After college, the typical bachelor's degree recipient earns significantly more than a worker with only a high school diploma, about $1 million more over a career. And that helps explain why about 36 percent of all student debt is owed by individuals in the top 20 percent of the income distribution.

There is no income or wealth test for who can get a Federal student loan, and affluent students are more likely to go to college, to go to a more expensive college, to complete a degree, and to go to graduate school. The typical student who grew up in a high-income family borrows about 27 percent more than a typical student from a low-income family, and that is among people who actually went to college. When you consider who goes to college in the first place, college students are even more privileged.

And in contrast, borrowers who struggle with student loans are quite different. Almost 90 percent of borrowers who default have received a Pell grant because their income and wealth is low when they applied to college. Almost 46 percent of defaulted borrowers went to a for-profit school, even though they represent only 9 percent of students. Half of defaulters never complete a degree, even though only 8 percent of student debt is owed by households without a degree. And that means that widespread debt forgiveness is regressive and disproportionately benefits well-educated, high-income households, expanding inequities rather than reducing them.

Moreover, even modest proposals to forgive debt are staggeringly expensive. Forgiveness of existing student debt would cost more than the amount spent on programs like unemployment insurance, the earned income tax credit, or food stamps, cumulatively, over the last 20 years. And in contrast to those targeted programs, the beneficiaries of student loan forgiveness would be vastly richer, Whiter, better educated, and of higher socioeconomic class.

A more effective way to target loan relief is through income-based repayment plans, which calibrate payments based on a student's income, and forgive debt after a period of time.

Today's income-based plans have flaws. Too few students enroll in the program because of administrative barriers, the benefits are heavily tilted to borrowers with expensive graduate degrees, even if they are high income, and relief takes too long for borrowers who have modest debts.

We need to fix those problems because each year students borrow another $100 billion in Federal loans. Even if Congress enacted significant new spending to reduce or eliminate undergraduate tuition at public colleges, most of that borrowing would continue, because it would be needed to finance living expenses, tuition at private universities, and for graduate and professional degree programs.

Finally, when borrowers experience bad outcomes, it is largely the result of the low quality or high cost of the institutions they attended rather than factors like family income, age, race, academic preparation, or other student characteristics. Congress could reduce default and delinquency and the outsized debt burdens of future borrowers by restoring a strong institutional accountability system and limiting the amounts that graduate and parent borrowers take out to reasonable amounts. There are thousands of institutions that provide upward economic mobility to their students. Federal aid could do more to enroll students at institutions that have good outcomes.

The crisis in student lending cannot be fixed administratively with a one-size-fits-all approach to forgiveness. Congress must decide which students, institutions, and degree programs taxpayers should pay for and which should be paid by the students themselves. Relief for existing borrowers could follow that same model. Federal aid should flow to those who truly need it, and not all borrowers need help.

Thank you.

Chair WARREN. Thank you very much. Thank you, Dr. Looney. And now let's get to the questions. I recognize myself.

I want to start by talking about the role that loan servicers play in our student loan system. Borrowers take out loans from the Federal Government to pay for school, and when it is time to collect, the Government pays hundreds of millions of dollars to companies called loan servicers to manage the repayment process.

Today we have the CEOs of two of the largest loan services, Navient and PHEAA. Mr. Remondi, your company, Navient, gets paid hundreds of millions of taxpayer dollars to service student loans. So I want to run through some of the highlights of Navient's record over the last decade.

In 2013, the Department of Education's inspector general found that your company, which was then called Sallie Mae, violated the terms of its contract by failing to report borrower complaints in its debt collection business. Is that correct?

Mr. REMONDI. Senator, I would have to go look at the details of that back in that timeframe——

Chair WARREN. OK.

Mr. REMONDI. ——but our job is, obviously, to comply with the rules and the laws, and we work very hard to make sure that we help all borrowers successfully manage their loans.

Chair WARREN. OK. But this is a case where you did not follow the rules, and I will just enter that into the record, the actual report on that. In fact, in the last seven Department of Education surveys, Navient has been dead last in borrower satisfaction. So I guess it is not a surprise if you wanted to hide consumer complaints.

Let me ask this question differently. Attorney General Healey, you are one of the Nation's leading consumer protection enforcers. You just heard the CEO of Navient say that they comply with the law. Is it your view that Navient does its best to follow the law and generally looks out for the interest of student borrowers?

Ms. HEALEY. Thank you, Chair Warren. The answer to that is no, and I think we have spent a lot of focus on forward thinking in terms of what needs to happen in terms of fixes. I support that, as somebody who has done so many investigations and so many lawsuits, and heard directly from borrowers who are actual people, not frogs in a pot but actual people, like the Darimir Perezes of the world, coming to my office.

I will tell you that we have received countless complaints about poor servicing practices, and, you know, you can blame Congress, you can blame the Department of Ed, you can blame for-profit schools, you can blame colleges and universities. The burden should not be on the borrowers, though, who repeated, through our investigations, both with respect to Navient and PHEAA, OK, were shown time and time again to have misled borrowers, to have made misrepresentations to borrowers, to have completely bungled up in catastrophic failures the way those loans were serviced, to the detriment of hundreds of thousands of borrowers. I spoke of the 200,000 borrowers in Massachusetts affected by PHEAA alone. That is just one small story.

And finally, with respect to Navient, just to remind folks, you know, the CFPB investigation detailed something that Navient reported, and I find it astounding. Their battle cry was to, quote, "Forbear them, forbear them. Make them relinquish the ball." Don't work with them on IDR, but just keep them going in these loans.

And the second thing that Navient also represented in the past, arguing, quote, "There is no expectation that the servicer,"—in this instance, Navient—"will act in the interest of the consumer." That is a problem.

Chair WARREN. Thank you, Attorney General Healey. You know, in fact we are not talking about a few isolated incidents. In fact, Mr. Remondi, in 2016, 29 States investigated Navient for illegally, quote, "paying call center workers based on how quickly they could get struggling student loan borrowers off the phone, instead of actually helping them." You are currently being sued by six different States.

In 2017, a Federal audit found that Navient steered borrowers to repayment options that actually made it harder for them to pay back their loans, so that call operators could save time and money. Navient even illegally overcharged the Government for years to administer student loans to the tune of $22 million, but you have refused to pay it back for 8 years.

So, Mr. Remondi, if a person who worked at the Department of Education stole $22.3 million they would be fired, and if they were prosecuted for embezzlement they could go to jail for 27 years. But Navient is not a person. Navient is a contractor, a contractor that never faces real long-term accountability.

So can you explain why your Government contracts have not be canceled and why Navient has continued to reward you personally, with nearly $40 million in compensation since 2014, even as these scandals pile up?

Mr. REMONDI. Well, Senator, these are allegations that are not true, and it is why, as we said——

Chair WARREN. They are all on the public record.

Mr. REMONDI. No, they are accusations and not necessarily based on facts. But our goal is to help all borrowers, as I said, successfully manage their loans. And that is why my teams and I regularly listen to borrower calls. We are constantly making improvements to the way our programs work. We also deploy a very highly trained and caring team of professionals who help borrowers each and every day.

And the results of this are that we actually lead the industry in helping borrowers avoid default, and as you know, the devastating consequences that are associated with that. We perform extremely well in enrolling borrowers in income-driven repayment plays, and we have used this insight that we gather from customers to be very innovative and develop new programs and solutions or processes that help more borrowers be successful.

Recently we rolled out an electronic e-sign program for income-driven repayment plans, and this was because we saw, from our data and call listening, that customers were having trouble completing the complex enrollment forms that are associated with income-driven repayment, ten pages long, filled with jargon. And we took that system, developed an alternative, filled out the applications for them so that they would be accurate and complete, and sent them to them for electronic signature. We have more than tripled the response rate, so very——

Chair WARREN. Mr. Remondi, I appreciate that, and I understand you are here to talk about the good things that your company has done. But you have been sued repeatedly, and you have been found to owe money that you have refused to pay, and this has happened over and over. And as I said, in the last seven surveys, Navient came in dead last in satisfaction among student loan borrowers.

So I am glad for you to stand here and paint a general picture, but Navient made more than half-a-billion dollars last year profiting off a broken system. The Federal Government should absolutely fire Navient, and because this happened under your leadership, Navient should fire you.

But the problem is bigger than that. More than 40 million borrowers are trapped in a rigged game. They are crushed by debt. They are hounded by services and debt collectors. It is a massive drag on our economy, and we need a new approach. Canceling

$50,000 of student loan debt would free millions of people from the traps that Navient and other servicers have laid for them.

Thank you. Senator Kennedy.

Senator KENNEDY. Thank you, Madam Chair. Can you hear me now?

Chair WARREN. I can hear you.

Senator KENNEDY. Dr. Akers, can you hear me?

Ms. AKERS. Yes, I can.

Senator KENNEDY. I want to understand the context. The money that our students borrowed, were they defrauded?

Ms. AKERS. Well, some, in fact, were, and we, for the most part, have made those students whole through debt forgiveness that is specific to their circumstances.

Senator KENNEDY. What about the majority of them?

Ms. AKERS. The majority of them have not. I think the farthest you could go to say is that we have made the process complex so that there might be challenges for them to actually understand the obligation that they are taking on, but they were fully aware of the obligations that they were accepting.

Senator KENNEDY. OK. Mr. Remondi, can you hear me, sir?

Mr. REMONDI. Yes, I can, Senator.

Senator KENNEDY. Let me just say for the record, I hate virtual hearings. And it is not our Chair's fault. That is not her fault, but I just hate them. I think they are very inefficient.

Let me try to understand the context. You do not make these loans—is that right, Mr. Remondi?

Mr. REMONDI. That is correct.

Senator KENNEDY. The Government makes these loans. Is that correct?

Mr. REMONDI. Yes.

Senator KENNEDY. And where does the Government get the money?

Mr. REMONDI. It borrows it from the U.S. Treasury Department.

Senator KENNEDY. OK. When the Government loans this money, are the majority of them honest loans, or have the students been defrauded?

Mr. REMONDI. Well, I think as Dr. Akers said, you know, I would agree the majority have been for the right purpose. There were some shady schools out there, and for the most part those have been closed and those loans forgiven.

Senator KENNEDY. OK. Have you ever borrowed money before?

Mr. REMONDI. Yes, I have.

Senator KENNEDY. Did you pay it back?

Mr. REMONDI. Yes, I did.

Senator KENNEDY. Why did you pay it back?

Mr. REMONDI. Well, for example, I took out student loans when I was in college, and that college degree afforded me an opportunity to get a good job. I went to a good school.

Senator KENNEDY. Right. But why did you pay the money back?

Mr. REMONDI. Because I had an obligation to pay it back, Senator. I had signed the promissory note and I had an obligation to pay it back.

Senator KENNEDY. Did you consider it a moral principal, a moral obligation?

Mr. REMONDI. Moral and legal, yes.

Senator KENNEDY. OK. Let me give you a chance to respond. I know that you have been sued in a number of instances. Is there anything else you wanted to say in defense of your position on those lawsuits?

Mr. REMONDI. Yes. Thank you. You know, the programs, as I think you have heard from a number of the witnesses here today, are extremely complex, and the rules and regulations associated with them are complex. It is difficult for borrowers to understand why one loan is eligible for a certain program and why another loan is not eligible for a program. And we try to help borrowers through that process, and we try to help explain it.

Senator KENNEDY. Let me stop you, Mr. Remondi. Let me stop you for a minute. So why don't we write simpler rules?

Mr. REMONDI. That is a great question. You know, I think the programs and my recommendations in my oral testimony here was that we do need to make them more simple. Today there are 60 different repayment options available to borrowers, 9 different income-driven repayment plans, all with complicated, as you can imagine, Government-sounding acronyms, that make it very difficult for borrowers to understand.

Senator KENNEDY. OK.

Mr. REMONDI. And we think——

Senator KENNEDY. Well, it would seem to me that that might be one thing that our Subcommittee could work on, is designing a student loan application process that looks like somebody designed the damn thing on purpose. I mean, these are supposed to be our best and our brightest who are borrowing the money. If they cannot understand it, who the hell can?

Let me move on, though. Dr. Baker, do you think the student loan program and the way we administer it is systemically racist? Is that what I understood you to say?

Ms. BAKER. I was explaining the ways that a systemically racist society has made it so that people of color, especially Black people, rely on student loans at a higher rate than other people.

Senator KENNEDY. Do you think America is systemically racist?

Ms. BAKER. Do I think that the American society has systemic racism? Yes.

Senator KENNEDY. OK. What does that mean?

Ms. BAKER. What does that mean? Broadly speaking, it means that we have sort of set up pathways in our society where different people have different opportunities and options that are before them. So as an example, it would mean that potentially one person in the world has five different options. They can go to college, they can take an inheritance from their family and start a business, they can have all these sorts of different sets of options. But systemic racism——

Senator KENNEDY. Yes, ma'am. If you could, just give me your definition, because I am going to run out of time here.

Ms. BAKER. Oh, sure. Sorry about that. Professors.

So, basically, systemic racism says that we have set up pathways so certain people of certain races get more opportunities and more benefits than other people do.

Senator KENNEDY. OK. Do you think SMU is a systemically racist institution?

Ms. BAKER. Do I think that SMU works within a racist society? Yes.

Senator KENNEDY. No, but do you think SMU is a systemically racist institution?

Ms. BAKER. Does it have evidence of systemic racism? All universities do, yes.

Senator KENNEDY. OK. You did your graduate work at Vanderbilt. Do you think it is a systemically racist institution?

Ms. BAKER. All universities work within a systemically racist society.

Senator KENNEDY. Yeah, but I am trying to understand.

Ms. BAKER. Mm-hmm.

Senator KENNEDY. I understand your comment about America being systemically racist, but we have different institutions in America. So let me ask it more directly. Is SMU a systemically racist institution?

Ms. BAKER. There is systemic racism at SMU and at all other institutions.

Senator KENNEDY. So you think every university is systemically racist?

Ms. BAKER. I think that everyone who operates within the United States operates within a systemically racist system.

Senator KENNEDY. OK. If we forgive all the student loan debt, how do you think we should pay for it?

Ms. BAKER. I think there are several options on the table around potential increases for different——

Senator KENNEDY. Well, I am asking you how you think we ought to pay for it.

Ms. BAKER. Sure. I would say that that is not my area of expertise.

Senator KENNEDY. You just want us to forgive it and not worry about paying it back?

Ms. BAKER. I would say that as an education policy expert I can talk to you about those areas. I think there are a number of plans in place and that there are people on the Committee who have talked about potentially raising the taxes on higher-wealth individuals. There are options, but it is not my area of expertise.

Senator KENNEDY. I have gone way over. I assume that our Chair is going to let us have a second round.

Chair WARREN. Of course, John. There will be a second round.

Senator KENNEDY. No, you go ahead, Elizabeth.

Chair WARREN. All right. But there is absolutely going to be a second round.

But now Senator Reed is up. Senator Reed.

Senator REED. Thank you, Madam Chairman, very much, and thank the panel for their interesting and thoughtful presentations this morning.

Mr. Steeley, if I could direct a question to you please, sir. The CARES Act and its subsequent administrative interpretations applies just to Federal student loans held by the Department of Education, leaving out roughly six million borrowers with loans held by commercial and not-for-profit lenders. Has this been a source of confusion in your portfolio, and what options have you offered to these individuals that have not had the benefit of CARES forgiveness?

Mr. STEELEY. Thank you, Senator, for your question, and you really do highlight a great point and a disparity that exists out there in the Federal loan space. When Congress did the various rescue packages, the CARES Act, it focused on the direct loan program while leaving out the FFELP program. And as I mentioned in my testimony, prior to the 2010–2011 academic year, 75 percent of all loans were FFELP loans.

So there are things that ourselves and other servicers and holders of FFELP have done. First, we have made sure that our customers know that they are able to consolidate into Federal direct lending. But it is important to note that that, you know, it sounds simple to say everyone should consolidate, but there are individuals that actually would be harmed by consolidating.

There are also individuals not eligible to consolidate, and that is why PHEAA's board of directors, we rarely take stances in Federal policy matters, but our board voted and issued and signed a letter encouraging Congress to adopt what I would refer to as FFELP parity. We sent it to the Pennsylvania congressional delegation. I am very pleased that a number of members of our delegation, both R's and D's, signed on as cosponsors in the U.S. House.

Senator REED. Thank you very much. And an additional question. There is a current pause on repayment, interest accrual, and wage garnishment. That is scheduled to end in September. So how are you preparing for the resumption of repayment, and how do you support borrowers in the transition?

Mr. STEELEY. Thank you, Senator. Another great question.

As you note, the Federal forbearance is scheduled to come off September 30th. We have been dialoging with the U.S. Department of Education on ideas that we believe might ease that transition. The CARES Act was very prescriptive about what servicers could do and could not do prior to borrowers entering repayment, dictating exactly the communications that could and could not go out. I am not sure exactly, since the CARES Act expired and we are now on extensions, how that ultimately will play out.

But there are actions that we believe the Department should authorize servicers to take prior to the portfolio entering repayment. For instance, we know individuals that were having struggles prior to COVID, and it is fair to assume that if someone was struggling prior to COVID, there is an even higher likelihood they are going to be struggling after COVID.

So one of the things that we have encouraged the Department of Education to allow servicers to do is to reach out to these individuals. You know, if we can get them on an income-based repayment plan prior to the resumption of payments, they will be in a good situation to succeed. You know, in many ways this forbearance and this pause on payment gave them sort of a reset on their loan. You know, it pulled them out of the delinquency ladder into current status, helped clean up their credit reporting. But we know who will struggle once it comes off, so we should do everything in our power to work with these individuals in advance of September 30th, and that is what we have been encouraging the Department to do.

Senator REED. Well, thank you very much, Mr. Steeley. Thank you to all the panelists. Madam Chairman, thank you for the opportunity.

Chair WARREN. Thank you, Senator Reed. I appreciate it. Senator Tillis. Is Senator Tillis on? That is who I had up next. If not, Senator Scott or Senator Cramer or Senator Daines.

All right, in that case do I have Senator Van Hollen?

[No response.]

Chair WARREN. Do I have Senator Smith? I feel like I am calling the roll here.

Senator SMITH. I know.

Senator OSSOFF. Senator Ossoff, Madam Chair.

Senator SMITH. Senator Warren, I defer to Senator Ossoff, and then I will go.

Chair WARREN. You want to defer? That is fine.

Senator Ossoff, you are recognized.

Senator OSSOFF. Oh, thank you, Senator Smith. I did not realize you were here, and thank you, Madam Chair, for the opportunity. Thank you to the panel. And thank you, madam Chair, for holding this hearing.

You and I have discussed this a number of times. There are so many people in this country, particularly young people, who struggle with the burden of student loan debt, and so many young families that are unable to take the next steps in their lives, whether that is home ownership or having kids or buying an automobile or starting a business or taking a risk on a job that may align with our passion but could undermine our ability to service loan debt. So I am grateful to you, Madam Chair, for holding this hearing to explore the path forward on this issue.

And I would like to start, Dr. Akers, if you would be so kind. Do you agree that a skilled workforce is in the vital United States national interest?

Ms. AKERS. Yes, I do.

Senator OSSOFF. And do you agree, Dr. Akers, given your extensive scholarship and experience in Government and in academia, that having a skilled workforce, having Americans who can perform skilled trades, who excel in science, technology, engineering, aerospace, math, who can operate complex machinery, who can design complex systems and interact with advanced technology is, one, a crucial way of enhancing upward socioeconomic mobility, and also, two, important to our competitiveness, where we have economic competitors globally who are investing heavily in increasing the skill level and competence of their own workforce?

Ms. AKERS. Yes, I agree with all of that.

Senator OSSOFF. You know, one of the things, Dr. Akers, and I would be curious for your view on this, is that we tend to talk a lot about 4-year college degrees in this public policy debate, but sometimes do not speak with as much focus about skilled trades, vocational training, technical school, vocational training. Do you agree that investing in a highly skilled workforce not only benefits those people who access those skills, not only benefits the United States and makes us more competitive internationally, but also benefits America's private sector by supplying skilled workers who can increase corporate profitability and develop technologies that allow companies to sell newer and better products at lower prices?

Ms. AKERS. Yes, I do.

Senator OSSOFF. So, Dr. Akers, I am curious to get your view on the proposal to make technical school, vocational training, and training in skilled trades free for people across this country. I am not asking at this time about the question of forgiveness of student loan debt. I am asking whether you believe it would be a prudent use of public resources to make skilled trades, whether those are 2-year degrees or vocational school opportunities, available to every American at no charge, using a grant or scholarship system that is publicly funded, rather than asking some folks who are pursuing those skills to take out loans.

Ms. AKERS. I absolutely believe that we, as a Nation, and States, should continue to invest in sub baccalaureate higher education after high school. I tend to prefer voucher style subsidies so that people can take dollars and carry them to whatever institutions will serve them well, and that is dissimilar, in a way, from a system that declares that institutions would be free of charge, because of the central planning that would be required for that.

Senator OSSOFF. Dr. Looney, I would like your view on the proposal to make tech school and vocational training free to Americans.

Mr. LOONEY. I think the question is how much does it cost and who benefits and what degree of oversight is there. You know, one of the problems that plagues American higher education is that there is just wide variation in the quality of institutions and the value that they provide. And so one of the sources of the disconnect between how much we pay and how much value is provided is the degree of oversight and how the Federal Government invests money.

So I think that the key question is, is the money being spent well and how much oversight is there, or where it is going.

Senator OSSOFF. Well, I look forward to continuing to engage with you on these matters, and I will say that here is what I want to observe. We are talking about what I think is a pretty simple question—should we invest in making access to skills free for Americans, which we have acknowledge, in the course of this discussion, helps the United States compete, helps people achieve their dreams, helps companies become more profitable. We squander trillions of dollars on wars of choice. We squander trillions of dollars on bailout and subsidies for investment banks, but it difficult, it seems, at least at this hearing, with the two distinguished panelists I have had the opportunity to engage with, to get a pretty straight, declarative answer on what I think is a clear national interest in making access to skills free for Americans who want to develop professional qualifications that will help them get great jobs and earn more money.

And with your indulgence, Madam Chair, I would just like to enter into the record letters that I have signed by the presidents of Spelman College, Morehouse College, and Fort Valley State University, as well as another letter from the president of Albany State University. These are historically Black colleges and universities in my home s State of Georgia, and their reflections on how critical it is to make college more affordable, to reduce the burden of student loan debt and tuition payments for attendees at HBCUs I think are vital for the record.

Chair WARREN. Without objection, so ordered.

Senator OSSOFF. Thank you, Madam Chair. Thank you to our panel.

Chair WARREN. Thank you, Senator Ossoff. Senator Smith.

Senator SMITH. Thank you, Madam Chair Warren and Ranking Member Kennedy, and I am so grateful for all of the panelists today.

Canceling student debt is one of the most powerful tools that we have to expand the economy, to address racial disparities, and to help American families get back on their feet after the combined economic and public health crisis of COVID–19. So I am so glad to join the efforts of Senator Warren and Senator Schumer and others of my colleagues in both the House and the Senate to urge President Biden to cancel up to $50,000 in student loan debt.

You know, here is the problem. Student loan debt is like a thousand-pound weight that is holding Americans and our economy back, and that is only the half of it, because, in fact, what is happening is that that weight is even heavier to carry if you are a person of color. So carrying that debt around means that you are unable to buy a house, or a car, or to take that job that you really want. And I think there is also a misconception that student loan debt primarily affects folks that are in the beginning of their earnings lifetime, and often they forget about those adults who have taken on student loan debt as they contemplate a career change or later in their life, and are literally postponing their retirement because of student loan debt.

So there is no one solution to this problem, but forgiving $50,000 in student loan debt is going to go a long way toward helping us achieve our goals of getting our economy going, helping families get back on their feet, and address the systemic inequity that we also see around student loan debt.

It seems to me that this is going to mean a lot to a lot of people, and I want to just take a moment to hear from Ms. Perez. You are in a great position to help us all understand the impact of student loan debt and the impact of student loan debt relief in real time, for real folks. I appreciated your testimony very much, and I am wondering, could you just tell us a little bit, thinking about you and your family, your children that you are hoping to be able to put through college themselves, just tell us a bit more about what this is really going to mean to you, if you were able to get this kind of student loan debt relief.

Ms. PEREZ. Thank you. It will mean—sorry.

Senator SMITH. That is OK.

Ms. PEREZ. It is a lot of emotional and mental stability that it will provide me and my children. Obviously, I have these conversations with them. I will be able to support them more in their journey. I will be able to help also my family, which I keep hearing a lot of concepts and theories here, and I cannot relate to anything or anyone that I know could relate to any of these that are being said here. It is just not a reality.

And being able to get this help will help us help our little ones and help our family get on their feet. It will help me also, and mean a lot if I can afford my sister's college, so that she is finally able to finalize her dreams. It seems that it is a common thought that we are lazy, unintelligent. Maybe English being a second language we may be struggling more than others to read a document seems to be thought as us not being intelligent enough. But that is not the case.

And having this will also help me maybe purchase a home. Like you said, I would love to have a house in a safe area. I always had to drop my kids everywhere, and now I do not have a modern car. I have to ask my car permission to take me somewhere.

So it will definitely allow me to make sure my children do not get discouraged, because they are getting a little discouraged. And I know with everything that happened also added to—they did get a little depressed. They were in their room, still in the South Bronx, yes, attending college but still in the South Bronx, which sort of like hurt them a little bit. And if I am able to help them attend the college of, not their dreams because we kind of gave up on that as well, we are transferring them because we realized 1 year we cannot go into debt anymore. We cannot afford it.

But I would be able to support them and make sure that they do not get discouraged. And I am really confused with the poor jobs, I guess poor jobs in public service.

Senator SMITH. Let me just ask you, because I so appreciate your perspective, and I want to just ask about one thing. So you are saying, basically, that if you did not have that student loan payment you are going to be spending that money on helping your kids go to school, helping your sister go to school, maybe even buying a house, being able to move your family along.

So if I could, Senator Warren, there was a suggestion on the panel by some that there is this language of moral hazard, which seems to suggest that if you were going to get debts forgiven that you understood that that is going to somehow encourage you to take our more debt, or that it sort of almost an encouragement to act irresponsibly. How do you respond to that?

Ms. PEREZ. I think of myself as someone who is very responsible, and like I said in my testimony, I did think that I was taking the right steps and avoiding taking loans, because I knew my responsibility was to pay that loan. But I also hear people here talking about income-driven. That program, I am part of the program, and the problem with that program is that if you are not making enough money your monthly fees are very low, but then your balance increases. So you are paying but your balance is increasing.

And then I took on overtime and I work long hours, but then I would make more money and now my monthly payments increased, and I never get to feel, like making my payments on time and doing everything that I know it is my responsibility. And I am not refusing to make my payments, and I am not refusing to take on my responsibilities. I just want to make sure that my children get the opportunity to attend school. I finished my master's degree and I really think that if I finished my master's degree then I should be able to help my children to get their Ph.D. and receive more than what I received. And I am a little afraid of how things are going, that I will not be able to do that.

Senator SMITH. I am really grateful for your story and your testimony, and I am out of time, way over time. But I want to just thank you so much for sharing that. I appreciate it so much. Thank you, Senator Warren, Chair Warren.

Chair WARREN. Thank you. Thank you to our witness and thank you, Senator Smith.

Senator Menendez.

[No response.]

Chair WARREN. I tell you what. I think Senator Menendez is almost here, so how about if I just start another round of questions, and when I finish we will go to Senator Menendez, if he has appeared by that point.

Let me start with you, Mr. Steeley. Taxpayers pay your company, PHEAA, to manage the Public Service Loan Forgiveness Program, which we have heard a lot about here today. The program is supposed to forgive student debt for public servants, you know, like teachers and nurses and members of the military, after 10 years. So far, about 225,000 people have hit the 10-year mark and applied for forgiveness. But a whopping 98 percent of them have been rejected.

No one should be let off the hook for the disaster that this program has turned into, but it is your job to ensure that people who have followed the rules get relief. The most common reason a borrower gets turned down is because your company says that they have not made enough qualifying payments. But there are now multiple lawsuits and investigations that have found that you systematically undercount payments.

Mr. Steeley, just to take one example, the Education Department audits, dating back to 2016, have shown that PHEAA's automated system creates errors and mistakenly disqualifies payments. Is that correct?

Mr. STEELEY. I am sorry, Senator. I do not believe that that is correct. You know, any time we identify an issue, whether it is a regulator, like the Education Department, or through our own control procedures, we actively investigate it and we work to make it right for the borrowers.

Chair WARREN. So then I do not think I quite understand your answer. Are you saying the Education Department audits, dating back to 2016, did not show that PHEAA's automated system created errors and mistakenly disqualified people, or are you saying it did show that, but you fixed it afterwards?

Mr. STEELEY. Senator, I am not familiar with the audit that you are speaking. It was prior to the time that I was in my current role.

Chair WARREN. This is multiple audits that we are talking about here.

Well, let me try another question, and let me turn this around again, to Attorney General Healey. Mr. Steeley says that he does not know about any problems at PHEAA. So let me ask you, Attorney General Healey, are these just isolated incidents, these audits that we have heard about? What has been your experience as you have investigated PHEAA?

Ms. HEALEY. Well, 5 years of investigation of PHEAA, and other years spent investigating Navient. Both of these entities made a promise to the U.S. Government that they could handle this work, as complex as they want to characterize it. And they failed miserably, and, of course, made boatloads of money for themselves in the interim while borrowers are left high and dry.

In our investigation specifically of PHEAA, what we found is that they repeatedly misinformed future teachers, firefighters, police officers, social workers—because these were people who were looking to do public service work—they routinely misinformed them about the requirements of the program, about their status in it and whether they were qualified. They would delay processing applications. They would delay processing payments, which resulted in people being booted off in terms of eligibility.

A question was posed earlier about fraud. I will tell you all about fraud. It is why the Attorney General's Office here in and in other States have sued both of these entities for what we call "unfair and deceptive practices to borrowers." PHEAA, for example, we found in our investigation, was overbilling, double billing borrowers.

The record is replete. As I say, we did enter into a civil settlement agreement with them. It is my hope and expectation that going forward with respect to both of these loan servicers that the right measures be put in place. But the history through our investigation is loan servicing practice is replete with deception, to the severe detriment of borrowers.

Chair WARREN. Thank you very much, Attorney General Healey. You have the on-the-ground experience with PHEAA and with the other loan servicers.

You know, it seems clear to me that PHEAA presides over a so-called Public Service Loan Forgiveness program, and has proven itself nearly incapable of ever actually granting public servants any loan forgiveness.

Mr. Steeley, has the Department of Education terminated your contract or penalized your company in any way for its errors and mismanagement that have prevented teachers and firefighters, and other public servants from getting the debt cancelation that the law provided them?

Mr. STEELEY. Senator, I would like to answer your question first by saying no, they have not, but also note that the majority of the rejections that you note, you know, the 200-and-some-thousand rejections, over 75 percent are simply because the individuals that applied for forgiveness had not been in the program for 10 years.

Now I did not write that requirement. The United States Congress and the U.S. Senate wrote that requirement.

Chair WARREN. Let me stop you there, though, if I can, Mr. Steeley, because that is the fundamental question. Are you counting accurately? Because that is the one thing the Federal Government asks you to do. And as I see it, I think what the data show is that 59 percent of ineligible Public Service Loan Forgiveness applications were denied because they did not have enough qualifying payments.

Borrowers are not filling out these applications for fun. They are filling them out because their understanding is they have been writing checks for 10 years or longer. This is a program that is now

14 year old, and you are telling me that you could only find the payments for 2 percent of them?

Mr. STEELEY. Senator, first, as I noted just a minute ago, the primary reason that these applications are rejected is because they have not been in repayment of a qualified direct loan for 10 years.

And then, in addition, I would like to note, with all the errors that have been referred to, particularly with respect to Massachusetts, there are 25 individuals spoken to in that settlement agreement. Over the years of the investigation we serviced 250,000 individuals in the State of Massachusetts.

You know, we strive, day in and day out, to do our best for the people of Pennsylvania, for the customers we service. We advocate on their behalf for program improvements to increase those forgiveness rates that you note. And ultimately, yes, The Massachusetts attorney general did find 25 individuals, and we worked to make those correct. In fact, those individuals have already been——

Chair WARREN. The investigations are not simply about a random error rate. They are about systematic undercounting. And when you undercount the number of payments, that means that people do not qualify for the programs.

Let me just give Attorney General Healey a quick chance to reply. We are way over time here. Attorney General Healey, would you like to respond?

Ms. HEALEY. You know, I am trying to be constructive here, because this is about a forward-going, what do we need to do to fix the system. But I want to be very clear. We found systematic failures both with respect to PHEAA and with respect to Navient. There is a reason, Madam Chair, that PHEAA has agreed to do a loan-by-loan, borrower-by-borrower audit, just with respect to 218,000 borrowers in Massachusetts. If that does not signal that they know they had a problem—that is just Massachusetts—I do not know what else does.

So, you know, there is the point about accountability and then there is the point about what is going to happen in terms of why debt cancelation is imperative, but for PHEAA to suggest that it had the capacity to, or even now maybe has the capacity, to engage in that kind of borrower-by-borrower analysis and processing, the reason those people were ineligible many times was because PHEAA lost the records, was not keeping track, so by fault PHEAA created their ineligibility, and again, I think it is a shame for the borrowers who we are speaking of today.

Chair WARREN. And one of these investigations, I recall, said PHEAA left it up to the borrowers to figure out if there had been an error, rather than PHEAA having to get it right to begin with and put its own processes in place.

Look, Mr. Steeley, I think that PHEAA has demonstrated that it cannot administer this program. I think the Department of Education should terminate your contract. But I think we have also established that teachers and firefighters are not going to be any better off with Mr. Remondi over at Navient in charge.

This is an utterly broken system, and the solution is not more complexity and more incompetent middlemen. The best way to deliver relief to public servants crushed by student loan debt is to cancel their debt, and not after 10 years of bureaucratic torture and miscounted payments, but just to do it now.

Senator Menendez, I believe you are with us now.

Senator MENENDEZ. Yeah. Thank you, Madam Chair. Thanks for holding this hearing. I appreciate it. I have been listening to some of the testimony and the back-and-forth.

Let me turn to Mr. Remondi. Mr. Remondi, in 2017, when you were sued by the Consumer Financial Protection Bureau and the States of Washington, Illinois, and Pennsylvania for cheating borrowers out of their right to affordable loan payments, do you know how much money you made?

Mr. REMONDI. Yes, I do.

Senator MENENDEZ. What would that be?

Mr. REMONDI. In 2017, it was approximately $6 million.

Senator MENENDEZ. It was $6.5 million, according to your company's filings.

In 2018, when you were sued by the State of California for cheating borrowers out of their rights, do you know how much money you made?

Mr. REMONDI. Approximately $7.7 million.

Senator MENENDEZ. And in 2020, when you were sued by my State of New Jersey for engaging in deceptive and misleading tactics when servicing New Jersey student borrowers, do you know how much money you made?

Mr. REMONDI. Yes. I am familiar, Senator. I am very well compensated, and I certainly appreciate it, and it was about $8 million.

Senator MENENDEZ. Thank you. So over this period of time that I have referred to, you have earned over $20 million, and that is not even counting 2021, in that time do you know how much money these lawsuits have alleged your company has illegally added to the debts of millions of your customers?

Mr. REMONDI. They actually have not alleged that yet, Senator.

Senator MENENDEZ. Well, from what I have read it seems that the answer is about $4 billion.

Mr. REMONDI. That estimate was that if 100 percent of all borrowers were in forbearance that is how much borrowers paid. So clearly, that was not an estimate of how much we overcharged, Senator.

Senator MENENDEZ. Well, let's put it this way—it is a lot of money, isn't it?

Mr. REMONDI. Well, that is 100 percent of borrowers—student loan forbearance is a program that has been authorized by Congress, and is an eligible repayment option for borrowers. In some cases, this is a very legitimate program. For example, you cannot enroll in an income-driven repayment plan if you are past due. So one of the tools, and, in fact, probably the only tool available to help a borrower enroll in that program, is to grant them a forbearance to bring that account current so that they are now eligible to enroll in an income-driven repayment plan.

Senator MENENDEZ. Well, let me just say, if I was one of your shareholders I would be concerned that you pocketed $20 million in salary and compensation, but yet your company might be responsible for a couple of billion dollars to American families. If I was one of your customers, I would be calling Secretary Cardona to cancel my student debt immediately. But as U.S. Senator, the one opportunity I have is this oversight to drive home the review of entities such as yours, and I think the Chair is right to do so.

Let me turn to Ms. Perez, and thank you for talking about what student loan debt does to families like yours. If President Biden had forgiven your $35,000 in student loan debt in January, do you know how much you would have been taxed on that forgiveness amount?

Ms. PEREZ. No.

Senator MENENDEZ. Yeah. That is OK. Most people did not know that forgiveness was actually looked at by the IRS as income. You would have faced a surprise tax bill of $7,700, at a minimum, which is pretty outrageous.

Luckily, working with Senator Warren and myself on the Finance Committee, we ended up with a provision of law that no longer has forgiveness be subject to income, so that individuals like yourself would not be subject to such a surprise tax bill, and I am glad to see that we were able to do that, and your story is vividly an example of it.

Finally, Dr. Baker, the Federal Government has been aware of the student debt crisis for some time now, and attempted to alleviate through the student loan forgiveness program. Currently, the Government has a couple of options for student loan forgiveness, including through the income-driven repayment program and the Public Service Loan Forgiveness Program.

Out of the 43 million borrowers who hold student loan debt, how many have been able to successfully obtain forgiveness through IDR?

Ms. BAKER. An independent analysis, I think, estimated that at around 32, currently, 32 borrowers.

Senator MENENDEZ. Out of approximately 2 million student loan borrowers who have been in repayment for more than 20 years, just 32 have ever qualified for loan cancelation.

What is the approval rate for the PSLF program?

Ms. BAKER. As Senator Warren mentioned, it is about 2 percent currently.

Senator MENENDEZ. Two percent. That is an approval rate, not a rejection rate. So as of June 2020, approximately 98 percent of borrowers who applied for PSLF have been rejected.

So are IDR and PSLF providing the promised student loan forgiveness to broad swaths of student loan borrowers?

Ms. BAKER. So they are not currently doing that. I think as several of the other experts on this panel have mentioned, there is significant amount of reform that is necessary in the IDR and PSLF programs in order to create the benefits that they were intended to.

Senator MENENDEZ. All right. There are a lot of reforms necessary.

Madam Chair, do I have another minute of time?

Chair WARREN. Yes. Go ahead, Senator Menendez. Take another minute.

Senator MENENDEZ. Thank you. My final set of questions. Today's hearing is not only important to highlight the impact of the crushing debt burden on America's working and middle class but also the importance of broad-based forgiveness.

Professor Yannelis, your research purports to show that canceling student debt accrues benefits disproportionately to the wealthiest borrowers. In other words, it is not a progressive policy. Is that fair to say? Is that a fair characterization?

Mr. YANNELIS. Yes, that is correct, Senator.

Senator MENENDEZ. To reach this conclusion, you viewed the benefits of debt cancelation in the context of the supposed generosity of these existing loan forgiveness programs for low-income borrowers, particularly IDR. Do I have that right?

Mr. YANNELIS. Yes, that is correct.

Senator MENENDEZ. And to be specific, to reach this conclusion your research assumes every single low-income borrower has managed to enroll and stay in IDR for 20 to 25 years, having their debts wiped out as if they were eligible. Is that correct?

Mr. YANNELIS. Not quite correct. What we assume is we have different scenarios. In one of the scenarios we assume that every borrower who would benefit would successfully enroll in IDR. In a couple of other scenarios we assumed that, for example, the Senate and the House passes legislation to make IDR programs more generous. We actually find that that gives more forgiveness to low-income borrowers and borrowers of color.

Senator MENENDEZ. Well, I think what I am referring to is your recent op-ed, which you wrote in The *Washington Post*, which said, quote, "We looked at what would happen if every borrower who would benefit from an income-driven repayment plan were put into one and forgave loans after 20 years."

So out of the 43 million borrowers who hold Federal student loan debt, how many have been able to successfully obtain forgiveness through IDR in the 25 years since it first became available?

Mr. YANNELIS. So that is an extremely misleading question, because the way that these plans work is they provide forgiveness after 20 or 25 years, and the most popular of these programs only started in 2009. So we just have not had 20 or 25 years. So there was an earlier plan called income-contingent repayment. Very few borrowers took that up. So we would expect to——

Senator MENENDEZ. So the bottom line, with all due respect, we have had 32 borrowers that have ever qualified for loan cancelation. You have a better chance of being struck by lightning than having your 20-year-old Federal student loan canceled today. That does not sound very progressive to me. So I hope that President Biden will take advantage of this rare opportunity to bring relief to working families that need it the most.

Thank you, Madam Chair.

Mr. YANNELIS. That is an extremely misleading statistic.

Senator MENENDEZ. I think your analysis is extremely misleading, to be honest with you. Thank you very much.

Chair WARREN. Thank you, Senator Menendez. Senator Van Hollen?

Senator VAN HOLLEN. Thank you, Madam Chairman, and thank you for holding this hearing and really diving into what has become the broken promises from the Public Service Loan Forgiveness Program. As a result, I think of a lot of complicated interpretation and a deliberate effort to mislead students.

So, General Healey, I want to make sure I understand the settlement you reached with PHEAA as a result of your litigations. I understand that now if you are a student who had one of these loans and believes they have either been misled or that their accounts were mishandled, you have set up a process where an audit would be conducted and they will be remedied if it is shown that, in fact, there was mishandling of the loan. Is that correct?

Ms. HEALEY. That is correct, Senator, and it is up to the borrower to apply.

Senator VAN HOLLEN. Got it. So, Mr. Steeley, you entered into this agreement. I assume you agree that that is a reasonable way to address these disputes. Is that correct?

Mr. STEELEY. Yes, it is, Senator. We welcome the opportunity, not just for the residents of Massachusetts but any borrower across the country to the extent that they have questions with what payments qualified, which payments did not qualify. We welcome the opportunity to review their account.

We recently launched an updated portal that provides full transparency of every payment that was made and the detail as to whether the payment qualified toward forgiveness or did not qualify toward forgiveness, and if it did not qualify toward forgiveness, the reason why. And what this does is it gives consumers the information that they need to ask questions and submit a review case to us. And we have a process that we do as part of our day-in and day-out operations where we take a look at these review cases that come in.

Senator VAN HOLLEN. Well, thank you. So you anticipated my next question, which is if you agreed that this is a reasonable process for the people of Massachusetts as a result of this agreement, will you agree that my constituents in Maryland, many of whom have experienced exactly the same kind of problems, will be able to essentially have exactly the same process that you have developed in the State of Massachusetts. Can we have equity here with respect to Marylanders, and many Marylanders, as you can probably guess or you know, work in Federal service, given the proximity to the Nation's capital, can you tell me today that they will get the same set-up and processes as the people of Massachusetts?

Mr. STEELEY. Thank you, Senator. The set-up may be a little bit different, but the fundamental process gets to the same outcome, that the individuals in your State, Maryland, as well as any State, have the ability, once they are enrolled in PSLF, submitted an employer certification form, they will have the ability to see which payments counted toward forgiveness and which payments did not count toward forgiveness.

If I may add, Senator, just a couple points that I would like to make with PSLF. As a public service agency, PHEAA became engaged in this program, and it was prior to my time at PHEAA but my understanding was we looked at PSLF and saw it very similar to programs we administered just to the north of you, in Pennsylvania. And what we discovered, very early on, is that the rules were very complex and the path to forgiveness was very narrow. And we have advocated, time and time again, from our very beginning of involvement, to both the U.S. Department of Education as well as Members of Congress, across multiple Administrations, to simplify the program and make reforms that help borrowers.

We finally got some progress in this last year, in terms of having the Department of Education engage with us. We set up a task force, and we got them to expand the criteria so that, for instance, borrowers were not penalized for things like prepaying their loans, that they could submit one form for forgiveness, whether for PSLF or TE–PSLF, where before the Department was requiring individuals to be rejected for PSLF before they could even apply for TE–PSLF. And then we worked with the Department on this transparency.

Senator VAN HOLLEN. If the Chair would give me a little more time I would let you go on. I appreciate your answer——

Mr. STEELEY. Sorry.

Senator VAN HOLLEN. ——but we are limited. Madam Chair, could I continue my questions?

Chair WARREN. Of course you can.

Senator VAN HOLLEN. Well, thank you. No, look. I am glad you mentioned that. In fact, Senator Warren has been one of the people pushing really hard, along with many of us, but she has been just a champion in pushing to reduce the complexity of this program.

But the 98 percent denial rate is not due to complexity alone. That is the reason we are all here. It is because borrowers have not gotten the guidance that we certainly believe, and more importantly, the borrowers themselves believe that they should have received from those who were administering and servicing these loans. So it has taken what has admittedly been a complicated process and made it worse.

Mr. Remondi, I am going to submit to you this case of one of my Maryland constituents. He is an environmental scientist at the University of Maryland. He never missed a payment for 10 years. He made sure he was on the income-driven repayment plan. He was led to believe that that would put him on the path to PSLF. We have spoken to him. He never received counseling from Navient about the terms for forgiveness of his loan. Navient is the holder of his loan. He made his 120th payment, which was the final payment, and only then learned that because he had a family Federal education loan, FFEL loan, he was not eligible for forgiveness because he was on the IDR, and because he was put in forbearance more than once when Navient failed to process his income certification on time, his balance ballooned. In fact, today he owes $29,000, which is $5,000 more than he owed when he started paying his loans.

So here is a situation where somebody who paid on time, every time, it turns out never received any guidance from Navient. Don't you agree that this kind of miscommunication is a significant part of why we have a 98 percent denial rate and why people like my constituent are put in this kind of position?

Mr. REMONDI. Well, Senator, thank you for your question. There is a lot of complexity here with individual borrowers, and to your point, you are actually raising a really good point, is that public student loan forgiveness applies to only certain types of loans. It does not apply to FFELP loans owned by companies like Navient.

It does not apply to FFELP loans owned by the Department of Education.

There are also certain types of payments that you have to make. You have to make on-time payments. You cannot be late. You have to make full payments that are required under an eligible plan.

I do not know the individual circumstances of this borrower's case, but I would certainly be happy to look into it on behalf of you and your staff and see what we can do to resolve any challenges here.

One other point I would just make is that forbearance does not make you ineligible for qualifying for the program. It just does not count as a payment because it is not a payment.

But again, all of these rules and all of these requirements are set by the Department of Education, based on the statute. So I think as Mr. Steeley was indicating, and I have said, and even Ms. Perez had said, it is a complicated program, and she has seen her loan balance increase as she is in this. That is why we recommended today, in this hearing, a forgive-as-you-go option, so some of these programs are easier to understand and easier to qualify for.

Senator VAN HOLLEN. Right. My final follow-up here is, as I understand it, Navient does not service the PSLF loans. Correct? They are serviced by PHEAA?

Mr. REMONDI. Correct.

Senator VAN HOLLEN. So here is the situation. If this individual had discovered that he was in the wrong entity with Navient, he would have been transferred to PHEAA, right?

Mr. REMONDI. Well, in this particular case, Senator, we would have advised the customer to consolidate their loan into a direct loan so that it would have been eligible to participate in the public student loan forgiveness. The loan type he had was not eligible, and we do not service those loans.

Senator VAN HOLLEN. And then you would have lost that loan. Here is the situation.

Mr. REMONDI. We would have lost that loan, but we still recommend that process to all of our customers.

Senator VAN HOLLEN. Well, that is the issue, right, because it is hard to believe. This guy, my constituent, is a bright guy. He is paying for 10 years to Navient, and only after he has made his final payment, after conferring with Navient, then he discovers he is no longer qualified for the public service piece, after 10 years with Navient. Nobody told him, and I can assure you he asked. And it clearly was not in Navient's interest to let him know, because you would have lost the loan.

But look. I am going to send this to you, but I have to agree that it is complicated, and we are working on that, but 98 percent denial is not only the result of a complicated program.

Mr. REMONDI. I would be happy to take a look at it and report back to you, Senator.

Senator VAN HOLLEN. Thank you. Thank you, Madam Chair.

Chair WARREN. Thank you, Senator Van Hollen. And thank you all.

So we have got a few more questions to wrap this up. We have heard a lot today about canceling student debt and who would benefit, and I just want to do a couple more around this.

First, I want to ask the question about who the student borrowers are. Borrowers and graduates are not the same. About 40 percent of borrowers do not make it to a degree, so they are paying off student loans on a high school graduate's salary. And as Dr. Yannelis' research showed, about 20 percent of borrowers went to for-profit colleges, and they are much more likely to default on their debt.

Dr. Baker, let me just ask you. Some of your colleagues on the panel have argued that forgiving student debt disproportionately benefits wealthier borrowers. Is that correct?

Ms. BAKER. Well, I would argue that that is correct, based on the simulations that they have done. I think that there are other pieces that should also be taken into consideration.

If we think about the $50,000 plan, as a quick example, what you have to keep in mind is, let's think about—the Department of Education just released a report that says that if you cancel $50,000 in loans, 84 percent of the borrowers would have all of their debt wiped out. So you do that, then you have to think that that means 84 percent of those borrowers have less than $50,000. What do we know about those people? Those people are more likely to have less wealth. Those people are more likely to be Black and Brown.

The simulations that my colleagues are talking about often do not either take into consideration race or they make assumptions that are not quite as in line with the way that loan repayment works practically, that can sometimes underestimate the effects for wealth, generally, but also particular racial wealth gaps.

Chair WARREN. OK. That is very helpful, when you make the point about income and wealth.

You know, the analysis, at least that I have seen from others on the panel, works only with income, but if you consider all assets you see that people with student loan debt have lower total wealth, and there is a massive racial disparity in who has debt and how much debt they have.

So the primary beneficiaries of debt cancelation, as Senator Schumer and I have proposed, are not lawyers or doctors with fancy degrees. They are people who are trying to break into the middle class and are being held back by massive debt burdens.

The new data that has been released by the Department of Education for today's hearing shows that canceling up to $50,000 of student loan debt, as you right said, Dr. Baker, this is going to relieve the debt burden entirely for 36 million people, and, as you have said, we have to think about this as a racial justice issue.

Black and Brown students take on more debt to get their degree, and they have to get more education to overcome discrimination in the job market. Black students are nearly 20 percentage points more likely to take out Federal student loans than White students, and then when they graduate college they end up earning about 20 percent less than White graduates. These are racial disparities that cannot just be wished away. Fixing repayment programs is not enough.

We have heard a lot today about the problems with our current repayment programs such as income-based repayment, and I think all of us here today, however you got here, agree that we need to reform our repayment system to work better for borrowers.

But, Dr. Baker, let me ask. In your view, would improving programs like income-based repayment or the Public Service Loan Forgiveness, is that an adequate solution to the debt crisis?

Ms. BAKER. I would say no. I would say that the amount of reforms that most of us are talking about, when we try to think about the places that we want to have these programs be similar to, so like Australia is a great example, the amount of reform that it requires will take years to implement within the United States. And during that time, people will still be suffering.

That is why I talked about cancelation being tool that supplements reform, so that we could work both toward reforming the system but also trying to redress the harms that we have already done to current borrowers.

Chair WARREN. And as all folks were talking about, they are talking about a recent report that came out that said only 32 people had ever achieved forgiveness under income-based repayment. That is not 32 percent. That is 32 human beings, out of an estimated 2 million borrowers who could be eligible right now. It is shocking and it really drives home how much of a disaster these programs have turned out to be.

Mr. Looney, I thought put it very well when he said you talk to people who are burdened by these debts and they just feel hopeless. There is an oppression there, and I could not agree more.

We have tried piling one complicated program on top of another to help people manage their debts. I think today we should just declare that has been a complete failure. It is time to go big and to go simple. Wipe out a big chunk of this debt and give people an opportunity to start over. I think this is crucial.

And then one last thing I just want to see if we can tuck in here. Sometimes there is some confusion around the Higher Education Act and President's authority to forgive student debt. So Attorney General Healey, I just wanted to give you an opportunity to weigh in on this. What is the legal consensus on whether President Biden has the authority to cancel student debt through executive action?

Ms. HEALEY. Thank you. It is absolutely the case, in our view, and there is legal consensus that the President of the United States has the legal authority to cancel student debt. I can give you chapter and verse of 20 U.S.C. Section 1082 and the various subprovisions, but having analyzed this, that is our view, and I believe it is the consensus view out there that the President may authorize Secretary Cardona today to compromise and cancel these debts.

Chair WARREN. Thank you. I appreciate that. You know, President Obama canceled debt for more than 70,000 students that had been cheated by for-profit colleges. President Trump and President Biden have both exercised their authority to modify student loans by pausing payments and canceling 100 percent of the interest that accrues during this pandemic. As we speak, the Department of Education is currently canceling about $5 billion of debt per month in interest. President Biden's legal authority is absolutely clear.

We have heard a lot of facts and figures today about student debt. I just want to give Ms. Perez the last word here. Ms. Perez, you told Senator Smith what canceling $50,000 of student debt would mean for your family, and it was a very important piece of testimony here. Can I just ask the other side of that? What are you most worried about with payments on student loan debt resuming this fall?

Ms. PEREZ. Thank you. Now I have my twins in college. Now I am going to have more bills to pay. Last week I called my provider and I asked a few questions, but I am not really clear. I have to call again and see how my payments will be in September. I am just afraid that I will not be able to support my children and they will have to take more loans and go more into debt, because am going through it and I know what that will mean for them. My anxiety is escalating rather quickly.

Chair WARREN. I understand and I appreciate you coming here to talk with us about it today. I know this is hard.

The student debt crisis is not about numbers on a page. It is about real people who did everything we told them to do, took out loans to get an education, secure a spot in the middle class, and who are now trapped in a cycle of debt that is about families, and that is the point you make, Ms. Perez. This is about our families.

Management of the student debt crisis is a massive failure from top to bottom. Student borrowers should not be left holding the bag because of the failures of loan servicers and bureaucrats. President Biden can cancel $50,000 of student debt with the stroke of a pen today. He can start to close the racial wealth gap, and he can relieve the burden on borrowers and on our economy.

So that is the end of our hearing. Thank you to all of our witnesses for being here today. Thank you for providing testimony. Before we go I want to enter into the record a letter signed by more than 400 organizations, calling on President Biden to cancel student loan debt by executive action.

Senator WARREN. And for any Senators who wish to submit questions for the record, those questions are due 1 week from today, on Tuesday, April 20th. For our witnesses, you have 45 days to respond to any questions after that.

So thank you again for being here, and with that this hearing is adjourned. Thank you.

[Whereupon, at 4:54 p.m., the hearing was adjourned.]

[Prepared statements, responses to written questions, and additional material supplied for the record follow:]

PREPARED STATEMENT OF CHAIR ELIZABETH WARREN

Good afternoon and welcome to this year's first hearing of the Banking Committee's Economic Policy Subcommittee. And thank you to Ranking Member Senator Kennedy for working with me and with my staff to help make this a very successful hearing.

This Subcommittee has a mandate to examine the economy and how to make sure it works for all Americans. Given this mandate, there is no better topic for our first hearing than student loans and their impact on racial justice, on borrowers, and on the economy.

The student loan debt burden is massive, and it affects millions of families. About 43 million Americans owe more than $1.7 trillion in student loans. That is an average of almost $40,000 per borrower. Student loan debt takes a real bite out of personal finances. It can mean that borrowers cannot afford a new car or cannot get a mortgage or cannot launch a business or cannot start a family. This hurts them individually, but it also hurts the whole economy.

The burden is so heavy that when the pandemic hit, Republican and Democratic policymakers recognized that loan payments would just sink families. So first President Trump and then President Biden paused student loan payments and canceled accumulated interest. It was a smart move. But in a few months, those payments are scheduled to go up again.

America is facing a student loan time bomb. That, when it explodes, could throw millions of families over a financial cliff. The average borrower will have to start paying nearly $400 a month to the Government instead of spending that money out in the economy.

Student debt also makes racial disparities in America even worse, compared with White students. Black and Hispanic students are forced to borrow more money to go to school, borrow more money while they are in school, and have a harder time paying off their loans after graduation.

I am just going to do one statistic around this. Twenty years after taking out their student loans, median White borrowers owe about 6 percent of their original amount. The end is in sight. But after 20 years, median Black borrowers still owe 95 percent of the original amount they borrowed. Their path seems to stretch on forever.

We can help. Leader Schumer and I have urged President Biden to address this economic problem by using his existing authority to cancel $50,000 in student debt for each borrower. New data I obtained from the Education Department reveals the benefits of debt cancelation. The data show that if we cancel $50,000 in student loan debt, 36 million borrowers would be completely relieved of their debt burden. A significant number of these borrowers who would finally be free of student loan debt, 3.1 million people, have already been carrying debt burden for over 20 years.

It is time to act now. Republican and Democratic Presidents have a long history of using their statutory authority to cancel student loan debt. President Obama used this authority to cancel old debt for tens of thousands of students, and President Trump used this authority to cancel some debt, accrued interest, for 37 million Federal borrowers.

Canceling $50,000 in student loan debt would also help close the Black–White wealth gap among borrowers by 25 points. For Latinos, the gap would close by 27 points. This is the single most powerful executive action President Biden could take to advance racial equity and give everyone in America a chance to build a real future.

So I want to thank all of our witnesses for coming today. I look forward to hearing your testimony. And with that I will turn to Ranking Member, Senator Kennedy, for your opening remarks.

PREPARED STATEMENT OF SENATOR JOHN KENNEDY

Thank you, Madam Chair. I will try to be brief. We have a distinguished panel of witnesses that I would like to hear from today. I think this is a timely subject. I have many questions, and I hope to get educated today.

Why student debt? Why not credit card debt? Why not automobile loan debt? Why not mortgage debt, if we are going to forgive debt? How do we be fair to all Americans? What role, if any, did our universities play in the accumulation of all of this student debt? I am not sure that this is the right place to address education policy but if anybody knows the answer I would like to know why some college textbooks cost as much as I paid for my first car.

And these are the kinds of issues that I hope that we can address today. What are the demographics of the people who owe student debt? Is there really—and I am not suggesting there is not; I do not know—is there a racial gap? How equitable is it to ask taxpayers who have not gone to college to pay for those who have gone to college? These are the kinds of issues that I hope we can address today, and as I say, my mind is open, and I am looking forward to hearing the answers.

And with that I will turn it back over to our distinguished Chair, with whom I have worked closely setting up this hearing, and I enjoyed every minute of it.

PREPARED STATEMENT OF AYANNA PRESSLEY

REPRESENTATIVE OF MASSACHUSETTS

APRIL 13, 2021

Good Afternoon, Madam Chairwoman, Mr. Ranking Member and distinguished Members of the Committee. Thank you for the opportunity to testify here today.

I believe that each day it is our privilege and responsibility as lawmakers to center the people. We are in a position to fundamentally change the lives of the people we represent with the stroke of a pen. When the history books are written, this moment will be defined by the actions we took in the face of unprecedented crisis and economic pain.

I have become all too familiar with the gentle tug of my sleeve or the panicked expression as I meet the eyes of someone drowning in student debt. The grandmother, who is still paying off student loans for credits at an institution that shuttered its doors without a degree in hand. The young mom who can't afford childcare and her student loan payments that outpace her rent. The teacher who fears every month that he's putting his teaching license at risk because he can't come up with the minimum payment on his student loans.

The student debt crisis is not naturally occurring. This crisis was crafted in these hallowed halls. Policy decisions were made that ensnared generations in the student debt trap. Congress crafted through policy and deregulation an economy where college degrees are increasingly essential for economic survival but their sticker price is far out of reach for many families.

Make no mistake, the student debt crisis has always been both a racial and economic justice issue. It's past time we speak plainly about the fact that the student debt crisis has exacerbated deeply entrenched racial and economic inequities in our Nation.

In the City of Boston, the city my family calls home, the average median wealth of a White family is $247,500. The average median wealth of a Black family is $8. Eight. That is not the result of ingenuity, work ethic, or initiative. That is the result of precise and intentional policy decisions made in the halls of this institution and at every level of Government all the way down. Discriminatory policies that systematically denied families of color the opportunity to own a home or build wealth.

So for our students who don't have the benefit of intergenerational wealth—specifically our Black and Brown students—signing on the dotted line for those student loans has been the only way to pursue a degree. Black, Brown, and first generation students, too, deserve a wage They deserve the freedom to build a full life and pursue their unique gifts and contribute to every sector of the economy.

We must take bold action to address the inequities and disparities in our country and use every tool available to provide our communities with the critical relief they so desperately need.

Our Nation and this Subcommittee are facing an economic crisis.

Canceling student debt—by executive action—is one of the most effective ways President Biden can provide sweeping relief to millions of families, help reduce the racial wealth gap, and begin to build the groundwork for an equitable and just long-term recovery.

If President Biden is serious about closing the racial wealth gap, then he must use his executive authority to issue broad-based, across the board student debt cancelation.

It is clear that Congress gave the President the authority to do so through the Higher Education Act. I implore him to use this authority in the pursuit of economic and racial justice.

During the 2008 financial crisis, lawmakers bailed out Wall Street and abandoned Black and Brown communities who lost everything. Many have yet to recover.

In a matter of months, student debt payments will resume for millions of people across this country. These same people, disproportionately people of color, who are now struggling with pandemic-related financial stress through no fault of their own, will have an additional bill to keep them from reaching economic stability and peace of mind.

So, as we work to ensure an equitable and prompt recovery to the current economic crisis, we can't afford to make the same mistakes of the past. We must be intentional and precise. And student debt cancelation is an efficient and effective way to provide families across this Nation with economic relief and opportunity.

In the Commonwealth of Massachusetts, over 855,000 student borrowers owe more than $33.3 billion in student loan debt. Their average student loan balance is more than $35,000.

I represent the Massachusetts 7th Congressional District—one of the most vibrant and diverse districts in the country—but also one of the most unequal.

In every State and every district across the country, student debt is trapping our constituents in an income to debt ratio that prevents them from securing mortgages and loans to start businesses that would contribute to the economy and our communities. As lawmakers, we have a responsibility to ensure that our long-term recovery efforts leave no community behind.

We must invest in the people.

That's why student debt cancelation is good economic policy. It is an investment in the people—particularly Black and Brown families.

That's why Senator Warren and I, in partnership with Senate Majority Leader Schumer and our colleagues have led a resolution that calls on President Biden to cancel $50,000 in student loan debt and lays out a pathway for him to do so.

With the stroke of a pen, President Biden can provide direct relief to tens of millions of families across the country, help close the racial wealth gap, and set our Nation on a path to a long-term, equitable recovery.

I'll close today where I started, centering the people, in their own words. A constituent of mine recently shared their story with me: We are a family of 5 with a child with disabilities—I have over one-hundred-thousand dollars in student debt. I put myself through my bachelors and masters with children. I've had to file bankruptcy because of my student debt—please don't forget about us in this process. Please think of us when talking about debt relief. Lord knows it would change our lives.

I know what it feels like to wake up in a cold sweat over a student loan in default. The economic anxiety and pressure caused by student loan debt is an experience far too familiar for Americans. But those of us with a comma and a title after our name are in a position to make a profound impact. President Biden can cancel student debt and together we can build a more just economic system. Thank you.

PREPARED STATEMENT OF BYRON DONALDS

REPRESENTATIVE OF FLORIDA

APRIL 13, 2021

Chairwoman Warren, Ranking Member Kennedy, thank you for inviting me to testify in front of the Committee on the important discussion surrounding student debt.

Let me begin with one word of absolute truth before delving more into the specifics of the issue at hand—and that is that nothing in this world is free. Someone is always paying. Even with charity: if a doctor sees a patient and decides not to charge them, then the doctor himself pays that debt through services provided without being compensated. Whatever his compensation would have been, that is how much he paid so that his patient wouldn't have to. When our Government doles out two trillion dollars in emergency spending, like we did last month, no matter how good or noble the cause may seem, it is either this generation or the next who must pay the tab. Money that this Government spends does not disappear—it's why right now, we are nearly thirty trillion dollars in debt; that means every U.S. taxpayer is responsible for $225 thousand dollars of public debt. Each time Washington spends money, it adds up, and there will come a day when the bill collector comes, and it won't be pretty and may ultimately be the undoing of this republic if Congress is not more prudent in how it spends other people's money.

On the topic of today's hearing, Democrats in Congress and the President himself have made clear their desire to "cancel" student loan debt. This, while clearly a political ploy meant to keep Democrats in power by hoodwinking the American people into thinking their debt won't impose a cost on society, will not solve the problem that all of us recognize needs fixing. I understand the convenient messaging of telling Americans that the money they owe can just disappear. But that's not the case. If this policy moves forward, it will result in even higher tuition costs for students who plan to go to college in future years, with disastrous collateral damage elsewhere to the economy—including and especially to lower-income families and African-American communities.

Who should we suppose will pay the hundreds of billions of dollars that is currently owed? Do we force colleges to repay money given to them for the asset of a college degree, meaning that the thousands of teachers and professors in this country cannot get paid or will lose their jobs? Where would universities get the funds to pay them, if the students who fund their livelihoods in exchange for a degree so that they can go out and get a job don't actually have to pay for the invaluable education they received from these teachers?

Or perhaps the "wealthiest among us" should, once again, be called upon to pay more. These are the very job creators who newly graduated college students will need to hire them and pay them so that they can survive on their own and become contributing members of their communities. If we start taking away from their pool of funds, that is not a solution to the problem.

Lastly, do we call upon those individuals who did not go to universities to pay for those who did? Ultimately, it is very likely that is what this Democrat proposal will do, forcing individuals at the lower end of the income spectrum (which trends Black more than White) to pay to have privileged students get their liberal arts degree.

A study conducted just last year found that, under a universal loan forgiveness policy like the one that the President and Democrats in Congress have proposed, individuals at the top of the earnings decile would receive more than five times the loan forgiveness as an individual in the lowest income bracket. Furthermore, the study determined that "households in the top 30 percent of the earnings distribution receive almost half of all dollars forgiven."[1] So you see Chairwoman Warren and Ranking Member Kennedy, loan forgiveness policies like those that have been discussed will actually be a regressive tax policy disproportionately benefiting the rich at the expense of the middle class and low-income workers, which as has been discussed here today trend Black more than White. Let's be honest with the American people when we talk about the Democrat loan forgiveness policy.

I am no stranger to student loan debt myself—in fact, at this very moment I still have student loans I am paying back each month. And yet I wouldn't be here today without my education from Florida A&M University and Florida State University, for which I am incredibly grateful for the opportunity I had to attend and learn. There is no question that my education was worth far more than what I am still paying back—and because I received that education, and I benefited from that, it is my responsibility to pay for it.

But as we know, not everyone who attends college ends up with a degree that is worth the dollars spent attaining it. Time is too short to deliberate here today what type of educations are worth more than others, but it is time we look to ensure that public dollars spent on public education have a public return on investment. If it is my taxpayer dollars, and the taxpayer dollars of constituents in my district in Naples or Fort Myers or Cape Coral or elsewhere, going toward funding someone else's education in California or New York or Minnesota, then there better be a return on our investment that is at least equal to what we paid into it. Maybe not directly to us in Florida, but for the benefit of our Nation. That's not to say that everyone shouldn't be able to choose whatever field of study they desire—but if public dollars are involved, then there needs to be a correlation to a public good.

That said, the priority of this Congress and this Committee should be on controlling the ballooning costs and expenses of colleges and universities in our country. A 2017 study by the Federal Reserve Bank of New York found that, for every dollar of subsidized Federal loans, tuition increased 60 cents.[2] If the ultimate goal is to increase the cost of going to college, the Democrat plan will do just that. Not only does "canceling" student debt fail to solve the problem, but it will also actually make the problem even worse by driving up tuition costs. This is irresponsible governing, and it is something we must all fight against.

Once again, I am grateful to be invited to participate in today's hearing, and I encourage us all to look at the very real problem of the rising costs of tuition and seek to address this in a way that is not a short-term fix, but a real long-term solution. Thank you.

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[1] *https://bfi.uchicago.edu/wp-content/uploads/2020/11/BFI-WP-2020169.pdf*
[2] *https://www.newyorkfed.org/medialibrary/media/research/staff-reports/sr733.pdf?la=en*

PREPARED STATEMENT OF MAURA HEALEY

ATTORNEY GENERAL, STATE OF MASSACHUSETTS

APRIL 13, 2021

Chair Warren, Ranking Member Kennedy, and Members of the Subcommittee, thank you for inviting me to testify today on the student debt crisis and its impact on racial justice, student borrowers and the economy. I am Maura Healey, the Attorney General of Massachusetts. I appreciate the opportunity to share my insights as to why debt cancelation is essential to aid struggling borrowers, boost our economy, and help close the racial wealth gap.

My Office is on the frontlines of this $1.7 trillion crisis, fighting on behalf of student borrowers in Massachusetts. What we have learned from doing this work is that the student loan system is fundamentally broken and taking a devastating toll on countless Americans. It is a system that has enabled for-profit schools to deceive and defraud vulnerable students—particularly targeting students of color—who were seeking a better life. It is a system that has recklessly saddled parent borrowers with loans they cannot possibly repay. It is a system that has failed to deliver on the promise of loan forgiveness to thousands of public servants. And it is a system that has hollowed out the futures of millions of young people and left them with broken dreams and a lifetime of insurmountable debt.

We have seen the catastrophic consequences of default for borrowers who are unable to navigate the unduly complicated and opaque loan repayment and forgiveness programs available to them. Nearly a quarter of borrowers are in default on their Federal student loans, putting them at risk of administrative wage garnishment, seizure of Social Security retirement and disability income, loss of earned income tax credits, and long-term credit damage. We have seen borrowers forced to delay starting families, getting homes, buying cars, obtaining health insurance, or starting businesses. And we know the burden of student debt is disproportionately borne by people of color.

Loan servicers, paid with taxpayer money, have failed to do their jobs to help borrowers access repayment and forgiveness programs, rendering these programs inadequate for addressing the current crisis and the damage it has caused. The Department of Education (Department) has the authority to provide necessary debt relief, and should do so swiftly and aggressively.

1. Student Debt Has Serious Negative Effects on Households and the Economy, and Exacerbates the Racial Wealth Gap

Most students have no choice but to go into significant debt to afford higher education, and this is especially true for low-income students and students of color. As many as one-in-five Federal student loan borrowers are in default.[1] The impact of this debt is not only devastating for individual borrowers, but has a ripple effect on their local communities and collectively on the national economy. Looking at this crisis in context illustrates the broad-reaching consequences of failing to address it.

A. There Is $1.71 Trillion in Student Loan Debt Owed by Nearly 45 Million Americans

The amount of Federal student debt owed is staggering. Of the total outstanding $1.71 trillion student loan debt, $1.57 trillion constitutes Federal loans owned or guaranteed by the Department. It is nearly as much as the annual revenues of the top six Fortune 500 companies, and stacked up in hundred-dollar bills, it would be more than 200 times the height of Mount Everest.

Millions of students and their families are collapsing under the heavy weight of this financial burden. Many owe more than when they began repayment due to capitalized interest. Data suggest that 5 years into repayment, half of student loan borrowers have not paid even $1 toward their debt's principal.[2] Default rates are steadily increasing. Over one million borrowers entered default in 2019 alone.[3] Trends show that cumulative default rates continue to rise between 12 and 20 years after borrowers enter repayment, suggesting that nearly 40 percent of borrowers may de-

[1] The Pew Charitable Trusts, "Student Loan Default Has Serious Financial Consequences", *https://www.pewtrusts.org/-/media/assets/2020/04/studentloandefaulthasseriousfinancialconsequences.pdf* (2020).

[2] Nova, Annie. "Trump Administration Official Resigns, Calls for Massive Student Debt Forgiveness". CNBC, *https://www.cnbc.com/2019/10/24/student-loan-official-resigns-calling-for-massive-debt-cancelation.html* (last visited on April 7, 2021); The Pew Charitable Trusts, "Student Loan System Presents Repayment Challenges", *https://www.pewtrusts.org/-/media/assets/2019/11/psbs-report.pdf* (2019).

[3] The Institute For College Access and Success, "Student Debt and the Class of 2019", *https://ticas.org/wp-content/uploads/2020/10/classof2019.pdf* (2020).

fault on their student loans by 2023.[4] Struggling borrowers are unable to obtain meaningful relief in bankruptcy because under current law, Federal student loans are not dischargeable except under extremely narrow circumstances. The long-term economic and social consequences of the pandemic will exacerbate defaults as many Americans have experienced job loss or health emergencies and COVID–19 relief will expire later this year.

Borrowers rely on their loan servicers for default prevention and to help them navigate the complex Federal programs enacted to enable them manage their payment obligations, including income-driven repayment (IDR) plans and Public Service Loan Forgiveness (PSLF). But, the existing system is broken, having long been plagued by servicing misconduct that has trapped many borrowers in unaffordable debt by denying them access to these programs.

The explosive growth in student loan debt in the United States, the rising defaults, and the failure of loan servicers to help borrowers access debt management programs bears stark similarities to the 2008 financial crisis. In short, we have seen the long-lasting economic consequences of consumer debt burdens and need to act swiftly and aggressively to alleviate them.

B. The Burden of Student Debt Is Not Borne Equally and It Exacerbates Racial, Gender, and Wealth Disparities

Although education is supposed to be the great equalizer, the burdens of student loan debt are not shared equally. Black students borrow more frequently, graduate with more debt, pay off their student loan debt at a slower rate, and have much higher rates of default. Four years after graduating with a bachelor's degree, Black college graduates have nearly $25,000 more student loan debt—an average of $52,726 in student debt, compared to $28,006 for the typical White graduate.[5]

For-profit schools, which account for a disproportionate share of student loan defaults, have had a particularly large impact on students of color. While Black and Latinx students together make up 36 percent of all students enrolled in undergraduate study, they represent more than half of undergraduates at for-profit colleges.[6] Predatory for-profit schools routinely target Black and Latinx students in their recruitment efforts.

Women are also disproportionally burdened by student loans. They hold nearly two-thirds of the Nation's student loan debt and graduate owing almost $22,000, compared to $18,880 owed by men. Black women graduate with even more debt than White women, owing an average of $37,558 upon graduation.[7]

Student loans increasingly burden older Americans, including those who went back to school as adults for retraining and parents who borrow using Parent PLUS loans for their children. The number of Americans aged 60 and older with student loan debt quadrupled between 2005 and 2015, from 700,000 to 2.8 million.[8] The Consumer Financial Protection Bureau (CFPB) identified this group as the "fastest growing age-segment of the student loan market" and estimated that they owed $66.7 billion in student loans in 2015.[9]

C. The Student Debt Crisis Harms Our Wider Economy

The effects of the student loan debt crisis are not just felt by individuals, they are also borne by the wider community. Borrowers with substantial student loan debt cannot afford to become the public servants that our communities rely on to keep us safe, healthy, and educated. They are often unable to participate in full economic activity and may be delayed or hampered in starting new businesses, buying a car, renting an apartment, purchasing a home, or continuing with their education. They delay traditional life milestones, like getting married or starting a family and they lack the financial stability to weather a recession. Such borrowers are often unable to save for retirement and may enter retirement with little or no savings.

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[4] Scott-Clayton, Judith, "The Looming Student Loan Default Crisis Is Worse Than We Thought", *https://www.brookings.edu/wp-content/uploads/2018/01/scott-clayton-report.pdf* (2018).

[5] White House Initiative on Educational Excellence for African-Americans, "Fact Sheet: Black College Graduates and the Student Debt Gap". *https://sites.ed.gov/whieeaa/files/2016/11/Black-College-Graduates-and-the-Student-Debt-Gap.pdf* (Last visited on April 7, 2021).

[6] The Institute For College Access and Success, "The Evolution of the For-Profit College Industry", *https://ticas.org/wp-content/uploads/2020/01/the-evolution-of-the-for-profit-college-industry.pdf* (2019).

[7] American Association of University Woman, "Fast Facts: Women & Student Debt", *https://www.aauw.org/resources/article/fast-facts-student-debt/* (last visited on April 7, 2021).

[8] Consumer Financial Protection Bureau, "Snapshot of Older Consumer and Student Loan Debt", *https://files.consumerfinance.gov/f/documents/201701-cfpb-OA-Student-Loan-Snapshot.pdf* (2017).

[9] Id.

2. The Massachusetts Attorney General's Office Has Been a Leader on Student Debt Issues and Has Firsthand Knowledge of the Impact of This Crisis

Addressing the student debt crisis has been a top priority since I took office in 2015. My Office was one of the first Attorneys General's Offices to establish a Student Loan Assistance Unit to help individuals in real time with their student loan problems, including understanding their repayment options, identifying errors in their accounts, and accessing programs to avoid and get out of default. We have led numerous enforcement actions against student loan servicers to protect borrowers' rights to obtain loan forgiveness under Federal programs such as PSLF and IDR plans. Over the last 4 years, we brought multiple actions against the Department to ensure that borrowers entitled to loan discharges under the Borrower Defense to Repayment regulations would be able to obtain such relief. Through this work, I have observed the devastation faced by families struggling with student loan debt, the broader impact of this crisis on our economy, and the inadequacy of the current system for addressing these problems.

A. Borrower Advocacy

Our designated Student Loan Assistance Unit (Unit) advocates for borrowers by helping them communicate with their loan servicers, getting information about their accounts, resolving disputes, assisting with applications for Federal programs and helping borrowers understand the requirements for IDR plans, PSLF and other programs. The Unit's staff is on the frontlines of the student loan crisis every day. Over the past four years, the Unit has annually received an average of 2,600 hotline calls and 950 written help requests and generated savings and refunds of $1.5M for student loan borrowers each year. The Unit's staff speaks with borrowers who have found their way to my Office in despair. Many have been struggling with student loan debt for years and in some cases—for decades.

The work of this Unit has afforded our office an inside view into the problems confronted by borrowers and the inordinate complexities of the systems that they are routinely required to navigate, often with grossly inadequate information and assistance from the private companies hired to service their loans. From inside the Student Loan Assistance Unit, it is clear that the system is plagued by servicing errors and abuses that have trapped borrowers in unaffordable debt by denying them access to vital programs like IDR and PSLF.

Although our Student Loan Assistance Unit has achieved significant outcomes for individuals, ultimately, a borrower-by-borrower approach to ensuring that loan servicers are identifying and correcting account errors and helping students access Federal debt assistance programs is an inefficient and ineffective way to combat the student debt crisis.

B. Litigation

In August 2017, my Office brought a lawsuit against the Pennsylvania Higher Education Assistance Agency, d/b/a FedLoan Servicing, challenging a variety of student loan servicing practices. PHEAA is one of the largest student loan servicers in the country and manages the Federal loan accounts of over 200,000 Massachusetts residents. The lawsuit alleged, in part that PHEAA: (i) prevented borrowers participating in the PSLF program from making progress towards and achieving loan forgiveness by depriving them of the opportunity to make necessary payments to obtain forgiveness and by misrepresenting the eligibility requirements of the program and (ii) prevented borrowers from timely obtaining affordable IDR plans.

The resolution of the PHEAA case, reached 2 months ago in February, provides significant relief to public servants and borrowers affected by these practices. The settlement requires PHEAA to conduct individual loan account audits for every Massachusetts borrower with a Federal student loan upon submission of a claim form. If every eligible borrower requests an audit, PHEAA will conduct over 200,000 reviews for Massachusetts alone. The settlement sets forth the scope of the audit and broadly applies to a wide variety of servicing errors, and provides borrowers with loan account corrections and monetary payments. Obtaining the loan account correction relief required significant advocacy to and negotiation with the Department, which owns the loans had has the exclusive authority to permit account corrections. Notably, the Department does not allow corrections for every type of servicing error, including when a servicer misrepresents certain eligibility requirements of the PSLF program.

The PHEAA litigation and resulting settlement illustrates how barriers erected by loan servicers and the Department have prevented borrowers from managing repayment and obtaining loan forgiveness. It also highlights the inefficiencies of using enforcement actions or a borrower-by-borrower approach to address the student debt crisis. It took over 3 years of hard-fought litigation preceded by a year-and-a-half long investigation before we were able to obtain this resolution, and the relief is only available to Massachusetts borrowers. In order to identify borrowers harmed by PHEAA's servicing errors, individualized audits of potentially hundreds of thousands of loan accounts are necessary because PHEAA's servicing system is insufficient to identify errors and the borrowers affected by them.

PHEAA is not the only Federal loan servicer to face scrutiny. State Attorneys General and the CFPB have also filed lawsuits against Navient, another of the Nation's largest Federal loans servicers. These lawsuits allege that Navient routinely misled struggling borrowers about their repayment options. Rather than taking the time to counsel borrowers and help them enroll in more affordable IDR plans, Navient allegedly steered borrowers into costly long-term forbearances that resulted in hundreds of millions of dollars being added to their loan balances. Notably, despite routinely representing to borrowers that Navient would help them find affordable repayment options, in the course of these litigations, Navient has argued that, "there is no expectation that the servicer will act in the interest of the consumer."The lawsuits filed against Navient by Government regulators also allege that the company used faulty methods to notify borrowers of the steps they needed to take to continue making income-driven payments, and that the company misapplied and misallocated borrowers' payments. Finally, some of these lawsuits allege that Navient made millions of dollars in predatory high-risk loans to students attending for-profit colleges that had low graduation rates and provided graduates with scant employment prospects. Navient allegedly knew that the borrowers would be unable to repay these loans, but made them in order to build business relationships with schools and secure other types of loan volume.

I have also devoted significant resources to confronting the widespread abuses and financial devastation wrought by predatory for-profit schools. For-profit schools account for a disproportionate percentage of defaults and often do not lead to gainful employment. To address this, my office has brought enforcement actions against over a dozen such schools in Massachusetts, including several large national chains that lured students with false promises and left them with worthless degrees, few job prospects, and insurmountable debt.

Our enforcement actions against for-profit schools led the Obama administration to grant tens of millions of dollars in Borrower Defense discharges to thousands of Massachusetts students relating to Corinthian Colleges, Inc. and American Career Institute. However, these discharges are just a drop in the bucket, and our efforts to secure Borrower Defense discharges for other defrauded students have been stymied by the previous Administration. In the past 4 years, my office has repeatedly sued the Department to obtain discharges and to uphold sensible Borrower Defense and Gainful Employment rules that are intended to protect not only borrowers, but also taxpayers and the Federal fisc.

3. The Department of Education Should Exercise Its Authority To Forgive $50,000 of Federal Loan Debt for Every Student Borrower

In light of the harms caused by these systemic failures and the overwhelming burden facing borrowers, President Biden should direct Secretary Cardona to cancel up to $50,000 in Federal student loan debt for every student borrower. Such debt forgiveness is within the Secretary's statutory authority and would provide critical relief to borrowers.

The general powers enumerated in the Higher Education Act (HEA) provide the Secretary with the authority to effectuate broad debt relief. The HEA authorizes the Secretary to "enforce, pay, compromise, waive, or release any right, title, claim, lien, or demand, however acquired, including any equity or any right of redemption." 20 U.S.C. §1082(a)(6) (emphasis added).[10] By statute, the exercise of the Secretary's authority to compromise debt "shall be final and conclusive upon all accounting and other officers of the Government." 20 U.S.C. §1082(b). The only statutory restriction placed on this authority is the requirement that the Secretary "not enter into any settlement of any claim under [Title IV] that exceeds $1,000,000" without requesting "a review of the proposed settlement of such claim by the Attorney General," Id. The HEA thus provides the requisite authorization for the Secretary to engage in broad debt reduction.

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[10] While this language is included in the portion of the HEA specific to FFELP, the Secretary regularly relies on the general powers conferred to the Secretary under these provisions in administering other Title IV programs, including the Direct Loan program. Additionally, the portion of the HEA governing Federal Perkins loans includes a comparable grant of authority to the Secretary. See 20 U.S.C. 1087hh.

Discharging up to $50,000 in Federal student debt owed by each student loan borrower would provide immediate relief to millions of struggling borrowers and give a much-needed boost to our economy. Such broad cancelation of Federal student loan debt would also help remedy predatory practices that have disproportionately harmed people of color and create a viable future for millions of Americans. Indeed, an expert analysis projected that such a policy could amount to total loan forgiveness for over 75 percent of households with student debt and result in meaningful gains to net worth for households of color.[11] By permitting borrowers to increase their consumption and investments, such debt forgiveness would have the additional effects of increasing home ownership, allowing borrowers to complete their educations, and empowering borrowers to pursue professional opportunities.

I appreciate the opportunity to share these views with the Subcommittee and thank the Subcommittee for its careful examination of these important issues. Please do not hesitate to contact me for any additional detail or clarity, or with any questions you may have.

[11] Elizabeth Warren Website, *https://elizabethwarren.com/wp-content/uploads/2019/04/Experts-Letter-to-Senator-Warren-.pdf* (last visited on April 7, 2021).

PREPARED STATEMENT OF DOMINIQUE BAKER

ASSISTANT PROFESSOR OF EDUCATION POLICY, SOUTHERN METHODIST UNIVERSITY

APRIL 13, 2021

Chair Warren, Ranking Member Kennedy, and members of the Subcommittee, thank you for inviting me to testify before you today. As a scholar of education policy, I am honored to provide an overview of the evidence on student debt burden and its role in the larger economy, especially its impact on racial justice.

I speak to you in the midst of the COVID-19 pandemic and in the throes of political unrest and uprisings for racial justice. During this time, the United States faces tremendous challenges and opportunities. As we work to forge a path forward as a nation, millions of current and former college students also wonder about their own financial futures and their prospects for repaying their student loans.

Federal financial aid plays a critical role in helping students afford a college education. Yet the system is beset by long-standing inequities that disproportionately affect students of color, low-income students, and students from other groups historically underrepresented in higher education. In a moment of crisis like the current pandemic, it is all the more imperative to acknowledge and address these inequities in student loan borrowing and repayment, as well as the factors that contribute to them. The economic disruption due to COVID-19 has already exacerbated the challenges facing students and borrowers, and will continue to do so over both the short and long term.

Wealth and Student Loan Reliance

In the United States, an individual's economic circumstances, particularly their family wealth, dictate that individual's higher education options. Decades of research have shown time and again that poorer young people have fewer opportunities to attend college.[1] Scholars have found that the socioeconomic status of parents is strongly correlated with children's postsecondary education decisions and outcomes, including whether to enroll, where to enroll, and whether to persist and complete college.[2] Additionally, research has shown that when parents lose their jobs, their children are less likely to enroll in postsecondary education.[3]

Historically, some families have been afforded greater opportunities to build wealth, often with the support of past governmental policies and programs.[4] Such families—including a disproportionate share of White families—are better able to navigate short-term income losses

[1] Feiveson, L., & Sabelhaus, J. (2018). How does intergenerational wealth transmission affect wealth concentration? *Board of Governors of the Federal Reserve System*. Retrieved from https://www.federalreserve.gov/econres/notes/feds-notes/how-does-intergenerational-wealth-transmission-affect-wealth-concentration-20180601.htm

[2] Bailey, M. J., & Dynarski, S. M. (2011). Inequality in postsecondary education. In G. J. Duncan & R. J. Murnane (Eds.), *Wither opportunity?: Rising inequality, schools, and children's life chances (pp. 117-132)*. New York: Russell Sage Foundation.

Perna, L. W. (2006). Studying college access and choice: A proposed conceptual model. In *Higher Education: Handbook of Theory and Research* (pp. 99-157). Springer.

Wapole, M. (2003). Socioeconomic status and college: How SES affects college experiences and outcomes. *The Review of Higher Education, 27*(1), 45-73.

[3] Ananat, E. O., Gassman-Pines, A., Francis, D. V., & Gibson-Davis, C. M. (2017). Linking job loss, inequality, mental health, and education. *Science, 356*(6343), 1127-1128.

[4] Katznelson, I. (2005). *When affirmative action was white: An untold history of racial inequality in twentieth-century America*. WW Norton & Company.

and are more likely to be able to afford a college education, whether by paying outright or, critical to today's hearing, by repaying loans. Wealth—incorporating such measures as savings, investments, retirement funds, and real estate—plays a substantial role in whether or not someone goes to college. Recent research analyzed a nationally representative sample of youth born from 1980 to 1984 and found that wealth plays a larger role than income in students' decisions about whether to enroll in higher education and in which college or university to enroll (e.g., two-year vs. four-year).[5] Consequently, the difference between wealth and income is vitally important when thinking about college attendance. For example, when confronted with the loss of a job (income), a family with a significant amount of money saved (wealth) faces very different circumstances than a family without such resources.

Given that wealth plays an important role in college access, it is important to recognize the extreme variation in wealth due to structural racism. A Federal Reserve System report notes that the typical Black and Hispanic family hold just 10% and 12%, respectively, of the net wealth that White families hold ($17,600 and $20,700, respectively, compared to $171,000).[6] These types of disparities between racial/ethnic groups remain even when examining families with similar educational backgrounds. In addition, scholars have found evidence that, while increases in wealth are associated with a decrease in student debt accumulation for White young adults, the same is not true for their peers. Black families with significant wealth still borrow substantial amounts of student loans and the largest disparities in student debt accumulation are at the highest levels of Black parental net worth.[7] Taken together, these research findings suggest that wealth has a substantial relationship with college-going experiences, but racial disparities also factor into this process.

Who Borrows?

Many students and families rely on borrowing to pay for college. Total U.S. student loan debt reached almost $1.6 trillion at the end of 2020.[8] In light of the aforementioned wealth disparities, reliance on student loans is far from equally distributed among students and families. Overall, 55% of student borrowers hold less than $20,000 in student loan debt and it is rare for students to have six-figure loan balances.[9] However, students who attend for-profit institutions borrow significantly larger amounts to attend these institutions.[10] Further, there are significant differences in who borrows based on structural racism.[11] In fact, when we look at students who

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[5] Jez, S. J. (2014). The differential impact of wealth versus income in the college-going process. *Research in Higher Education*, *55*(7), 710-734.
[6] Dettling, L. J., Hsu, J. W., Jacobs, L., Moore, K. B., & Thompson, J. P. (2017). *Recent trends in wealth-holding by race and ethnicity: Evidence from the Survey of Consumer Finances.* Washington, DC: Board of Governors of the Federal Reserve System.
[7] Addo, F. R., Houle, J. N., & Simon, D. (2016). Young, Black, and (still) in the red: Parental wealth, race, and student loan debt. *Race and Social Problems 8*(1), 64–76.
[8] Federal Reserve Bank of New York. (2021) *Quarterly report on household debt and credit*. Washington, DC: Federal Reserve Bank of New York.
[9] Ma, J., Pender, M., & Libassi, C. J. (2020). *Trends in College Pricing and Student Aid 2020*, New York: College Board.
[10] Cottom, T. M. (2017). *Lower ed: The troubling rise of for-profit colleges in the new economy*. New York: The New Press.
[11] Addo, F. R., Houle, J. N., & Simon, D. (2016). Young, Black, and (still) in the red: Parental wealth, race, and student loan debt. *Race and Social Problems 8*(1), 64–76.

earned a bachelor's degree in 2015-2016 (the most recent data available), we find that 64% of Black students held at least $20,000 in student debt.[12] And, while often overlooked due to smaller population shares, American Indian, Alaska Native, Native Hawaiian, and other Pacific Islander students also borrow at above-average rates (76% and 90% for bachelor's degree earners, respectively, compared to an overall average of 69%).[13] Further, while women are more likely to borrow more than men,[14] one study I conducted at the state level found that women of color—and Black women in particular—drive these findings.[15] Finally, a group of borrowers the public often fails to consider are older adults. Older adults can have excessive loan borrowing due to the loans they took out for themselves as well as their children through the Direct PLUS Loan program. In fact, a Consumer Financial Protection Bureau report showed that older adults are the fastest-growing age group of borrowers.[16] Even among this age group, a nationally representative survey from AARP demonstrates that there is still significant racial variation in who holds student loans as an older adult.[17]

Student Loan Repayment Issues

Compounding the inequities in students' and families' ability to afford college are structural and systemic barriers related to student loan repayment. When it comes to paying down student loans, there is evidence at both the federal and state levels that specific subgroups of students are more likely to struggle: students who do not complete their degree, students who attend for-profit institutions, and students who are Black.[18] As a result, these students face a greater risk of defaulting on their student loans, having their credit adversely affected, having their wages

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Houle, J. N., Addo, F. R. (2019). Racial disparities in student debt and the reproduction of the fragile Black middle class. *Sociology of Race and Ethnicity, 5*(4), 562–577.
Seamster, L., & Charron-Chénier, R. (2017). Predatory inclusion and education debt: Rethinking the racial wealth gap. *Social Currents*, *4*(3), 199-207.
Taliaferro, W., Taylor, T., & Wheatle, K. (2021). *Changing the narrative on student borrowers of color*. Washington, DC: Lumina Foundation. Retrieved from https://www.luminafoundation.org/wp-content/uploads/2021/02/borrowers-of-color-2.pdf
[12] Baum, S., Ma, J., Pender, M. & Libassi, C. J. (2019). *Trends in Student Aid 2019.* New York: College Board.
[13] Taylor, M., Turk, J. M., Chessman, H. M., & Espinosa, L. L. (2020). *Race and ethnicity in higher education: 2020 supplement.* Washington, DC: American Council on Education.
[14] AAUW. (2017). *Deeper in debt: Women and student loans*. Washington, DC: Author. Retrieved from https://www.aauw.org/app/uploads/2020/03/DeeperinDebt-nsa.pdf
AAUW. (2020). *Deeper in debt: Women and student loans in the time of COVID.* Washington, DC: Author. Retrieved from https://www.aauw.org/app/uploads/2020/05/Deeper_In_Debt_FINAL.pdf
[15] Baker, D. J. (2019). When Average Is Not Enough: A Case Study Examining the Variation in the Influences on Undergraduate Debt Burden. *AERA Open*, *5*(2), 2332858419860153.
[16] Consumer Financial Protection Bureau (2017). *Snapshot of older consumers and student loan debt*. Washington, DC: Author. Retrieved from https://files.consumerfinance.gov/f/documents/201701_cfpb_OA-Student-Loan-Snapshot.pdf.
[17] Trawinski, L., Montezemolo,S., & Williams, A. (2019). The student loan debt threat: An intergenerational problem. Washington, DC: AARP. Retrieved from https://www.aarp.org/content/dam/aarp/ppi/2019/05/the-student-loan-debt-threat.doi.10.26419-2Fppi.00064.001.pdf
[18] Baker, D. J. (2019). When average is not enough: A case study examining the variation in the influences on undergraduate debt burden. *AERA Open*, *5*(2).
Houle, J. N., & Addo, F. R. (2018). Racial disparities in student debt and the reproduction of the fragile Black middle class. *Sociology of Race and Ethnicity,* 1-16.
Scott-Clayton, J. (2018). What accounts for gaps in student loan default, and what happens after. *The Brookings Institution: Evidence Speaks Reports, 2*(57).

garnished, and even losing Social Security benefits. According to a nationally representative sample of first-time enrolled college students, the data tell us:

- Students who borrow for college but do not complete their degree are faced with paying back their student loan debt without the increase in income that could have occurred if the student graduated—making them more likely to struggle with repayment.[19]
- Students who attend for-profit institutions are both more likely to borrow (89%, the highest of all sectors) and default on their student loans at the highest rates (47%, the highest of all sectors).[20]
- On average, Black students and their families have limited economic resources as a result of systemic racism. For instance, they can face significant labor market discrimination, which reduces their earnings in comparison with their peers who have similar occupations. This is one of the reasons why Black bachelor's degree recipients are more likely to default on their student loans compared to White students who earn a bachelor's degree (21% versus 4%, respectively). Even more startling, Black bachelor's degree recipients default at a higher rate (21%) than White students who drop out of college (18%).[21] A recent report from the Center for American Progress shows that even with ready access to income-driven repayment plans, which close to one-third of Black bachelor's degree earners use, Black individuals still default on their student loans at exceedingly high rates.[22]

I want to dig into that last point a bit more. If there were equitable returns to a college degree, all college graduates should be able to access a more economically prosperous life. But, as I just noted, Black college graduates actually struggle to repay their student loan debt *more* than White students who leave higher education with no degree. This is not due to some innate issue within Black people. Student loan burden disproportionately falls on these students due to centuries of structural forces pushing for this outcome.[23] For example, structural racism has denied Black families the ability to build wealth to pay for college,[24] while also shaping residential and K-12 school experiences[25] such that Black students are more likely to enroll in either systematically

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[19] Scott-Clayton, J. (2018). The looming student loan default crisis is worse than we thought. *The Brookings Institution: Evidence Speaks Reports, 2*(34).
[20] Ibid.
[21] Ibid.
[22] Miller, B. (2019, Dec 2). The continued student loan crisis for Black borrowers. *Center for American Progress*. Retrieved from https://www.americanprogress.org/issues/education-postsecondary/reports/2019/12/02/477929/continued-student-loan-crisis-black-borrowers/
[23] Hamilton, D., & Darity Jr, W. A. (2017). The political economy of education, financial literacy, and the racial wealth gap. *Federal Reserve Bank of St. Louis Review*, *99*(1), 59.
[24] Huelsman, M. (2015). The debt divide: The racial and class bias behind the 'new normal' of student borrowing. New York, NY: Demos.
[25] Heissel, J., Persico, C., & Simon, D. (2019). *Does pollution drive achievement? The effect of traffic pollution on academic performance* (No. w25489). National Bureau of Economic Research.
Nowicki, J. M. (2018). *K-12 education: Discipline disparities for Black students, boys, and students with disabilities. Report to Congressional Requesters* (GAO-18-258). US Government Accountability Office.
Persico, C., Figlio, D., & Roth, J. (2020). The developmental consequences of Superfund sites. *Journal of Labor Economics*, *38*(4), 1055-1097.
Pirtle, W. (2019, Ap 23). The other segregation. *The Atlantic*. Retrieved from https://www.theatlantic.com/education/archive/2019/04/gifted-and-talented-programs-separate-students-race/587614/

underfunded[26] or outright predatory colleges[27] that will saddle them with high debt, little chance of earning a degree, or both. Then, those same students face a discriminatory labor market that pays them less than their peers for the same amount of education while also navigating other structures that impede their own ability to accrue wealth.[28] These realities combine to explain why it is necessary to think about the ways that race, racism, and student loans work together to create an untenable situation in the United States.

Loan Cancellation as a Facet of Recovery

Students deserve relief from a system that told them that borrowing to attend college was the only way for them to achieve economic stability, yet failed to deliver. This is particularly true because that same system also created systemic barriers to enrolling in higher education institutions that were well-funded, non-predatory, and equipped with the resources to help students graduate.

Studies suggest that student loan debt cancellation could offer benefits at both the individual and national level. For instance, individuals with less debt have fewer constraints on their occupation choices.[29] In addition, a recent study showed that when private student loans were cancelled, it increased individuals' income while decreasing the amount of debt they held and their share of delinquent credit accounts.[30] This is some of the clearest research we have that, if a substantial amount of student loan debt were cancelled, individuals would experience tangible economic relief. And that would be in addition to the likely benefits for individuals' mental health as we know that student loan debt can create excessive anxiety and stress.[31] This evidence, combined with recent research showing that overall debt relief can improve the macroeconomic outlook of

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Rothstein, R. (2017). *The color of law: A forgotten history of how our government segregated America*. Liveright Publishing.
Shores, K., Kim, H. E., & Still, M. (2020). Categorical inequality in black and white: Linking disproportionality across multiple educational outcomes. *American Educational Research Journal*, *57*(5), 2089-2131.
[26] Douglas-Gabriel, D., & Wiggins, O. (2021, Mar 24). Hogan signs off on $577 million for Maryland's historically Black colleges and universities. *Washington Post*. Retrieved from https://www.washingtonpost.com/education/2021/03/24/maryland-hbcus-lawsuit-settlement/
Saunders, K. M., Williams, K. L., & Smith, C. L. (2016). Fewer resources, more debt: Loan debt burdens students at historically Black colleges and universities. *Frederick D. Patterson Research Institute, UNCF*.
Schwartz, N. (2021, Apr 7). Tennessee may owe its public HBCU up to $544M. *Higher Ed Dive*. Retrieved from https://www.highereddive.com/news/tennessee-may-owe-its-public-hbcu-up-to-544m-1/598009/
[27] Cottom, T. M. (2017). *Lower ed: The troubling rise of for-profit colleges in the new economy*. New York: The New Press.
[28] Ards, S. D., & Myers Jr, S. L. (2001). The color of money: Bad credit, wealth, and race. *American Behavioral Scientist*, *45*(2), 223-239.
Baradaran, M. (2017). *The color of money: Black banks and the racial wealth gap*. Harvard University Press.
Long, H., & Van Dam, A. (2020, Jun 4). The Black-white economic divide is as wide as it was in 1968. *The Washington Post*. Retrieved from https://www.washingtonpost.com/business/2020/06/04/economic-divide-black-households/
[29] Rothstein, J., & Rouse, C. E. (2011). Constrained after college: Student loans and early-career occupational choices. *Journal of Public Economics*, *95*(1-2), 149-163.
[30] Maggio, M. D., Kalda, A., & Yao, V. (2019). *Second chance: Life without student debt* (No. w25810). National Bureau of Economic Research.
[31] Baker, D. J. (2019). A case study of undergraduate debt, repayment plans, and postbaccalaureate decision-making among Black students at HBCUs. *Journal of Student Financial Aid*, *48*(2).

the United States,[32] signals that student loan debt cancellation could be a boon to the overall economy.

The COVID-19 pandemic has exposed and exacerbated labor market inequities along racial, income, and education lines. These fissures will inequitably affect the ability of the hardest-hit individuals to repay their student loans when the pause in loan payments is lifted.[33] During this time, job layoffs and reduced hours have lowered the income and savings for millions of families, though this has disproportionately affected individuals of color and workers with fewer years of schooling beyond high school. Such challenges intensify long-standing structural barriers to repayment for borrowers, particularly those who did not complete a degree, who attended a for-profit institution, or who are Black.

The student debt crisis was urgent pre-pandemic and is much more so now. Large-scale debt forgiveness could not only avert a potential wave of student loan defaults and allow for greater participation in the consumer market, but also could encourage students who have left college to re-enroll, a current goal sought by many education experts.[34] The early data on the current academic year shows a spike in for-profit enrollment (echoing patterns from the Great Recession)[35] and substantial disruptions in college enrollment, particularly for Black, Latinx, and Native students.[36] These worrisome trends suggest an acceleration of the same forces that have created the present challenges in student loan borrowing.

When the federal government contemplates the potential for student loan debt cancellation, it is important to consider who actually relies on student loans. Some argue that cancelling student debt will only or primarily reward high-income individuals who attended graduate school or "highly rejective" undergraduate institutions.[37] There are, however, clear disparities in the amount of debt individuals are forced to borrow by our system of higher education and larger structural forces. For example, U.S. Department of Education data shows that students attending

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[32] Auclert, A., Dobbie, W. S., & Goldsmith-Pinkham, P. (2019). *Macroeconomic effects of debt relief: Consumer bankruptcy protections in the great recession* (No. w25685). National Bureau of Economic Research.
[33] Kearney, M. S. & Pardu, L. (2020, May 7). Exposure on the job. *Brookings Institution.* Retrieved from https://www.brookings.edu/research/exposure-on-the-job/
Montenovo, L., Jiang, X., Rojas, F. L., Schmutte, I. M., Simon, K. I., Weinberg, B. A., & Wing, C. (2020). *Determinants of disparities in COVID-19 job losses* (No. w27132). National Bureau of Economic Research.
[34] Eggert, D. (2021, Feb 2). Michigan launches tuition-free program for adults who are 25 and older. *Detroit Free Press*. Retrieved from https://www.freep.com/story/news/education/2021/02/02/michigan-reconnect-tuition-free-program/4365092001/
[35] Cellini, S. R. (2020, Nov 2). The alarming rise in for-profit college enrollment. *Brookings Institution.* Retrieved from https://www.brookings.edu/blog/brown-center-chalkboard/2020/11/02/the-alarming-rise-in-for-profit-college-enrollment/
[36] Whitford, E. (2021, Mar 11). Spring enrollment keeps slipping. *Inside Higher Ed.* Retrieved from https://www.insidehighered.com/news/2021/03/11/colleges-continue-losing-undergraduate-enrollment-spring-even-graduate-enrollment
[37] Institutions with high rejection rates in undergraduate admission, which typically have more financial resources and a low number of undergraduate students.
Boeckenstedt, J. (2021, Apr 7). The highly rejective colleges. *Higher Ed Data Stories*. Retrieved from https://www.highereddatastories.com/2021/04/the-highly-rejective-colleges.html
Bello, Akil [@akilbello]. (2021, March 12). Is it me or does it seem that highly rejective colleges only want to enroll students they'll have to teach and support the least in order to get them to graduate "prepared" for career? [Tweet] Twitter. https://twitter.com/akilbello/status/1370365341314977798

"highly rejective" institutions borrow at some of the lowest rates in the country and would therefore be a small share of those receiving student loan relief.[38]

While it is true that debt cancellation would help some individuals with larger incomes or with graduate degrees, the key benefits of this approach are its simplicity and transparency. One reason for having an inclusive policy is that broad relief would reduce administrative burdens, that is, the costs associated with individuals proving they deserve help (e.g., by providing extensive documentation), which disproportionately deter individuals of color from accessing benefits for which they qualify.[39] Further, simulations of the policy often either fail to include racial breakdowns for the benefits of loan cancellation or make strong modeling assumptions. For example, some simulations assume that the risk for nonpayment on student loans is completely random or that earnings for people of color grow at the same rate as White individuals—both of which evidence shows to be unlikely in practice.

Cancelling a portion of student loans is not a panacea for the issues facing college affordability or the larger repayment process. Additional federal policy solutions must target creating a high-quality, affordable higher education system; holding institutions and states accountable for contributing their share; and overhauling the current repayment system. Yet student loan cancellation can be a powerful supplement to these other reforms. As a parallel, successfully addressing the recent Texas power failure requires not just reforming the system, but also providing direct relief to residents who were charged excessive amounts for electricity due to the state's public policy failure.[40] True reform necessitates that government works to both overhaul the system *and* provide relief for past shortcomings. For the student debt crisis, student loan cancellation is part of that relief.

For decades, the federal government has made students an implicit promise: if you borrow this money and work hard in college, you'll find a good job and be able to pay it back. Far too often, that promise is broken. We can and should acknowledge this reality by taking concrete steps to reduce the burden for those who simply did as they were encouraged on the quest for economic prosperity.

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[38] Crimson Editorial Board. (2021, Feb 24). Biden, it's not our student debt. *The Harvard Crimson*. Retrieved from https://www.thecrimson.com/article/2021/2/24/biden-student-debt/

[39] Herd, P., & Moynihan, D. P. (2019). *Administrative burden: Policymaking by other means*. Russell Sage Foundation.

[40] McNamara, A. (2021, Mar 17). Texas attorney general says $29 million in electric bills will be forgiven. *CBS News*. Retrieved from https://www.cbsnews.com/news/texas-electric-bills-29-million-forgiven/

PREPARED STATEMENT OF DARIMIR PEREZ

STUDENT LOAN BORROWER

APRIL 13, 2021

Hello Chairwoman Warren, Ranking Member Kennedy, and Members of the Subcommittee. Thank you for giving me the opportunity to participate in today's hearing and to share my story.

My name is Darimir Perez, and I am a middle school guidance counselor in Washington Heights, in New York City.

I immigrated to the United States from the Dominican Republic with my siblings when I was 13 years old, and unfortunately my father passed away soon after. As a result, my 18-year-old sister dropped out of college to help support the family; her sacrifice enabled me to become the first member of my family to graduate from college. I was very aware of the cost of college, turning down partial scholarships to attend private universities. Instead, I attended the City College of New York and was able to graduate from undergrad with no student loan debt.

I got married and started a family—I'm the proud parent of twin children who are now 18 years old.

When my children were young, I began working as a paraprofessional in New York City schools. I noticed the need for bilingual counselors and the difficulties parents experienced. I was reminded of my own struggles navigating the school system. It inspired me to provide consistent support to students while holding them to high standards, an opportunity I had not received.

Knowing that I wanted to work in schools, and being fully aware of all my responsibilities as a mother and the first college graduate in my family, I needed to be careful about student loans so I did my research. TEACH.org is a website led by Microsoft and the U.S. Department of Education; I used the website to find a local college where I could get my graduate degree and that would make me eligible for student loan repayment assistance. I graduated with my master's degree in the spring of 2010, with about $50,000 in student loans. I found a full-time job in New York City schools and was promised loan repayment assistance from a city program. More than 10 years later, I still have about $35,000 worth of loans from my own education, and last year I took out parent PLUS loans to help my children attend college and have a "real American" college experience.

How is it that more than 10 years later, having put money toward my loans every year, while working full time in public service, I still have so much debt? Every time I called my loan servicer and tried to explain I needed a different payment plan because I couldn't afford it, they rushed me off, offering forbearance to eliminate my headache. It was a magic pill I took without knowing the side effects.

I know I have to pay my loans, and I want to pay them and not be late in paying them—but if the monthly payment is so high that I can't afford it, I will have to choose which to pay and which to be late on. When I talked to my servicer (Navient), I was repeatedly steered toward going into forbearance, without being told that interest would continue to accrue or that going into forbearance would limit my ability to earn Public Service Loan Forgiveness—a program I was not advised about—and without being given other information that now, in retrospect, I wish I had known. I just trusted my loan servicer too much, and believed them when they said, "Forbearance is the best option for you until you are able to make full payments. It is ok, you don't have to worry, we understand." And so even though I repeatedly called and tried to find a solution, in the end I simply complied.

I should be a candidate for Public Service Loan Forgiveness, since I've worked in the NYC schools for more than a decade, but when I asked Fed Loans, they told me I didn't qualify because my payments were interrupted—not consecutive—and that I needed to make a certain amount of consecutive payments in order to be a candidate. I've since learned that that should not disqualify me from the program.

The loan pause during the last year has made a great difference in my life! I was finally able to fully repay one of my loans. I was also able to pay off some medical bills, help my mom and family, put some money toward my kids' education and cover current medical bills due to COVID–19.

Having this student loan debt has affected my life in many ways. I had always wanted to have three kids, to buy a house in a peaceful area, to enroll my twins in all the extracurricular activities they were interested in, and to have the choice to not take on extra work so I could spend more time with my family, but those things were not an option with my loans.

I'm a college graduate, and I can't even afford to send my own kids to college! My friends who never went to college, their kids are better off than mine. Even though I did everything right for my own kids—supporting them, and keeping them focused achieving top grades and working toward positive things in a neighborhood with a lot of negative distractions—I sadly don't feel that they are better off than I was, because of the cost of college and student loan debt.

I truly believe that education can change lives; that's why I've stayed in my job. But having some relief from my student loans would make a wonderful, positive difference in my life.

PREPARED STATEMENT OF JOHN F. REMONDI

PRESIDENT AND CEO, NAVIENT

APRIL 13, 2021

I. Introduction

Chairperson Warren, Ranking Member Kennedy, and Members of the Subcommittee, I appreciate the opportunity to join the discussion on student debt and its impact on our economy, especially on people of color.

My name is Jack Remondi, and I am president and CEO of Navient. I am proud to represent more than 5,500 Navient employees across 13 states and Washington, D.C., who come to work every day with passion and dedication toward our core mission—to enhance the financial success of our customers. As a leader in education loan management and business process outsourcing, we provide vital services to students, college graduates, state and local agencies, and healthcare institutions. One such client is the U.S. Department of Education, for whom we are the third-largest contractor to provide servicing to federal student loan programs. As a company, Navient was created in 2014 in a spin-off from Sallie Mae, where I had previously served as CEO, as well as several other prior roles. I graduated with a B.A. in economics from Connecticut College and, like millions of others in our country, I took out student loans to pay for my education.

Decades of data shows a college degree is still among the surest paths to prosperity. The median bachelor's degree recipient earns more than $2,000 more per month[1]—and, by some estimates, as much as $1 million over a lifetime[2]—compared to peers with a high school diploma. Further, college graduates typically experience half the rate of unemployment compared to those with a secondary education. The value of college education was particularly clear this past year during the pandemic.

We also know higher education is critical to helping address the racial wealth gap. African Americans who hold degrees are more likely to be employed, earn more at their jobs (1.8 times more on average[3]), own a home, and express higher levels of optimism when considering their future.

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[1] U.S. Department of Labor Bureau of Labor Statistics, *Unemployment rates and earnings by educational attainment*, Washington, D.C.: 2020. https://www.bls.gov/emp/chart-unemployment-earnings-education.htm.

[2] Anthony P. Carnevale, Ban Cheah, and Andrew R. Hanson, *The Economic Value of College Majors*, Washington, D.C.: 2015. Georgetown University McCourt School of Public Policy Center on Education and the Workforce, https://cew.georgetown.edu/wp-content/uploads/Exec-Summary-web-B.pdf.

[3] American Council on Education, *Race and Ethnicity in Higher Education*, 2019. https://1xfsu31b52d33idlp13twtos-wpengine.netdna-ssl.com/wp-content/uploads/2019/02/REHE-Exec-Summary-FINAL.pdf.

However, while many have benefited from a college degree made possible with student loans, the system has not worked for all. Through my regular call listening, I hear the challenges some borrowers face, including people who left school with debt but no degree, or student borrowers who discovered too late that the value of their education did not match the debt they took on.

And even for many people of color who have earned a college degree, the racial wealth gap has widened.

Importantly, there are steps that can be taken to improve the system and address the unfairness that pervades it—especially unfairness that creates barriers for people of color. Navient stands ready to work with policymakers, members of Congress, and the Biden-Harris Administration to bring about important reforms.

II. Facts About Navient

To today's important discussion, Navient brings over 45 years of experience working with student loan borrowers across multiple economic cycles and challenges. We recognize and see both the success and failures of the federal loan program. We are proud of our work helping people navigate the numerous repayment options so they can select the best program to pay down their loans and achieve financial success. When borrowers pay off their loans we celebrate. When borrowers struggle, we help them select and enroll in the right assistance program for them to avoid default.

Here are facts about our record:

- Navient is the industry leader in helping borrowers avoid the devasting consequences of default. Over the last six three-year cohorts, Navient delivered a 34% better cohort default rate than other companies combined.[4] In other words, our borrowers are 34% less likely to default than borrowers served by other companies.

- Our default prevention expertise has also helped student borrowers who attended Historically Black Colleges and Universities (HBCUs). Due to our support, HBCU alumni were 39% less likely to default when their loan was serviced by Navient rather than another servicer.

- We have developed innovative solutions to reach borrowers and help them navigate the complexity of the approximately 60 federal repayment options. Over the past decade, we assisted 3.6 million people to enroll in income-driven repayment (IDR) plans. Today, 34% of all federal borrowers we serve—51% of balances—are enrolled in IDR plans.

[4] Navient analysis of U.S. Department of Education Office of Federal Student Aid, *Official Cohort Default Rates for Schools*. Washington, D.C.: 2020. https://www2.ed.gov/offices/OSFAP/defaultmanagement/cdr.html. Navient cohort default rate data represents all Navient borrowers entering repayment during the cohort year and defaulting within the 3-year cohort window.

- We also focus on helping borrowers pay off their loans. On average, about half a million Navient-serviced borrowers pay off their loans in full every year—that's 4.6 million people who have become student loan debt free over the last decade.

- Navient has helped more than 400,000 borrowers in default rehabilitate their federal student loans since 2012.

- Navient introduced the first-of-its-kind military benefits team, a highly skilled group of customer care professionals who assist service members with accessing the benefits uniquely available to them. Additionally, we are regularly recognized as a military-friendly employer.

- Throughout the COVID-19 pandemic, we have worked tirelessly with borrowers to meet their needs during these extraordinary times, and we have worked with federal and state officials to support their efforts to help borrowers.

All of this said, too many student borrowers are struggling with the amounts they owe, and we are committed to helping the borrowers we serve and providing insights to help policymakers address the larger challenges. The recommendations that follow are drawn from the work our team members do each and every day to listen to borrowers and take action to help them address their loans in a myriad of ways.

While today's hearing is focused on the problems with today's loan program, it is important to recognize the good the program achieves. We see evidence—day in and day out—of people who have successfully attained higher education achievements and upward economic mobility because of the financial assistance from federal student loans. These individuals make a difference in our communities with their education, which for some could only be achieved through borrowing.

I'll share a story from one woman who recently paid off her student loans. Thanks to student loans, she was able to earn a master's degree and is now a successful director at a community ambulatory health care center. She shared that during the years when funds were tight, with Navient's help she was able to take advantage of payment options to make things manageable and then get back on track to pay off her loans three years early. During the pandemic, her courageous team of frontline healthcare workers is supporting the community through telehealth appointments, medication delivery to patient's homes, and, now, as a COVID vaccine center.

Congress and the Biden-Harris Administration should work together in a bipartisan fashion to improve and simplify the current system so that more borrowers can thrive and make a difference because of the value of their education.

III. Today's Student Loan System: The Role of Government and Student Loan Servicers

To understand the proposals for reform we present today, it is important to explain the origins of the current federal student loan system and the role of loan servicers within it.

A. The Role of Congress and the Federal Government

In 2010, Congress passed, and President Obama signed into law, the Health Care and Education Reconciliation Act of 2010[5] (HCERA), which in addition to health care changes made the federal government, through its Direct Loan program, the exclusive originator and owner of all new federal student loans. HCERA also eliminated the Federal Family Education Loan (FFELP) program, a system created by the Higher Education Act growing out of President Johnson's Great Society. Because the federal government owns Direct Loans and guarantees outstanding FFELP loans, Congress sets the terms and conditions for how federal loans are issued and repaid, and the Executive Branch is charged with issuing the rules and regulations to implement the policy that Congress enacts. For example, Congress sets the loan program's interest rates, loan limits, and various repayment and deferment programs, such as income-driven repayment. As of today, Congress has set approximately 60 such repayment options, including nine different income-driven repayment plans, which, while well intentioned, has become a confusing patchwork for borrowers.

Before borrowers and their families take out loans for school, they select their institution of choice. Individual colleges and universities set their own tuition and fees, and borrowers decide the amount needed to borrow based on their resources and the institution's cost and financial aid offers. The U.S. Department of Education then issues the loan according to the terms and conditions set by Congress, disbursing the loan funds directly to the school. Virtually all U.S. citizen students and parents qualify for federal student loans. To increase access to education, Congress designed the process to require no traditional underwriting such as forecasting whether a person is likely to be able to support the monthly payments in the future.

B. The Role of Loan Servicers

For each loan it issues, the U.S. Department of Education appoints a company such as Navient to track loan balances, post payments, and work with borrowers to help them repay their loans. The work includes responding to borrower problems and questions, and helping borrowers assess their many repayment options based on their individual circumstances —all with the objective of helping them to successfully pay off their loans.

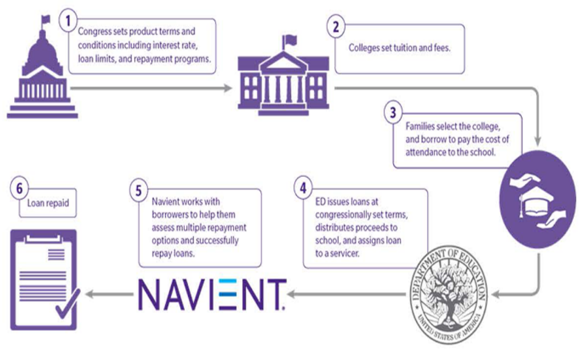
The Department of Education selects student loan servicers as government contractors through an extensive and rigorous federal government procurement process.[6] Student loan servicers begin to work with students only after they have borrowed—after Congress has set the

[5] Health Care and Education Reconciliation Act of 2010, 42 U.S.C. 1305 (2010): https://www.govinfo.gov/content/pkg/PLAW-111publ152/pdf/PLAW-111publ152.pdf.

[6] The Department of Education currently works with multiple servicers: Nelnet/Great Lakes ($469 billion in ED volume), PHEAA ($381 billion in ED volume), Navient ($234 billion in ED volume), and several other smaller organizations including MOHELA, OSLA, and ED Financial (which, combined, service $152 billion in ED volume).

loan terms, the higher education institution has set the tuition cost, and the loan proceeds have been spent.

The graphic below depicts the life cycle of a student loan, detailing the roles of various players within the system.



The role of student loans servicers is defined by the specific terms of our contract with the Department of Education. We recognize that, because we are engaging with and helping borrowers every day, some observers believe that we have more influence over the inner workings of loan policy and rules than we do. This often leads some to believe servicers are responsible for all borrower concerns. Our analysis of federal student loan borrower complaints submitted through the CFPB portal shows that greater than 97% of the complaints related to federal policy or loan term disagreements while only 2.7% were related to servicer error.[7] In fact, federal student loan servicers like Navient have no say in interest rates or repayment terms, and we do not benefit from the interest paid on loans as they are owned by the federal government. Federal student loan servicers also have no authority to lower interest rates or forgive student debts.

IV. Student Debt and Borrowers of Color

While education has unlocked the door to economic opportunity for many, the systemic impacts of racism on family income, wealth, and opportunity in America have created challenges for people of color as they pursue education. Data show that African American students in particular tend to borrow more to pursue higher education, are more likely to leave without completing a degree, and, after college, are more likely to struggle with repayment.

[7] Navient, "Analysis of Submissions from the CFPB Consumer Response Portal," 2019, https://news.navient.com/static-files/f440450e-bb37-46e2-a314-2c52d82b8713.

A national study from Navient and Ipsos[8] on financial health of young people showed that 62% of African American students took out student loans, compared to 38% to 56% of other groups. The same study found that nearly half of African American college students who enroll do not finish their degrees compared to about 38% of other students. In addition, analysis of Department of Education data found that 32% of African American and 20% of Hispanic borrowers defaulted on their loans, compared to 13% of White borrowers.[9]

These are just a few examples of the challenges that African American borrowers face in their pursuit of higher education.

I note here that Navient's distinct success at helping borrowers avoid default and access alternative repayment plans, especially income-driven repayment, has had an especially positive effect on borrowers who attended Historically Black Colleges and Universities (HBCUs).[10] According to the Department of Education's three-year cohort default rate data, over the last six years, Navient-serviced HBCU borrowers defaulted, on average, 39% less often than those serviced by all other servicers.[11] This has real impact. If borrowers at all other student loan servicers saw the same results, nearly 30,000 *fewer* HCBU borrowers would have defaulted during that timeframe.

These disproportionate negative outcomes are unfair. As a nation, we must address this inequity as soon as possible. Since the data shows that borrowers of color carry more student debt and struggle with it more after they leave school, reforms that reduce borrowing at the beginning of college and focus repayment assistance on struggling borrowers will favor borrowers of color, reducing distress and defaults. The expansion of Pell Grants, free community college, and other reforms are some good places to start.

Although the federal student loan borrowing program has worked for millions of Americans, including many borrowers of color, systemic reforms are needed. Congress has the power to pass a number of commonsense measures to help borrowers, detailed below. Navient looks forward to working with you and your colleagues in Congress and with the Biden-Harris Administration to make improvements.

V. **Today's $1.6 Trillion in Federal Student Loans: Drivers and Challenges**

The U.S. Department of Education is the nation's largest non-mortgage consumer lender, providing loans for students enrolled in certificate programs, associate degrees, undergraduate degrees, law school, medical school, and other graduate programs. The government owns or

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[8] Navient and Ipsos, *Money Under 35*. 2020. https://about.navient.com/Social-Responsibility/money-under-35.
[9] Ben Miller, Center for American Progress, *The Continued Student Loan Crisis for Black Borrowers*. December, 2019, https://www.americanprogress.org/issues/education-postsecondary/reports/2019/12/02/477929/continued-student-loan-crisis-black-borrowers/.
[10] It should be noted that the federal government's FAFSA financial aid application form does not request data on the race or ethnicity of financial aid applicants, nor do student loan servicers have any such data on borrowers.
[11] Navient analysis of U.S. Department of Education Office of Federal Student Aid, *Official Cohort Default Rates for Schools*. Washington, D.C., FY 2012 to FY 2017. https://www2.ed.gov/offices/OSFAP/defaultmanagement/cdr.html.

guarantees $1.6 trillion in education loans to nearly 43 million borrowers.[12] A number of factors drive this debt level.

First, college enrollment has increased with each generation and by more than 60% during the past 30 years.[13] This has been a hugely positive development resulting in a record high college-educated adult population, but it has been accompanied by lower investment in education by governments at many levels resulting in more students needing to finance their education with loans.

Second, the cost of college has skyrocketed. Connected to this enrollment growth, since 1983, college costs have grown by more than 700%, an amount that both outpaces increases in health care costs[14] and is five times greater than the rate of inflation.[15] While there are multiple components to higher education tuition pricing, the simple fact remains that the ever-increasing cost of attendance drives an increased need to borrow.

Third, even as the college enrollment rate has surged, many students do not graduate. Department of Education data show that only 62% of students pursuing a bachelor's degree graduate within six years, and the rate is even lower at less competitive or open enrollment colleges.[16] There are several reasons for noncompletion, including lack of academic preparedness, lack of financial resources, and major life events intruding upon the student.

Ultimately, the data show that leaving school without a degree is the single largest factor driving student loan defaults. Economic advisers in the Obama Administration found that non-graduates are nearly three times more likely to default than their peers with degrees. Further, two-thirds of people who default on their student loans owe less than $10,000, while those borrowing more than $40,000—a debt level that generally signals degree completion and graduate or professional degrees—account for only 4% of defaults.[17]

The Navient and Ipsos study of young adults aged 22 to 35 shows that degree completion is critical, including for African Americans. African American graduates are more likely than those without a degree to be employed, earn more at their jobs, and own a home.[18]

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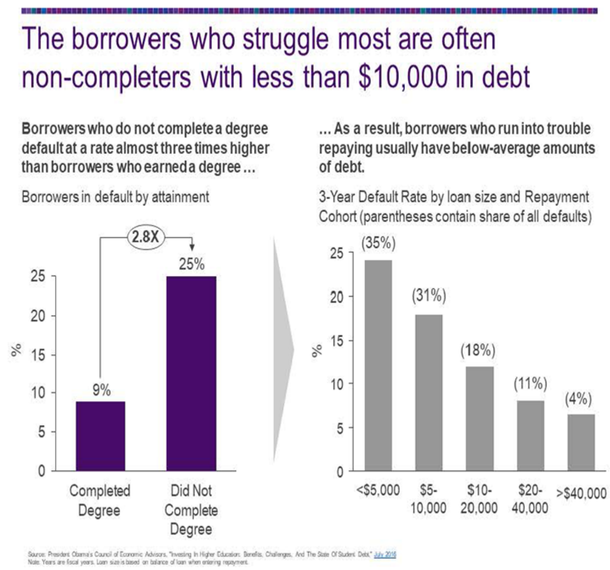
[12] Board of Governors of the Federal Reserve System (US), *Student Loans Owned and Securitized, Outstanding (SLOAS)*. St. Louis, MO: https://fred.stlouisfed.org/series/SLOAS.
[13] U.S. Bureau of Labor Statistics, *Consumer Price Index for All Urban Consumers: Tuition, Other School Fees, and Childcare in U.S. City Average [CUSR0000SEEB]*. Washington, D.C.: https://fred.stlouisfed.org/series/CUSR0000SEEB.
[14] U.S. Bureau of Labor Statistics, *Consumer Price Index for All Urban Consumers: Medical Care in U.S. City Average [CPIMEDSL]*. Washington, D.C.: https://fred.stlouisfed.org/series/CPIMEDSL.
[15] U.S. Bureau of Labor Statistics, *Consumer Price Index for All Urban Consumers: All Items in U.S. City Average [CPIAUCSL]*, Washington, D.C.: https://fred.stlouisfed.org/series/CPIAUCSL.
[16] U.S. Department of Education, National Center for Education Statistics, *The Condition of Education Undergraduate Retention and Graduation Rates*. Washington, D.C.: April, 2020. https://nces.ed.gov/programs/coe/indicator_ctr.asp.
[17] Executive Office of the President of the United States Council of Economic Advisers, *Investing in Higher Education: Benefits, Challenges, and the State of Student Debt*. Washington, D.C.: July, 2016. https://obamawhitehouse.archives.gov/sites/default/files/page/files/20160718_cea_student_debt.pdf.
[18] Navient and Ipsos, *Money Under 35*. 2020. https://about.navient.com/Social-Responsibility/money-under-35.

One of the most important ways to increase student loan success and close the racial wealth gap would be to help more students graduate.



Fourth, graduate degree borrowing is a significant factor in the growth in student debt. In 2006, graduate students became eligible to borrow the full cost of attendance (including living expenses) through the government's Grad PLUS program. Today, people with master's, doctorate and professional degrees hold 56% of outstanding student loan debt.[19] Graduate programs enroll 15% of all students in higher education, yet they account for 40% of federal student loans issued each year.[20] The program has increased access for more people to pursue advanced degrees but at a significant increase in outstanding student debt.

Fifth, loan repayment options have grown exceedingly complex, and some of the options create confusion and challenges for borrowers. There are now nine different income-driven repayment plans—each with different pros and cons and eligibility requirements. IDR plans set a borrower's monthly payment based on their income, using a federal formula, with the potential for loan forgiveness after a certain number of future payments as long as the borrower

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[19] Sandy Baum and Adam Looney, Brookings Institution, *Who owes the most in student loans: New data from the Fed*. Washington, D.C.: October, 2020. https://www.brookings.edu/blog/up-front/2020/10/09/who-owes-the-most-in-student-loans-new-data-from-the-fed/

[20] Ben Miller, Center for American Progress, *Graduate School Debt; Ideas for Reducing the $37 Billion in Annual Student Loans That No One Is Talking About*. Washington, D.C.: January, 2020. https://www.americanprogress.org/issues/education-postsecondary/reports/2020/01/13/479220/graduate-school-debt/.

remains enrolled in the program. These payment plans greatly increase monthly affordability; however, they have the effect of stretching out payments to as long as 25 years and often increase total loan costs. Further, in many cases the calculated IDR payment does not cover the cost of accruing interest. While there are interest subsidies for limited periods, in many cases, the borrower's balance negatively "amortizes" steadily. In plain language, this means the borrower's loan balance is growing, rather than declining. The number and complexity of loan repayment options needs to be simplified to ensure borrowers can more easily repay their loans.

Further, the enrollment and renewal requirements are challenges. Regulations require a borrower to complete a 10-page form online or via the Department of Education website, along with submitting income documentation. This process must be completed annually to stay enrolled in the IDR plan. Under the federally mandated process, servicers educate borrowers about payment plans, tell borrowers how to enroll, and send follow up emails encouraging borrowers to visit the Department of Education website, fill out the forms, and submit the applications. Unfortunately, this complexity has been a barrier and many borrowers are not able to complete the process.

Recognizing the challenges borrowers were having, Navient took steps to help borrowers we work with enroll in income-driven repayment plans. To make IDR more accessible, we initiated a pilot eSign IDR program focusing on past-due FFELP borrowers. Under the pilot, we gathered the necessary information from borrowers over the phone to complete the IDR application, and then securely transmitted the completed application to the borrower to confirm and add their electronic signature. Throughout this pilot program, we nearly tripled the IDR enrollment rate for past-due borrowers[21] and have now expanded the program to include all the federal borrowers we serve. We have shared this program and its results with the Department of Education and, as always, are ready to partner to explore other ways of improving the customer experience.

VI. Actionable Solutions

The good news is that there are several practical, achievable measures that Congress can pass to help present and future borrowers avoid or overcome these challenges. We group these in three categories and discuss in more detail below.

1. **Increase assistance to those who borrowed in the past but did not attain their hoped-for education outcomes and are unlikely to do so in the future.** Recognizing there are many people who borrowed in the past but did not attain the hoped-for outcomes and are unlikely to in the future, Congress and the Administration should consider several targeted, practical loan forgiveness programs. (We recognize there are policy debates currently underway about larger, broader-based loan forgiveness programs and leave it to Congress to decide whether it should forgive more loans. Our point is that you cannot have meaningful reform unless you at least forgive the loans we identify here.)

2. **Implement faster forgiveness programs for current and future borrowers, through enactment of a "Forgive-As-You-Go" plan.** Congress can simplify the numerous repayment programs by combining similar programs into one that prevents loan balances from increasing and eases the enrollment process.

3. **Provide better support before people borrow and while they are in school to help more students achieve their goal of graduation.** As described above, borrowers who do not graduate face much higher challenges than those who do. This support would help students and their families understand the total cost to earn their degree, what they might need to borrow and how their program of study and career choices will help them repay their debt. The government, colleges and universities and others can work together to improve these outcomes for current and future students.

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[21] Navient, *Navient is simplifying repayment for borrowers: esign IDR pilot program*, https://navientnavigator.com/site/wp-content/uploads/2020/02/eSign-IDR-Pilot-Fact-Sheet-4-4-18-FINAL.pdf

Detailed Recommendations

The following recommendations are designed to support the student loan borrowers who tend to struggle the most, including borrowers of color, first generation college students, and others who for myriad of reasons need additional support.

1. **Increase assistance to those who borrowed in the past but did not attain their hoped-for education outcomes and are unlikely to do so in the future.**

   - ***Loan cancellation for borrowers who have been attempting to pay for a long time.*** For borrowers with loans who have been in repayment for more than 30 years, The Institute for College Access and Success (TICAS) has put forward a recommendation to discharge them.[22] There are good reasons for such forgiveness, including the fact that borrowers took out these loans well before the availability of more generous IDR plans and, if they struggled early on, they likely only had a handful of deferment and forbearance options available to them. Furthermore, with higher interest rates in the 1990s, these borrowers may have built up their balances, making repaying their loans more difficult to achieve. We believe these loans should be forgiven.

   - ***Cancel loans in default for more than 10 years.*** Congress should also act to forgive loans that have been in default for over 10 years and the Biden-Harris Administration should explore its own ability to write off these loans, where possible. Currently about $190 billion of federal student loans are in default, owed by more than 8 million borrowers.[23] There is no public data showing how long these borrowers have been in default, but there are clear indications that a large portion defaulted over 10 years ago.[24] These borrowers can see their wages garnished or tax refunds seized or reduced, many times when they can least afford it.

     As a general principle, defaulted federal student loans are the only obligations that the federal government does not write off. Additionally, there is no comparable practice in consumer lending for the federal government to hold on to delinquent or defaulted debt without a limit. Even past-due federal income taxes are canceled after 10 years. The government should do the same in this context.

   - ***Make student loans dischargeable in bankruptcy.*** Congress should allow borrowers to discharge federal and private student loans in bankruptcy after a good-faith period of repayments. Student loan borrowers should have bankruptcy protections like consumers of other credit products.

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[22] The Institute for College Access & Success, "Student Debt and the Class of 2019: 15th Annual Report," *TICAS.org.* October, 2020, https://ticas.org/wp-content/uploads/2020/10/classof2019.pdf.
[23] U.S. Department of Education Office of Federal Student Aid, *Portfolio by Loan Status,* Washington, D.C.: https://studentaid.gov/sites/default/files/fsawg/datacenter/library/PortfoliobyLoanStatus.xls (accessed April 7, 2021).
[24] U.S. Department of the Treasury, *Report on Initial Observations from the Fiscal-Federal Student Aid Pilot for Servicing Defaulted Student Loan Debt.* Washington, D.C.: July, 2016. https://www.treasury.gov/connect/blog/Documents/student-loan-pilot-report-july-2016.pdf.

2. **Implement faster forgiveness programs for current and future borrowers, through enactment of a "Forgive-As-You-Go" income-driven repayment plan.**

To improve the success and fairness of income-driven repayment programs, we recommend simplifying into one, new "Forgive-As-You-Go" repayment plan going forward. This simple straightforward approach would remove the complexity of today's nine different plans, creating a more visible path to repayment success.

Since June 2013, the number of Direct Loan borrowers who have enrolled in IDR plans has increased five-fold and as of today represents 32% of all borrowers and more than 50% of loan volume.[25] Yet because most IDR payments do not cover the interest that accrues each month, many IDR borrowers see their balances grow despite the various interest subsidies embedded in the current IDR plans. Data from the Department of Education shows that the average balances of borrowers who are out of school have grown by 76% as a result of this negative amortization.

Consider a young professional worker with a master's degree, student debt of $50,000 and a salary of $51,000. If this worker enrolls in an IDR plan to benefit from lower monthly payments, each month their loan balance continues to grow. After 10 years the worker will have made nearly $27,000 in payments, yet their loan balance will have ballooned to $65,000. Even with the prospect of loan forgiveness 10 years further in the future, the growing loan balance can feel overwhelming.

IDR plans also do not provide an attractive solution for many low-balance, low-income borrowers—often those who have not completed their degree. Offering a 20-year repayment option with annual enrollment requirements to a borrower who dropped out after a semester or two is not very appealing.

Rather than wait for years to realize loan forgiveness, under "Forgive-As-You-Go" borrowers would see their balance decline each month as they make their payments adjusted to their income and receive monthly loan forgiveness.[26] For example, the professional worker with a $50,000 initial balance would see their balance decline each month as they make their income-adjusted payments, and after 10 years, the balance would've already declined to $33,000 rather than grown to $65,000. A single program that rewards borrowers with monthly loan forgiveness as they continue to make their affordable payments can be especially beneficial to those who have low balances or who have not experienced value from their degrees.

The Forgive-As-You-Go program would go hand in hand with the Public Service Loan Forgiveness program so our nation's teachers and other public service workers do not experience the added stress of a growing loan balance while they complete their payment period. Forgive-As-You-Go, Public Service Loan Forgiveness, and related loan

[25] U.S. Department of Education Office of Federal Student Aid, *Federal Student Loan Portfolio*, Washington, D.C.: https://studentaid.gov/data-center/student/portfolio (accessed April 7, 2021).

[26] Depending on total balance, the payment period would extend 10 to 15 years for undergraduate borrowers or 20 to 25 years for graduate borrowers (10 years if the borrower is in public service), after which time any remaining balance would also be forgiven.

forgiveness should be available to all borrowers of federally owned or guaranteed student loans to reduce complexity and treat borrowers equally.

3. **Provide better support before people borrow and while they are in school to help more students achieve their goal of graduation.**

   - ***Provide better information and counseling before people borrow.*** In the course of providing $40 billion in grants and $95 billion in student loans each year, the federal government collects a significant amount of information about students—information that could be used to provide individualized counseling before a loan is made. Congress and the Department of Education could implement a customized counseling program with a special focus on first-generation college students, Pell Grant recipients and borrowers of color, which we believe would easily pay for itself in better outcomes for borrowers.

     Research shows that young African American and Hispanic students who have access to supportive mentors and who pursue college with strong career goals are more likely to complete college and avoid dropping out. Navient has a long history of giving and volunteering in our communities to organizations that work to promote equity for young people impacted by some of the nation's greatest challenges. These organizations include the YMCA Black Achievers program, Reading Is Fundamental, Habitat for Humanity, Head Start, and United Way in various locations. Navient is developing a program with the Boys & Girls Clubs of America to provide educational resources to assist young people to explore careers and college, helping to promote equity and inclusion for all. Boys & Girls Clubs serves more than 4 million young people across the country and has the capacity to deliver innovative programming through their trained staff and virtual platforms. We believe this program can make a meaningful difference for many. We are committed to continuing these efforts and acknowledge the important opportunity the U.S. government has to deliver personalized counseling and support as part of the Pell Grant and federal student loan financial aid process.

   - ***Improve the graduation rate.*** Today, only six out of 10 students who start a bachelor's degree complete it in six years or less, and that declines to three out of 10 at open-enrollment colleges.[27] Congress can help improve this measure of success by incentivizing schools to improve their graduation rates through rewards and shared responsibility. Those schools that admit students while receiving proceeds from taxpayer-funded loans should share the risk and consequences if their students do not graduate and are unable to repay their loans. Congress has the power to implement such accountability measures.

   - ***Lower the "penalty" for college-tryers.*** People who did not graduate are nearly three times more likely to default than their peers with a college degree. Lowering the need to borrow to pursue the first two years of college is one important way to help.

[27] U.S. Department of Education, National Center for Education Statistics, *The Condition of Education Undergraduate Retention and Graduation Rates.* Washington, D.C.: April, 2020. https://nces.ed.gov/programs/coe/indicator_ctr.asp.

Congress should pass legislation to enact free tuition for community college either directly or through Pell Grant expansion. By making a high-quality community college education accessible to all, Congress can provide a needed alternative to traditional college that will not compromise students' finances. This would partially reverse decades of underinvestment in education and reduce the overall volume of students applying for student loans.

VI. Navient and COVID-19: Helping Borrowers, Our Workforce, and States

With the onset of COVID, Navient has worked hard to help borrowers and our own employees navigate these extraordinary times. I am proud of our work to keep our employees safe and employed, help states meet pandemic-related challenges, provide payment relief options to student loan borrowers, and maintain robust and clear communications with borrowers to keep them apprised of updates on loan status.

A. The Pandemic and Student Loans

We have met or exceeded all of our obligations to provide needed assistance to borrowers during the pandemic. The following are some of the steps we have completed:

- We implemented the student loan provisions of the Coronavirus Aid, Relief, and Economic Security Act (CARES) Act within days of it being signed into law.
- We acted quickly to implement disaster relief to federal and private loan borrowers impacted by the pandemic or job loss, including providing options to suspend payments for short periods.
- For the FFELP loans we own, we saw a significant surge of borrowers requesting assistance. We helped nearly one-in-five of these borrowers get into suspended payment plans. For many, the need was only temporary, and today, suspensions are only slightly elevated from pre-pandemic levels while delinquency rates are at or near historic lows.
- At the beginning of the pandemic, we urged Congress to extend 0% interest benefits to borrowers with FFEL student loans, going beyond federally owned, Department of Education loans, to ensure that all who struggle with student debt could have the same opportunity for relief. We continue to support extending the 0% interest to these FFELP borrowers, but believe that given their success in reentering repayment, broad payment suspension is not necessary.
- We launched a dynamic "COVID-19 Student Loan Support Center" web presence, with constantly updated COVID-19 information that has attracted more than 5 million visits to date.

Regulators and state officials broadly supported our relief efforts, including 10 states that had requested such actions from student loan servicers.

Our people have eagerly risen to the occasion and helped during this time. One of many recent stories I've appreciated is from a self-employed borrower who lost significant income during the pandemic. One of our employees helped her understand the options available to her. "The kind woman on the phone was very helpful and expressed more compassion for my situation than possibly any other customer service person has this entire year," she wrote to us. "I was pleasantly surprised by her kindness and how much that kindness actually made a difference for me that day."

Importantly, because of the continued suspension of federally owned student loan interest and payments until at least September, we now have the rare opportunity to bring about real change to the status quo for borrowers without disrupting their payments, since those payments are already suspended. We look forward to working with you on such efforts, as detailed in some of our recommendations above.

In the short term, we also believe the following steps should be implemented to ease the transition back to repayment:

- *Support student loan borrowers impacted by COVID-19*
    - Target borrower outreach to likely distressed borrowers and enhance safety nets against default.
    - Streamline income-driven repayment applications and processes.
    - Provide additional grace period for students separating from school in 2020 and 2021.
- *Support borrowers emerging from payment suspension*
    - Start early outreach plans to ensure smooth reentry to repayment for those who can pay and provide additional support for those still impacted by COVID-19.

B. Expanding Our Workforce to Help States Amid the Pandemic

Within days of the pandemic's onset, more than 90% of Navient's workforce transitioned to remote work, including those who staff our call centers and back-office processing teams. Not only did we make this transition in rapid time, but we did so with no disruption in service to borrowers. Other than the occasional barking dog, our borrowers hear little to no difference from our pre-pandemic calls, something I know from personal experience due to my weekly call listening sessions. I have been pleased to hear firsthand the empathy and thoughtfulness displayed by Navient teammates as they help borrowers cope with difficult issues arising from the pandemic. We also extended flexible hours, expanded leave programs, and encouraged employees to take advantage of telemedicine and employee assistance programs to ensure we cared for our company's most valuable resource—our people. In addition, at the beginning of the health crisis when face masks were impossible to find, we donated 10,000 N95 respirator masks to hospitals and first responders in 19 locations.

We also have helped states adjust to the new challenges from the COVID-19 pandemic, assisting them with critical functions while simultaneously ensuring our teammates could continue to work without furlough due to the suspension of so much of the work we do around loan repayments. For example, we offered our call center expertise to help states serve their residents impacted by the pandemic with unemployment insurance claims, contact tracing, and vaccination rollouts. Currently, we support numerous states with such functions, and have hired thousands of additional staff on a temporary basis during the economic downturn.

VII. Conclusion

Thank you again for this opportunity to speak with you today about Navient and to hear our proposals for Congress to improve federal student loan outcomes. We appreciate your consideration and very much hope to work with you collaboratively and productively on these important issues.

PREPARED STATEMENT OF JAMES H. STEELEY

PRESIDENT AND CEO, PENNSYLVANIA HIGHER EDUCATION ASSISTANCE AGENCY

APRIL 13, 2021

Chairwoman Warren, Ranking Member Kennedy, and Members of the Subcommittee on Economic Policy, my name is James Steeley, and I am the President and CEO of the Pennsylvania Higher Education Assistance Agency—also known as PHEAA. Thank you for the opportunity to speak with the Committee today as you examine America's Student Debt Burden and Its Impact on Racial Justice, Borrowers, and the Economy.

PHEAA is a multifaceted Pennsylvania State agency offering financial aid services to students and families throughout the Commonwealth; a contracted Federal student loan servicer following the rules and requirements set forth by both Congress and the U.S. Department of Education, and an administrator of Pennsylvania student aid programs, which helps students and families as they pursue an affordable postsecondary education.

About PHEAA and Its Public Service Mission

PHEAA was created 57 years ago by the Pennsylvania General Assembly with the primary mission of creating affordable access to higher education for Pennsylvania students and their families.

Since then, we have helped generations of Pennsylvanians to afford higher education while minimizing their reliance on student loan debt.

PHEAA—as a State agency governed by a bipartisan board of directors comprised mostly of State legislators—exists solely to fulfill our public service mission.

The values that we use to guide our workforce in support of our mission are to be customer centric, respectful, and inclusive; to be devoted to good citizenship; and to have the courage to evolve by taking ownership and viewing challenges as opportunities.

With a union workforce, many of our employees are proud members of the America Federation of State, County, and Municipal Employees.

Unlike other loan servicers, PHEAA is engaged in student loan servicing because it aligns with and supports our public service mission—most importantly the funding of grant awards to students who have the most financial need.

For the 2020–21 award year, the need-based PA State Grant Program provided grant awards to approximately 120,000 students, with a maximum award of $4,525.

PHEAA has contributed more than $1 billion from its business earnings to supplement the PA State Grant and other student aid programs, while covering all administrative costs, which saves Pennsylvania taxpayers nearly $15 million annually.

This also makes Pennsylvania's student aid programs among the most efficient in the Nation, since every dollar appropriated to those programs goes directly to benefit the students who need it most.

PHEAA is working on a Statistical Brief that highlights how the PA State Grant Program plays a crucial role in decreasing student loan debt—and how increased gift aid funding can help relieve Pennsylvania undergraduates from having the second highest debt levels in the Nation.

Our research shows that PA State Grant recipients who are Pell-eligible as of initial enrollment borrow almost $9,000 less, on average, over 4 years.

I will be happy to share this Statistical Brief in its entirety with you when it is finalized.

PHEAA also uses its earnings to support a variety of critical outreach and student aid awareness initiatives focused on helping students make wise choices early in the career and college planning process so they can avoid unnecessary student loan debt.

This type of outreach is vital when you consider that a 2018 NerdWallet study (*www.nerdwallet.com/blog/2018-fafsa-study/*) showed that nationally, students missed out on $2.6 billion in free money in the form of Federal Pell Grants due to more than 660,000 high school graduates not filling out the FAFSA.

In Pennsylvania alone, 22,399 high school graduates would have been Federal Pell Grant eligible if they had just completed the FAFSA. This resulted in $87.9 million in gift aid being left on the table.

To help combat this situation, PHEAA's education and outreach efforts are spearheaded by 13 Higher Education Access Partners who live and work in communities throughout the Commonwealth. These professionals provide a variety of hands-on student-aid related services to students, families, educators, schools, and community partners.

As a group, our Access Partners participate in more than 5,000 financial aid events over the last 2 years, helping to increase awareness of various student aid opportunities, application processes and deadlines, including FAFSA completions, and how to borrow responsibly.

In response to the COVID–19 pandemic, this group continued its outreach by offering what were once highly attended in-person events as highly attended online events, including working with members of our Pennsylvania Congressional delegation to offer specialized constituent-based programs.

PHEAA's pivot to virtual outreach also included financial aid webinars, virtual one-on-one sessions, and #FinAidFridays, where PHEAA experts join with other industry partners on Facebook and Twitter to discuss and answer questions about financial aid, scholarships, financial aid offers, the FAFSA, and more.

Student Debt

Effective outreach is more important now than ever, as student loan debt continues to be a serious concern. Nationally, 44.7 million student borrowers owe more than $1.71 trillion in student loans (Sources: *federalreserve.gov/releases/g19/current/default.htm* and *newyorkfed.org/medialibrary/interactives/householdcredit/data/xls/sl-update—2018.xlsx*).

In Pennsylvania, 65 percent of college graduates carry some student loan debt, with an average debt load of more than $39,000—the 2nd highest in the Nation (Source: *ticas.org/wp-content/uploads/2020/10/classof2019.pdf*). Unfortunately, student debt levels are alarmingly higher for Black graduates than they are for White graduates. According to a 2016 Brookings study (Source: *brookings.edu/research/black-white-disparity-in-student-loan-debt-more-than-triples-after-graduation*), Black students with bachelor's degrees owe $7,400 more in student debt on average upon graduation than their White counterparts. The National Center for Education Statistics found that Black students borrow Federal student loans at higher rates than other groups of students. An estimated 77.7 percent of Black students borrow Federal student loans to pay for a higher education. This figure is significantly higher than the national average for all students (60 percent) and for White students (57.5 percent).

PHEAA has consistently advocated for all students and families to avoid unnecessary loan debt and has been leading efforts in the Commonwealth with extensive community outreach, planning guides, online tools, and other resources.

The priority for any successful higher education funding plan is to become knowledgeable about the options and obligations a student will have before, during, and after postsecondary school.

This means working to minimize the total cost of attendance and exhausting eligibility for gift aid, such as grants and scholarships, thereby minimizing the need to borrow.

While it would be desirable for students not to have to borrow, it is not the reality for most students and families today. It is no secret that the cost of a postsecondary education continues to rise. Often, grants, scholarships, and family savings are not sufficient, and it becomes necessary to take out student loans. In these cases, PHEAA encourages students to first exhaust their eligibility for low-cost Federal student loans, which offer a variety of benefits during repayment that can make a borrower's loan debt more manageable.

To further assist students and families in being well informed prior to borrowing, PHEAA created MySmartBorrowing.org, which is available nationally.

This free resource engages high school students and potential borrowers early in the planning process—before any decisions are made to borrow money—helping them weigh the benefits and expenses of various decisions to make better choices as they develop their higher education success plan.

MySmartBorrowing.org provides unique estimators that help determine a student's possible higher education costs at different schools, future salary expectations for a particular degree, availability of employment opportunities, and their potential ability to repay loans comfortably while also affording an independent lifestyle after graduation.

Special Programs

PHEAA administers several Pennsylvania student aid programs that specifically target assistance toward minority students and those from economically and educationally underserved backgrounds.

This includes the Higher Education of the Disadvantaged Program—often referred to as the Act 101 Program—that was part of the Commonwealth's Higher Education Equal Opportunity Act of 1971.

Act 101 was created with the vision of enhancing postsecondary education opportunities and achievements of undergraduate students from economically and educationally underserved backgrounds.

The primary author and sponsor of this legislation was Pennsylvania State Representative K. Leroy Irvis, the first African-American to serve as Speaker of the House in the Pennsylvania House of Representatives and the first to serve in that capacity in any State legislature in the United States since Reconstruction.

The Act 101 Program assisted 3,673 students at 33 participating institutions of higher education throughout the Commonwealth during the 2019–20 school year and has served more than 20,000 students over the last decade.

PHEAA also co-administers the Cheyney Keystone Academy Program with the Pennsylvania State System of Higher Education (PASSHE). With $3.5 million in funding from the Commonwealth, combined with a $500,000 supplement provided by PHEAA, this program makes $4 million in funding available in the current year to provide full scholarships to academically gifted students enrolled at America's oldest historically Black college—Cheyney University of Pennsylvania.

This program served 322 Cheyney University students during the 2019–20 academic year. Additionally, PHEAA co-administers the Horace Mann Bond—Leslie Pinckney Hill Scholarship (Bond–Hill) Program with the Pennsylvania Department of Education. This program provides financial assistance to qualified students from Cheyney University and Lincoln University—another of Pennsylvania's Historically Black Colleges and Universities—who pursue preprofessional programs in law, medicine, podiatry, or dentistry at Penn State, the University of Pittsburgh, Temple University or at one of the PASSHE universities.

The Bond–Hill Program provided scholarships to 33 students during the 2019–20 academic year with $800,000 in Commonwealth funding.

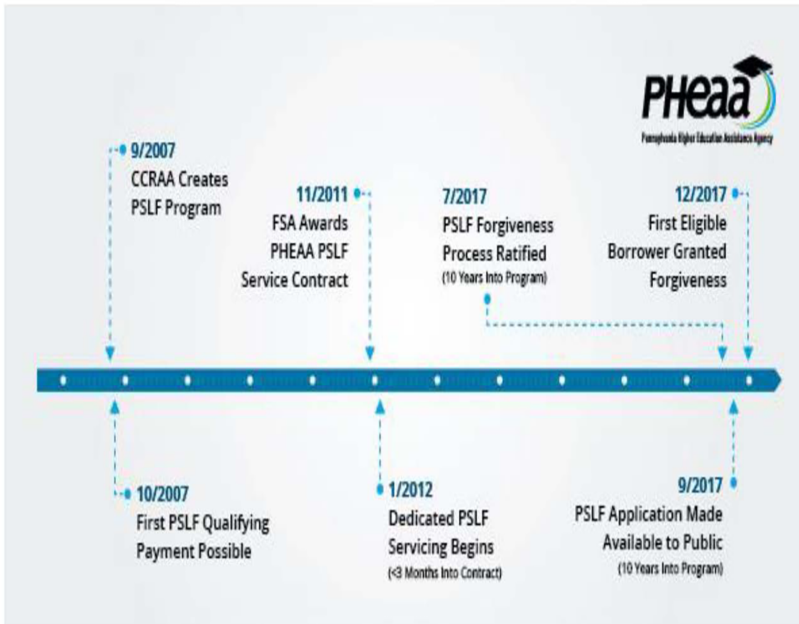
Student Loan Servicing

While PHEAA is best known in Pennsylvania as a higher education planning and funding resource, we are most known to Members of this Committee as a Federal student loan servicer.

PHEAA, took on the role of a Federal student loan servicer in 2009 and, has been on the front lines since then, witnessing many program changes, expansions, and complex revisions. As a Federal student loan servicer, PHEAA is required to adhere to the laws as written by Congress and the rules and regulations set forth by the U.S. Department of Education (Department). This includes Department guidance, such as Dear Colleague Letters, contract change requests, and administrative guidance.

It is not, nor has it ever been, within the purview of PHEAA to unilaterally change or override program rules and requirements. However, PHEAA regularly advocates on behalf of borrowers with the Department and continues to put forward proposed policy changes and collaborative suggestions that can improve both experiences and outcomes for students and borrowers.

Public Service Loan Forgiveness (PSLF) Program



The Public Service Loan Forgiveness (PSLF) Program was established under the College Cost Reduction and Access Act of 2007 and provides an opportunity for a borrower's remaining balance on their Federal Direct Loans—after 10 years of qualifying payments—to be forgiven, provided that the borrower meets specific eligibility requirements, including having been employed by a qualifying public service employer.

While the premise sounds simple—work for 10 years in public service and have your loan forgiven; the reality of the program's complexities has made the process challenging and often frustrating for all involved.

While the Program was created in 2007, the first servicing contract for PSLF was not awarded until 2011, at which time PHEAA became the primary servicer. Prior to PHEAA being selected as the servicer for PSLF, public information on the program was largely limited to what was expressly written in the law; there was no Department of Education published guidance to ensure that all the program rules were being met by borrowers—including having the right loan, being in the right repayment plan, and being employed by the right employer.

It is important to note, that in 2007, when the Program was created, approximately 75 percent of borrowers had ineligible Federal Family Education Loan Program (FFELP) loans, as only Federal Direct Loans are eligible for PSLF. It was not until the 2010–11 academic year that all new Federal loan borrowers became Federal Direct Loan Borrowers.

It was PHEAA's partnership and collaboration with the Department that resulted in the first Employer Certification Form, or ECF, 5 years after establishment of the program. This form is critical to beginning the process for a borrower interested in PSLF. There was, and still is, no Department requirement for this form to be submitted on a regular basis; however, PHEAA continues to encourage borrowers to recertify annually to provide for regular review of their eligibility status.

In 2018, Congress passed the Consolidated Appropriations Act, which provided additional conditions under which borrowers may become eligible for loan forgiveness through the Temporary Expansion of Public Service Loan Forgiveness (TEPSLF) Program.

TEPSLF alleviated some of the confusion created by the lack of program support early on by addressing which repayment plans may or may not be eligible for PSLF.

However, while again, the premise was simple, complexities remain around TEPSLF.

While the office of Federal Student Aid (FSA) designated PHEAA as the only servicer of the PSLF and TEPSLF Programs, borrowers are not required to transfer their loans to PHEAA from their current servicer until they express interest in or apply for forgiveness. PSLF is, by its nature, a retroactive program looking at the employment and payment histories of individuals—in some cases long before PHEAA becomes their servicer.

When measuring the success of PSLF, it is important to remember that most borrowers who request forgiveness are not yet mathematically eligible to be approved. This is because the Program requires 120 qualifying payments to be eligible for forgiveness and the overwhelming majority have simply not yet been in repayment for 10 years.

Much like "Public Service Loan Forgiveness" sounds like a simple concept, so does the idea that you "make 120 payments and you are finished." This gives rise to such questions as, "How difficult can it be to count 120 payments?" or "Why does it take so long to count those payments" and "I made the payment, why doesn't it count?"

We fully understand the frustration of borrowers and of Congress seeking answers to those questions. Unfortunately, the rules of the Program as established by the Department, have various, mandated conditions with defined terms, including:

- Was the payment made on time?
- Was the payment early?
- Were there forbearance or other status changes on the account?
- Was the repayment plan a qualifying plan?
- Does the employment qualify?

PHEAA has worked diligently with the Department to address these pain points and the confusion they cause for borrowers and has had some success in simplifying and streamlining the process.

Complexities of a Backward-Looking Program

As previously mentioned, PSLF requires 10 years of qualifying payments to be eligible for forgiveness. Therefore, the first time a borrower could actually apply and qualify for PSLF forgiveness was in September 2017.

Some of the news headlines around PSLF have been that 99 percent of borrowers, as of November 2020, had been denied forgiveness and therefore the program and PHEAA's administration of the program are broken.

While in fact, only about 5 percent, or 65,000, of the 1.3 million borrowers who have expressed interest in PSLF have achieved both 10 years of qualifying repayment AND 10 years of qualifying employment on at least one loan. Borrowers who would have qualified also had to navigate the complexities of the program without any published guidance or other assistance from the Department before PHEAA began servicing PSLF in 2012.

The forgiveness trend, as PHEAA predicted, has begun to improve since the Department last published figures in November 2020, as more borrowers have had sufficient time to meet their 10-year employment obligation and PHEAA worked with the Department to improve communications and processes to help borrowers successfully navigate the rules to achieve forgiveness. For example, PHEAA has overhauled its online portal to provide significant detail into every payment a borrower has made, helping to clarify the distinction between why a payment may be qualifying, eligible, or not qualified.

Adding strength to this trend is the fact that PSLF specifically targets Federal Direct Loan debt for forgiveness, which began to increase rapidly about 10 years ago—which matches the required 10 years of qualifying payments—as FFELP loans were legislatively phased out by Congress in 2010–11.

In December 2019, at PHEAA's insistence, the Department agreed to establish a joint task force with PHEAA to meet at least biweekly to review and implement further improvements to the Programs.

Since the Task Force's first meeting in January 2020, PHEAA has delivered on several crucial enhancements that have increased speed, accuracy, and flexibility for borrowers, including:

- A change in the lump sum requirements thereby allowing borrowers to make a single payment to cover and satisfy several monthly payments (which is especially beneficial for military members)
- Supporting interaction with FSA's first tool allowing borrowers to determine eligibility of most qualifying employers

- The development of a single combined form for Employment Certification TEPSLF and PSLF

Since September 2017, when the first borrowers became eligible, we have seen a steady increase in borrowers successfully achieving forgiveness and we expect to see them to attain more than $1 billion in loan forgiveness within the next 12 months. As more borrowers qualify for forgiveness in the coming months and years, we expect this upward trend continue.

One borrower who recently achieved forgiveness reached out to PHEAA to share her experiences with the PSLF program and spoke of the "life-changing effect" it had on her and on her career as a special need's teacher.

I have attached her letter to this testimony, as she not only expresses appreciation for PHEAA's work in helping her achieve loan forgiveness, but also attests to the profound benefits that can be realized through PSLF. My organization and its employees regularly celebrate with borrowers when they attain the life changing event of earning this forgiveness and we applaud their public service.

Legal Matters

As a Federal servicer, PHEAA works with borrowers throughout the Nation, helping them manage their debt according to the Program rules set forth by the Department of Education and Federal law.

However, there are instances when Federal rules that PHEAA is contractually required to follow conflict with the rules and oversight regulations of individual States.

PHEAA continues to engage with our State and Federal regulators to comply with all requirements but when lawsuits are filed against us, PHEAA, as an agency of the Commonwealth of Pennsylvania, is obligated to take certain legal steps.

Recently, PHEAA was mentioned in the news in relation to a settlement agreement that it entered into with the Massachusetts Attorney General's Office regarding a civil lawsuit connected to PHEAA's servicing of federally owned student loans.

The agreement, which was reached after 5 years of cooperation between PHEAA, the Department and the Massachusetts Attorney General's Office, had no findings of wrongdoing, and no fees or penalties were assessed against PHEAA.

The Massachusetts Attorney General's Office's 5+ year investigation identified errors on 25 out of 250,000 Massachusetts student borrower accounts and PHEAA has already remedied those accounts. PHEAA also implemented a notice and claims process to allow eligible MA borrowers to request to have their account more closely reviewed.

While PHEAA strives to service loans without any errors or exceptions, and never purposefully or intentionally causes harm to a borrower, mistakes do occur and when they do, PHEAA immediately takes steps to correct such errors. We work diligently to meet all Service Level Agreements under the terms of our servicing contracts and to treat all borrowers with respect and empathy.

The Massachusetts Attorney General's lawsuit also included allegations related to the Federal TEACH Program, which PHEAA services in accordance with Federal law and Program rules.

Under PHEAA's settlement agreement with the Massachusetts' Attorney General, if any cases are identified where a TEACH Grant had been improperly converted to a loan and a reconsideration request was denied by the Department of Education, PHEAA agreed to pay off that loan. However, as of this date, neither PHEAA nor the Massachusetts Attorney General's office has identified a single instance where this scenario occurred.

Nationally, PHEAA currently assists 79,713 TEACH recipients and has worked with the Department to implement many improvements to this program. These include:

- Identified a significant number of suspected conversions by the prior servicer and is working with the Department on implementing solutions
- Developed insightful outcomes reporting for the Department to better shape policy
- Identified a need to provide relief to recipients who are impacted by natural disasters

PHEAA continues to look for TEACH Program improvements and is excited about the opportunity to digitize the teaching service certification with the Department, which will improve outcomes and experiences for participants.

Additionally, PHEAA is currently operating pursuant to the Department's guidance to provide relief to teachers who may have been disrupted during the 2019–20 school year due to COVID–19 and did not believe they could receive credit towards teaching full time or a full year. This includes direct outreach to more than 30,000 individual recipients who did not receive any 19–20 credit to make them aware of this available relief.

Conclusion

As I conclude my remarks, I want to express PHEAA's genuine desire—not just as a Federal servicer with first-hand knowledge and experience, but as a public servant—to be part of the solution to the student loan debt crisis that is impacting millions of Americans.

PHEAA's mission, values, and goals closely align with the stated purpose of this Committee hearing. As always, PHEAA stands ready to work with members of Congress and the Administration to develop inclusive new initiatives that can help all students and families afford a higher education while avoiding burdensome or crippling student loan debt.

On behalf PHEAA's dedicated employees and the nearly 10 million students and borrowers that we serve, thank you for the opportunity to appear here today.

I welcome the opportunity to answer your questions.

PREPARED STATEMENT OF BETH AKERS

RESIDENT SCHOLAR, AMERICAN ENTERPRISE INSTITUTE

APRIL 13, 2021

Chair Warren, Ranking Member Kennedy, and Members of the Subcommittee: Thank you for inviting me here today to share my assessment of this important issue. The volume of student loan debt in the economy has now surpassed $1.6 trillion, which is an alarming milestone. Concern about student debt was once a niche issue, but with 45 million[1] Americans now holding student debt, it has rightly become an issue of national concern. Your attention to this subject today is apt.

I am honored to be able to share the insights I have collected about this issue throughout a number of years working in this space as a policymaker and researcher. I began working on this issue as a staff economist in the Council of Economic Advisers under the George W. Bush administration, while working toward a Ph.D. in economics at Columbia University, and have since been researching the economics of higher education in the think tank industry, currently at the American Enterprise Institute and previously at the Brookings Institution and the Manhattan Institute. Throughout my career, my focus has been on studying the Federal system of higher education finance, with a focus on student debt, with the goal of improving the efficacy of our system of higher education as a mechanism for social mobility.

The Impact of Student Loan Debt on Individual Borrower Well-Being

When considering the impact of student debt on individuals, it's important to recognize the appropriate counterfactual for the comparison. While borrowers in repayment would be unequivocally better off if they didn't have to make payments on their debt, most are better off with debt and a degree than they would be if they'd not pursued higher education. That's not only because college degree holders earn higher wages but also because they find themselves unemployed less often than peers without degrees. The act of borrowing to pay for college often lowers current wealth but will ultimately increase lifetime earnings and economic well-being.

While students completing bachelor's degrees with debt have average balances of approximately $30,000,[2] the degrees they hold will, on average, raise their lifetime earnings by $2.8 million.[3] The price tag for higher education can be high, but the returns are generally even higher. Economists from the Federal Reserve have estimated that students investing in associate and bachelor's degrees will earn a 15 per-

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[1] Raksha Kopparam and Austin Clemens, "The Rising Number of U.S. Households With Burdensome Student Debt Calls for a Federal Response", Washington Center for Equitable Growth, October 21, 2020, *https://equitablegrowth.org/the-rising-number-of-u-s-households-with-burdensome-student-debt-calls-for-a-federal-response/#:text=In%202019%2C%20it%20was%20a%20whopping%2024%20percent.*

[2] College Board, "Trends in Student Aid: Highlights", 2020, *https://research.collegeboard.org/trends/student-aid/highlights.*

[3] Anthony P. Carnevale, Stephen J. Rose, and Ban Cheah, "The College Payoff: Education, Occupations, Lifetime Earnings", Georgetown University Center on Education and the Workforce, 2011, *https://cew.georgetown.edu/cew-reports/the-college-payoff/*.

cent rate of return, which is about twice the rate of return in the stock market, on the dollars spent on the cost of enrollment.[4]

The largest student loan balances, like the ones we often read about in the newspaper, are uncommon and most often held by borrowers with advanced degrees who also have access to very high earnings. Only 6 percent of borrowers owe more than $100,000.[5] A recent study authored by my two copanelists for this hearing indicates that more than 40 percent of the outstanding student debt in this country was used to pay for graduate or professional programs, with MBAs and law schools being the largest sources of debt. These high-balance borrowers hold a surprising share—one third—of all outstanding student debt.[6]

For the typical borrower, access to student debt through the Federal Loan Program creates an opportunity for economic mobility that would otherwise be unavailable. Some students, however, are left worse off financially for having gone to college. Borrowers who find themselves in this situation often fall into two categories: those who start but don't complete a degree and those who complete a degree but find that it doesn't deliver the opportunities in terms of employment that would justify its cost.

We see that noncompleters make up a disproportionate share of borrowers who struggle to repay their debt.[7] This explains why borrowers with small balances, less than $5,000, are finding themselves in default on their loans more often than borrowers with larger balances.[8] Debt without a degree is one of the most problematic trends of the current Federal policy regime.

Another problem that needs to be addressed, especially for borrowers of color, is low-quality institutions that do not effectively prepare their graduates for the employment that would justify their often high cost of attendance. There are programs and institutions in every sector of the higher education industry that fail to prepare their graduates, but the problem of a low-quality education, which generates both worthless credentials and large numbers of indebted dropouts, has been concentrated in the for-profit sector.

Low-income, first-generation, and minority students are disproportionately represented in this group. Black students, for example, make up just 13 percent of students enrolled at public colleges but comprise 21 percent of students at for-profit colleges.[9] This is an important driver of the repayment crisis being faced by these borrowers. Half of Black borrowers who began a degree program in 2003–04 had defaulted on their loan 12 years later, compared to just one in five White borrowers.[10]

The Inadequacy of Borrower Protection and Relief Programs

Ideally, borrowers who find their loan payments unaffordable due to lack of earnings opportunities would take advantage of the existing safety nets—namely, the set of income-driven repayment (IDR) programs including Public Service Loan Forgiveness—but evidence suggests that the safety net created by these programs is falling short.

Income Driven Repayment Is Too Complex. Despite IDR's appropriateness for the policy challenge at hand, the system hasn't been working well. The reason for this is largely that IDR is administered through a complex variety of programs, each with different eligibility criteria and a range of program parameters. The amount borrowers are expected to pay is calculated differently across programs, as is the number of years before borrowers can qualify to have their balance forgiven. The result is a system that is excessively complex to navigate, with many borrowers un-

[4] Jaison R. Abel and Richard Deitz, "Do the Benefits of College Still Outweigh the Costs?" Federal Reserve Bank of New York, 2014, *https://www.newyorkfed.org/medialibrary/media/research/current-issues/ci20-3.pdf.*

[5] Adam Looney, David Wessel, and Kadija Yilla, "Who Owes All That Student Debt? And Who'd Benefit If It Were Forgiven?" Brooking Institution, January 28, 2020, *https://www.brookings.edu/policy2020/votervital/who-owes-all-that-student-debt-and-whod-benefit-if-it-were-forgiven/.*

[6] Looney, Wessel, and Yilla, "Who Owes All That Student Debt?"

[7] College Board, "Trends in Student Aid 2015", Figure 14A, 2015, *https://research.collegeboard.org/pdf/trends-student-aid-2015-full-report.pdf.*

[8] Kristin Blagg, "Underwater on Student Debt: Understanding Consumer Credit and Student Loan Default", Urban Institute, August 2018, *https://www.urban.org/sites/default/files/publication/98884/underwater-on-student-debt-0.pdf.*

[9] Suzanne Kahn, Mark Huelsman, and Jen Mishory, "Bridging Progressive Policy Debates: How Student Debt and the Racial Wealth Gap Reinforce Each Other", Roosevelt Institute, Century Foundation, and Demos, September 9, 2019, *https://rooseveltinstitute.org/publications/bridging-progressive-policy-debates-student-debt-racial-wealth-gap-reinforce-each-other/.*

[10] Ben Miller, "The Continued Student Loan Crisis for Black Borrowers", Center for American Progress, December 2, 2019, *https://www.americanprogress.org/issues/education-postsecondary/reports/2019/12/02/477929/continued-student-loan-crisis-black-borrowers/.*

aware of the benefits available to them. As of 2016, only 43 percent of undergraduates with loans reported that they were aware of their eligibility for IDR.[11]

While IDR is now universal for all Federal student borrowers, it became that way only after a series of legislative and executive interventions,[12] between 1992 and 2015, stitched together a patchwork of loosely related programs. Factual evidence about how IDR has been used is limited, but anecdotes about the challenges of navigating the system, even by financially savvy consumers, indicate systemic problems. This rickety policy framework desperately needs to be replaced with a single user-friendly IDR plan that can be universally marketed and better understood.

The complexity of these programs is especially problematic for economically disadvantaged borrowers. Borrowers with large balances from graduate and professional degrees, which are most often White students from middle- to high-income families, seem to be navigating the programs successfully, perhaps because they have so much to gain from loan forgiveness. Of the loans disbursed from 2020 to 2029 and repaid through IDR, the Congressional Budget Office estimates that borrowers with debt only from undergraduate studies would have $40.3 billion forgiven, while those who borrowed for graduate school would have $167.1 billion forgiven.[13]

Widespread Student Loan Cancelation Is the Wrong Solution. Some might argue that these facts justify a blunt intervention, like mass loan cancelation, which would not require the borrower to jump through hoops to collect the benefit. But that's not the case. The complexity of the current safety net is not due to the income-based eligibility criteria; it is complex because of the manner in which it was created, through a combination of piecemeal, nonconforming policy changes. Borrowers who made their way through college and took out loans to do so are certainly capable of navigating an income-tested student loan relief program if it were designed with the intention of being user-friendly and accessible.

In addition to being an unnecessarily blunt fix to the problem of an inadequate safety net, widespread student loan cancelation would create additional problems. I am especially concerned about the distortion of borrower and institution incentives that would likely exacerbate the problems of ballooning loan balances and rampant tuition inflation.

Students enrolling in college after a student loan jubilee would have good reason to think that any debts they take on in pursuit of a degree would potentially be forgiven in the future. This would encourage students to borrow more than they would have otherwise, by financing a greater share of their costs or attending a more expensive institution. In response, institutions would likely be driven to raise their costs. While colleges and universities don't always act as firms would in economic models, they would likely raise their prices over time in response to the increase in demand and willingness to pay. If mass loan cancelation were implemented, we'd likely find ourselves having this same conversation again, but with larger balances to contend with.

Not only would widespread loan cancelation create moral hazard, but it would also deliver more benefits to well-off borrowers than to needy ones and would thus do little to address the inequality implicit in our economy. A comprehensive loan-forgiveness program would deliver 10 times more benefit to borrowers in the top 10 percent of earners than it would provide to borrowers in the bottom 10 percent of earners.[14]

Additional Solutions. Higher education is an essential mechanism for social mobility in our economy. Since alternative pathways to financial prosperity outside education after high school are not plentiful, it is crucial that our system of higher education finance offers a pathway through higher education that isn't riddled with financial risk. Aspiring students shouldn't have to fear that college will leave them worse off financially than where they started.

This goal can be achieved by a sweeping reform of the student loan safety net to make it simpler to navigate and more readily understood by potential beneficiaries. The set of IDR programs should be replaced with a single, universal pro-

[11] Matthew Chingos, "Structural Changes to Student Loan Repayment Could Make Forgiveness Work Better for Struggling Borrowers", Urban Institute, February 19, 2021, *https://www.urban.org/urban-wire/structural-changes-student-loan-repayment-could-make-forgiveness-work-better-struggling-borrowers.*

[12] Lumina Foundation, "Chapter 6: Evolution of Student Loan Repayment: When the Bill Comes Due", *https://www.luminafoundation.org/history-of-federal-student-aid/chapter-six/*.

[13] Congressional Budget Office, "Income-Driven Repayment Plans for Student Loans: Budgetary Costs and Policy Options", February 2020, *https://www.cbo.gov/system/files/2020-02/55968-CBO-IDRP.pdf.*

[14] Sylvain Catherine and Constantine Yannelis, "The Distributional Effects of Student Loan Forgiveness", University of Chicago Becker Friedman Institute for Economics, December 9, 2020, *https://bfi.uchicago.edu/working-paper/2020-169/*.

gram, and the process of application and income certification should be streamlined to support borrowers.

Policymakers might also consider reforming the parameters that determine benefits to reallocate benefits or alter their generosity. For example, it would be reasonable to require high-balance borrowers (who likely attended graduate or professional school) to make payments on their loans longer than borrowers with small balances before they become eligible for forgiveness. Policymakers could also decrease the amount of disposable income that borrowers are expected to devote to repayment or raise the threshold of income below which borrowers aren't required to make payments. Reasonable people can disagree about the appropriate level of generosity of the student loan safety net, so I'll refrain from providing a specific recommendation today and instead illustrate that there are multiple ways to tweak the repayment system and make it more equitable.

A regime for higher education finance that provides a robust safety net must also require that we not let borrowers continue to take on debts that are predictably unaffordable. Constraining borrowing among graduate students and parents would be a good start. Increasing the role of student employment and financial outcomes in assessing a school's eligibility for participation in the Federal student loan program would also go a long way in this effort.

Student Debt and the Macro Economy

Since investments in higher education, on average, provide a net positive return (even taking into account the cost of borrowing), spending on education that is financed with Federal student loans is generally a wealth-enhancing activity both individually and collectively. In other words, we are richer as a Nation because of our public and individual investments in higher education. However, these benefits are not equally distributed, and some groups are being systematically made worse off by enrolling in higher education.

Many are concerned that student debt is causing borrowers to delay milestones such as home ownership, marriage, and parenthood. It does seem likely that alleviating borrowers of their debt would allow them to engage in these activities sooner (if they wish), but this does not mean that debt is causing a delay. The more apt question would be whether individuals with student debt are delaying these activities relative to what they would have done had they never gone to college in the first place. That is a much harder question to answer, but given that borrowing and college attendance are, on average, wealth-enhancing activities, how they would also be constraining these behaviors is unclear.

In this vein, many have argued that loan cancelation would provide a valuable stimulus to the economy. In theory, it could encourage borrowers in repayment to redirect their resources elsewhere, perhaps toward purchasing a home, getting married, or having children. It would likely have this affect; however, the magnitude would be small relative to the cost of the effort. This is because the benefits would be disproportionately delivered to higher-income borrowers and because the benefit would not be delivered immediately but rather through alleviating payments that were due monthly for decades into the future. There are far more effective forms of stimulus that could be immediately enacted if this were a priority.

Conclusion

The startling statistics in the student loan program and revelations of inequity might seem like cause for dramatic and immediate action, like student loan cancelation. However, the problems with our system of higher education finance cannot be repaired with such blunt efforts and must be addressed with more nuanced, incremental changes. I would urge you all to consider that smaller, and less politically exciting, reforms might better serve students and accomplish our collective goal of having our higher education finance system effectively and equitably support this pathway to economic prosperity.

Thank you for the opportunity to give testimony in this important hearing. I look forward to presenting these comments and evidence to the Subcommittee and answering questions.

PREPARED STATEMENT OF CONSTANTINE YANNELIS

ASSISTANT PROFESSOR OF FINANCE, BOOTH SCHOOL OF BUSINESS, UNIVERSITY OF CHICAGO

APRIL 13, 2021

Dear Chair Warren, Ranking Member Kennedy, and Members of the Committee, thank you for inviting me and the opportunity to testify today.

Education is the single highest return investment most Americans will make. Thus getting our system of higher education finance right is of fundamental importance for American households and to the American economy.

A key point that has to be made whenever discussing student loans is that the outcomes of borrowers vary widely. It is undeniable that a significant number of borrowers are struggling, and are sympathetic candidates for some kind of relief. Student loan balances have surged over the past decades. According to the New York Fed, last year student loans had the highest delinquency rate of any form of household debt.[1] At the same time, the majority of borrowers end up earning high amounts and do not have difficulties repaying their loans.[2] A college education is, in the vast majority of cases in America, a ticket to success and a high-paying job. A very large portion of the borrowers who struggle attend a relatively small number of institutions—predominantly for-profit colleges.[3]

The core of the problem in the student loan market lies in a misalignment of incentives between students, schools, and the Government. This misalignment comes from the fact that borrowers use Government loans to pay tuition to schools. If borrowers end up getting poor jobs, and they default on their loans, schools are not on the hook—taxpayers end up paying the costs. How do we address this incentive problem? There are many options, but let me first comment on a commonly proposed solution, universal loan forgiveness.

One common proposal is some form of blanket student loan cancelation. This is an extremely regressive policy—it provides more assistance to higher income rather than lower income borrowers. This is primarily because people who go to college tend to earn more than those who do not go to college, and people who spend more on their college education—like those who attended medical and law schools—tend to earn more than those who spent less on their college education, like dropouts and associate's degree holders.

My own research, which is joint with Sylvain Catherine at the Wharton School of the University of Pennsylvania shows that most of the benefits of universal loan cancelation would accrue to high income individuals. Individuals in the top 20 percent of the earnings distribution would receive six to eight times as much debt relief as individuals in the bottom 20 percent of the earnings distribution.[4] These basic patterns are still true for policies that limit forgiveness up to $10,000 or $50,000.

Another problem with capped student loan forgiveness is that many struggling borrowers will still face difficulties. A small number of borrowers have very large balances, and very low incomes. Policies forgiving $10,000 or $50,000 in debt will leave their significant problems unaddressed. While income phaseouts make forgiveness less regressive, it is a very blunt instrument, and leads to many individuals who earn large amounts over their lives receiving substantial loan forgiveness, like medical residents and judicial clerks.

If the goal of policymakers is to make sure that funds get into the hands of borrowers at the bottom of the income distribution, in a progressive way, blanket student loan forgiveness does not accomplish this goal. Rather, the policy primarily benefits high earners.[5]

While I am convinced from my own research that student loan forgiveness is regressive, this is also the consensus of economists. The panel of prominent economists run by The Initiative on Global Markets at the University of Chicago asked economists whether "Having the Government issue additional debt to pay off current outstanding loans would be net regressive."[6] The panel included economists from both the left and the right at leading institutions. The results of the survey were telling. Not a single economist disagreed with the idea that student loan forgiveness was regressive. This is because the facts are clear on this issue—to borrow a phrase commonly used, "the science is settled." Student loan forgiveness is a regressive policy, that mostly benefits upper income and upper middle class individuals.

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[1] *https://www.newyorkfed.org/microeconomics/hhdc/background.html*

[2] Looney, Adam, and Constantine Yannelis. "A Crisis in Student Loans?: How Changes in the Characteristics of Borrowers and in the Institutions They Attended Contributed to Rising Loan Defaults". Brookings Papers on Economic Activity 2015, no. 2 (2015): 1–89.

[3] Looney, Adam, and Constantine Yannelis. "A Crisis in Student Loans?: How Changes in the Characteristics of Borrowers and in the Institutions They Attended Contributed to Rising Loan Defaults". Brookings Papers on Economic Activity 2015, no. 2 (2015): 1–89.

[4] Catherine, Sylvain, and Constantine Yannelis. "The Distributional Effects of Student Loan Forgiveness". No. w28175. National Bureau of Economic Research, 2020.

[5] Catherine, Sylvain, and Constantine Yannelis. "The Distributional Effects of Student Loan Forgiveness". No. w28175. National Bureau of Economic Research, 2020.

[6] *https://www.igmchicago.org/surveys/student-debt-forgiveness/*

One of the topics of this hearing is the effect of student loan forgiveness on racial inequality. One of the most distressing failures of the Federal loan program is the high default rates and significant loan burdens on Black borrowers. And student debt has been implicated as a contributor to the Black–White wealth gap. However, the data show that student debt is not a primary driver of the wealth gap and student loan forgiveness would make little progress closing the gap but at great expense. The average wealth of a White family is $171,000, while the average wealth of a Black family is $17,150.[7] The racial wealth gap is thus approximately $153,850. According to my paper, which uses data from the Survey of Consumer Finances, and not taking into account the present value of the loan, the average White family holds $6,157 in student debt, while the average Black family holds $10,630. These numbers are of course unconditional on holding any student debt.

Thus, if all student loans were forgiven, the racial wealth gap would shrink from $153,850 to $149,377, which is shrinking it by just under 3 percent. Thus the policy would cost about $1.7 trillion, and shrink the racial wealth gap by about 3 percent. Surely there are much more effective ways to invest $1.7 trillion if the goal of policymakers is to close the racial wealth gap. For example, targeted, means-tested social insurance programs are far more likely to benefit Black Americans relative to student loan forgiveness.[8] For most American families, their largest asset is their home, so increasing property values and home ownership among African-Americans would likely do much more to close the racial wealth gap, although the racial income gap is the primary driver of the wealth gap.[9] Wealth is ultimately driven by earnings and workers' skills—what economists call human capital.[10] In sum, forgiving student loan debt is a costly way to close a very small portion of the Black–White wealth gap.

How can we provide relief to borrowers who need it, while avoiding making large payments to well-off individuals? There are a number of policy options for legislators to consider. One option to provide relief is to bring back bankruptcy protection for student loan borrowers.

Another option is expanding the use of Income-Driven Repayment, or IDR. One fact which is often missed in the policy debate is that we already have a progressive student loan forgiveness program, and that is IDR. IDR plans link a borrower's payments to their income, they typically pay 10–15 percent of their income above 150 percent of the Federal poverty line.[11] Depending on the plan, after 20 or 25 years, remaining balances are forgiven. Thus, if a borrower earns below 150 percent of the poverty line, he or she never pays anything and the debt is forgiven for these low income individuals. If the borrower earns low amounts above 150 percent of the poverty line, he or she makes some payments and receives partial forgiveness. If a borrower earns a high income, he or she fully repays their loan. Put simply, higher income people pay more and lower income people pay less.[12] IDR is thus a progressive policy.

IDR plans provide relief to struggling borrowers, who face adverse life events or are otherwise unable to earn high incomes. There have been problems with the implementation of IDR plans in the United States, but the problems are fixable, and some have been fixed by recent legislation.[13] Many countries such as the U.K. and Australia successfully operate IDR programs, that are administered through their respective tax authorities.

Beyond providing relief to borrowers, which is very important, we could do more to fix technical problems, and incentives. We could give servicers more tools to contact borrowers and inform them of repayment options like IDR, and we could also incentivize servicers to sign more people up for IDR. But, while we may be able to make some technical fixes, servicers are not the root of problems in the student loan

[7] *https://www.brookings.edu/blog/up-front/2020/02/27/examining-the-black-white-wealth-gap/*

[8] *https://www.brookings.edu/blog/up-front/2021/02/12/putting-student-loan-forgiveness-in-perspective-how-costly-is-it-and-who-benefits/*

[9] Aliprantis, Dionissi, Daniel Carroll, and Eric R. Young. "The Dynamics of the Racial Wealth Gap". (2019).

[10] Heckman, James J. "Invest in Early Childhood Development: Reduce Deficits, Strengthen the Economy". *The Heckman Equation* 7 (2012): 1–2.

[11] Mueller, Holger M., and Constantine Yannelis. "The Rise in Student Loan Defaults". *Journal of Financial Economics* 131, no. 1 (2019): 1–19.

[12] Karamcheva, Nadia, Jeffrey Perry, and Constantine Yannelis. "Income-Driven Repayment Plans for Student Loans". Vol. 2. CBO Working Paper, 2020.

[13] Mueller, Holger M., and Constantine Yannelis. "Reducing Barriers to Enrollment in Federal Student Loan Repayment Plans: Evidence From the Navient Field Experiment". Working Paper. 2020.

market. A small number of schools and programs are accounting for a large portion of adverse outcomes.[14]

To fix this, policymakers can also directly align incentives between schools and borrowers. For example, Brazil has had similar problems with their student loan program. Recently, they gave schools "skin in the game" and required them to pay a fee based on dropout and default rates. This helps align the incentives of schools and borrowers. Making revenues go directly to schools from IDR plans, or Income-Share Agreements, where individuals pay an uncapped portion of their income, could also help align the incentives of schools, students, and taxpayers.

In closing, I want to stress that Federal student loans are an important part of college financing and intergenerational mobility. The roots of our student loan problem is a misalignment of incentives. Since the student loan problem has been so slow moving and continuous, I like the analogy of a frog slowly boiling in a pot of water over a flame. Policies like student debt cancelation are not extinguishing the flame—they aren't fixing the incentive problem. All you would be doing is moving the frog into a slightly cooler pot of water. And if we don't fix the core of the problem, even if you forgive $50,000 of debt for current borrowers, balances will continue to grow and we will be having another hearing with a similar theme in 10 or 20 years' time.

[14] Looney, Adam, and Constantine Yannelis. "The Consequences of Student Loan Credit Expansions: Evidence From Three Decades of Default Cycles". Working Paper. 2020.

PREPARED STATEMENT OF ALEXANDER HOLT

POLICY ANALYST, COMMITTEE FOR A RESPONSIBLE FEDERAL BUDGET

APRIL 13, 2021

COMMITTEE FOR A RESPONSIBLE FEDERAL BUDGET

Testimony of Alexander Holt
Policy Analyst for the Committee for a Responsible Federal Budget

Hearing before the Senate Banking, Housing, and Urban Affairs Subcommittee on Economic Policy:
"The Student Debt Burden and Its Impact on Racial Justice, Borrowers, and the Economy"
April 13, 2021

Chair Warren, Ranking Member Kennedy, and Members of the subcommittee: Thank you for inviting me to discuss federal student loans and their role in the economy.

The federal student loan program has gained increased attention as the size of the portfolio has grown from $516 billion in 2007 to around $1.6 trillion today. I look forward to presenting the data and economic evidence to help inform this discussion.

In this testimony, I will make the following points:

- Despite its shortcomings, the federal student loan program, on average, represents a good investment for students.
- Blanket debt forgiveness does not have a high "bang-for-your-buck" in terms of stimulating the economy. While more targeted relief may be needed, it's a poor use of resources to cancel loans for everyone, especially highly educated students who are most likely to be high earners. There are much better ways to spend $1.6 trillion.
- Blanket debt forgiveness would introduce a moral hazard that could encourage students to borrow more and reduce incentives for schools to contain costs.
- Reforms should be made with the objective in mind. If the goal is to help struggling borrowers, then give them targeted relief without giving a windfall to the wealthy. Those who are able to pay back the full amount should be expected to do so. If the goal is to help low-income students afford the cost of college, programs like Pell Grants are much better forms of direct assistance.
- Given the nation's unsustainable fiscal outlook, any student loan relief or changes to federal higher education financing should be offset either with savings from within the student loan program or elsewhere in the federal budget in the form of increased revenue, decreased spending, or some combination. It may be *worthwhile* to provide targeted loan relief, but that does not mean it is *free*.

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The Role of Student Loans in Completion and Earnings

Despite its flaws, the federal student loan program is currently one of the country's primary tools for expanding access to higher education. While increased access to borrowing does tend to increase personal debt, it also leads to students taking more and harder classes, taking on fewer second jobs and less credit card debt while in school, completing college at higher rates, defaulting at lower rates, and increasing earnings.[1] On average, the increase in lifetime earnings far exceeds the cost of the loan.[2]

While repaying loans can be burdensome, not having access to the loans in the first place would prevent many from pursuing and completing higher education. Proposals to make college free, even in their most expansive forms, are estimated to decrease borrowing by just 15 percent.[3] Making undergraduate public colleges and universities tuition-free does not change the cost for those undergraduates attending private colleges (3.6 million in 2018) or graduate school (3 million in 2018).[4] Furthermore, many students attending "free" public colleges would still need to borrow to cover the cost of living while attending school full-time.

To be sure, there are problems with the federal student loan program. Because going to college doesn't always lead to higher earnings, owing a fixed monthly payment can be burdensome to many. Policymakers should find ways to alleviate some risks of borrowing to pay for education, either by reforming the loan program or finding a different financing mechanism altogether. But for many people, borrowing to pay for their education is the right decision in the long run, leading to a long-term increase in earnings that more than makes up for the short-term cost of paying off their loans.

[1] Mark Wiederspan, "Denying Loan Access: The Student-Level Consequences When Community Colleges Opt Out of the Stafford Loan Program," Economics of Education Review, Vol. 51, April 2016, https://www.sciencedirect.com/science/article/abs/pii/S0272775715000837?via%3Dihub; Benjamin Marx & Lesley Turner, "Student Loan Nudges: Experimental Evidence on Borrowing and Educational Attainment," American Economic Journal: Economic Policy, Vol. 11, No. 2, May 2019, https://www.aeaweb.org/articles?id=10.1257/pol.20180279; and Sandra Black et al., "Taking It to the Limit: Effects of Increased Student Loan Availability on Attainment, Earnings, and Financial Well-Being," NBER Working Paper Series, August 2020, https://www.nber.org/system/files/working_papers/w27658/w27658.pdf.

[2] Beth Akers and Matthew Chingos, "Is a Student Loan Crisis on the Horizon?", The Brookings Institution, June 2014, https://www.brookings.edu/research/is-a-student-loan-crisis-on-the-horizon/.

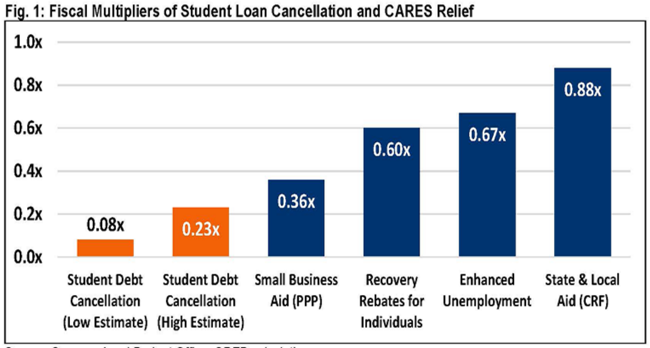
[3] Jason Delisle & Preston Cooper, "Free College and the Debt-Free Fantasy," American Enterprise Institute, June 2020, https://www.aei.org/research-products/report/free-college-and-the-debt-free-fantasy/.

[4] "Digest of Education Statistics," National Center for Education Statistics, https://nces.ed.gov/programs/digest/2019menu_tables.asp. Latest numbers are from 2018.

Blanket Student Loan Forgiveness Would Do Little to Stimulate Economy

A common argument for blanket loan forgiveness is that it would be a form of economic stimulus. However, the Committee for a Responsible Federal Budget estimated in November that canceling all federal student debt would have a fiscal multiplier between 0.08x and 0.23x, far lower than the major provisions contained in the various pandemic relief bills to date.[5] For comparison, the Congressional Budget Office estimated that the Economic Impact Payments (stimulus checks) in the CARES Act provided a 0.60x multiplier, while the enhanced unemployment benefits provided a 0.67x multiplier. Given that two additional relief packages have been enacted since November and economic prospects are stronger now, the debt forgiveness multipliers would likely be even lower if re-estimated today.

Fig. 1: Fiscal Multipliers of Student Loan Cancellation and CARES Relief



Source: Congressional Budget Office, CRFB calculations

Blanket student loan forgiveness is a relatively ineffective form of economic stimulus for a few reasons. First, forgiving all student debt would not suddenly unleash $1.6 trillion into the U.S. economy. People make monthly payments on their loans, and that monthly payment roughly corresponds to the increase in income borrowers would gain if all their student debt was forgiven. The normal amount of loans repaid per year is $70-85 billion, which is a relatively small immediate benefit compared to the full cost of forgiving all debt.[6] Further, only 8 percent of all federal student loan dollars (10 percent of borrowers) are in active repayment right now given the Biden Administration's pause of student loan payments through September. As long as that pause is in effect, loan forgiveness would not increase the monthly incomes of the 90 percent of borrowers who are already not paying their loans.[7]

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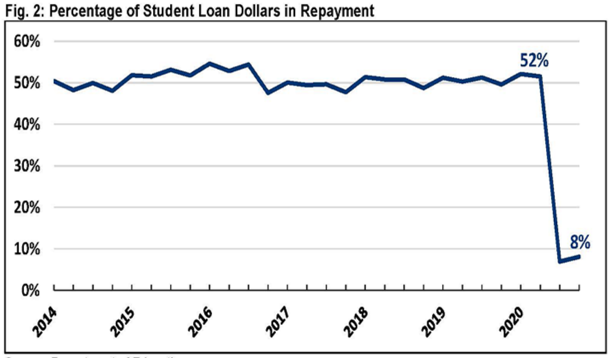
[5] "Canceling Student Loan Debt is Poor Economic Stimulus," Committee for a Responsible Federal Budget, November 2020, https://www.crfb.org/blogs/canceling-student-loan-debt-poor-economic-stimulus.

[6] $70 billion from Jordan Weissmann, "An Extremely Important Statistic About Student Debt That Has Never Been Published," Slate, March 2021, https://slate.com/business/2021/03/student-loan-total-annual-government-payments.html.That number does not include the amount from a small portion of the portfolio, so the higher number is the author's estimate to account for that discrepancy.

[7] "Portfolio by Loan Status," Office of Federal Student Aid, https://studentaid.gov/sites/default/files/fsawg/datacenter/library/PortfoliobyLoanStatus.xls

Fig. 2: Percentage of Student Loan Dollars in Repayment



Source: Department of Education

There would likely be a small additional boost in spending from people knowing they no longer have debt. However, this tendency – known as the "wealth effect" – would be unlikely to increase spending by more than 3-6 cents per dollar of debt forgiven.[8]

We expect that more tailored proposals to forgive $50,000 or $10,000 in student debt would also have similarly low, or even lower, multipliers. That's because over $500 billion in student loan debt is held by more than 9 million borrowers who have their monthly payments tied to their incomes. For many of those borrowers, cancelling $10,000 of their debt would have *no* effect on their monthly payments. For those with low incomes, they are already paying $0 per month, and for those who are paying some amount per month, it would only reduce the number of months they would need to repay. Helping borrowers finish paying off their loans in 2029 instead of 2031 would have virtually no effect on stimulating the economy in the near term.

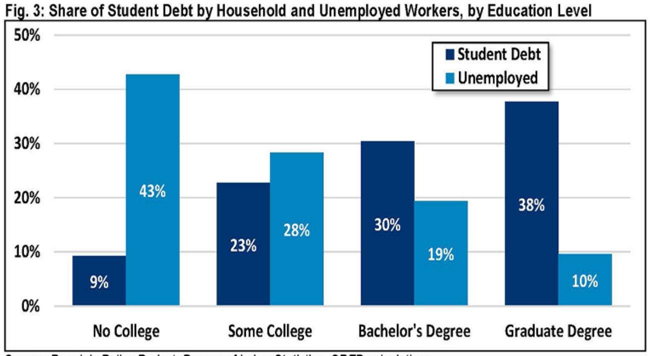
Second, blanket loan forgiveness is a poor way to target stimulus because it gives the most benefit to higher-income households and those with no trouble repaying their loans, even if the dollar amount of forgiveness is capped at $10,000 or $50,000.[9] An additional dollar given to someone with a high income is much more likely to be saved and provide little economic boost to demand.

[8] Anna Louie Sussman, "New Estimates of the Stock Market Wealth Effect," NBER: The Digest No. 8, August 2019, https://www.nber.org/digest/aug19/new-estimates-stock-market-wealth-effect; Daniel Cooper, "Wealth Effects and Macroeconomic Dynamics," Journal of Economic Surveys Vol. 30, 2016, https://scholar.harvard.edu/files/kdynan/files/1._wealth_effects_and_macroeconomic_dynamics.pdf; and Mark Zandi et al. "Weighing the Wealth Effect," Moody's Analytics, March 2018, https://www.moodysanalytics.com/-/media/article/2018/weighing-the-wealth-effect.pdf.

[9] For an exhaustive analysis of the redistributive effects of blanket student loan forgiveness, see Sylvain Catherine & Constantine Yannelis, "The Distributional Effects of Student Loan Forgiveness," NBER Working Papers, December 2020, https://www.nber.org/papers/w28175.

Before the onset of the COVID-19 pandemic, over 70 percent of monthly student loan payments were paid by the top 40 percent of earners.[10] The median weekly income of a full-time worker with a bachelor's degree is $1,283, and $1,627 for those with graduate degrees. Compare that to workers with only a high school degree, who earn a median weekly income of $781: any additional cash is more likely to be spent by the worker without a college education.[11] Almost half of all outstanding federal student loan dollars were used to attend graduate school.[12]

Fig. 3: Share of Student Debt by Household and Unemployed Workers, by Education Level



Source: People's Policy Project, Bureau of Labor Statistics, CRFB calculations
Share of student debt in 2019 by household; share of unemployed (not seasonally adjusted) in March 2021

Especially considering the uneven, "k-shaped" recovery from the early months of the pandemic, in which higher-educated workers were more likely to retain their jobs and workers with lower levels of education lost work or had their hours cut back, forgiving debt of those who fared better financially during this crisis is a particularly poor use of resources. More than 70 percent of currently unemployed workers do not have a bachelor's degree, including 43 percent who never attended college.

Blanket Debt Forgiveness Could Create a Moral Hazard

Absent other reforms to higher education financing, blanket student debt forgiveness would likely result in increased borrowing and reduce incentives for schools to keep costs under control.

The people who would benefit from student debt forgiveness are those who have already taken out loans and have outstanding balances. If student debt were cancelled without other significant changes to the student loan system, a reasonable person might expect the moral case for blanket

[10] Sandy Baum & Adam Looney, "Who Owes the Most in Student Loans: New Data from the Fed," The Brookings Institution, October 2020, https://www.brookings.edu/blog/up-front/2020/10/09/who-owes-the-most-in-student-loans-new-data-from-the-fed/.
[11] Bureau of Labor Statistics, data for 4th quarter of 2020.
[12] "The Volume and Repayment of Federal Student Loans: 1995 to 2017," Congressional Budget Office, November 2020, https://www.cbo.gov/publication/56706.

debt forgiveness to be just as strong next year as it is now. The expectation that $10,000, $50,000, or even all of their debt might be forgiven at some point could become an influential factor driving more students to borrow more money than they might have before. Using the same logic, many borrowers would likely decide to pay down as little of their debt as possible over as long a timeframe as possible.

That same expectation would lead many borrowers to be less sensitive to tuition increases, which would alleviate pressure on schools to rein in costs, especially graduate schools where student loan amounts are not capped.[13] This could create a vicious feedback loop where students borrow more, incentivizing schools to raise prices, which in turn forces students to borrow even more.

In the meantime, pressure would build on Congress to offer another round of blanket forgiveness, all while doing nothing to address the underlying issues in federal higher education finance policy.

Issues with the Current Federal Student Loan System

While federal student loans are still a good bet on average, there are significant problems within the portfolio. Before the pandemic, about half of the loans that ought to have been in repayment were not. That is to say, over 20 million borrowers who should have been making progress towards paying off their loans were instead delinquent, in forbearance or a hardship deferment, or were in default.[14]

The causes of this non-repayment are multifaceted, but for a large number of borrowers, their education investment did not pay off.[15] Keep in mind, this non-repayment number does not include the additional 9 million borrowers enrolled in Income-Driven Repayment (IDR) plans, which now accounts for 34 percent of all dollars in the portfolio. 75 percent of borrowers in these plans are not paying enough to cover the interest owed each month, so their loan balances are *increasing* over time.[16]

[13] After factoring out any other forms of financial aid, students enrolled in graduate school (as well as parents) can borrow up to the cost of attendance (tuition plus cost of living).
[14] Office of Federal Student Aid: Federal Student Loan Portfolio, https://studentaid.gov/data-center/student/portfolio.
[15] Borrowers who don't complete school make up a large share of defaulters, see: Ben Miller, "Who Are Student Loan Defaulters?" Center for American Progress, December 2017, https://www.americanprogress.org/issues/education-postsecondary/reports/2017/12/14/444011/student-loan-defaulters/. Borrower behavior as it relates to student loans is also complex and dependent on other factors, see: Jason Delisle & Alexander Holt, "Why Student Loans Are Different: Findings from Six Focus Groups of Student Loan Borrowers," New America, March 2015, https://static.newamerica.org/attachments/2358-why-student-loans-are-different/StudentLoansAreDifferent_March11_Updated.e7bf17f703ad4da299fad650f47ac343.pdf, and "Borrowers Discuss the Challenges of Student Loan Repayment," The Pew Charitable Trusts, May 2020, https://www.pewtrusts.org/en/research-and-analysis/reports/2020/05/borrowers-discuss-the-challenges-of-student-loan-repayment.
[16] Office of Federal Student Aid and "Income-Driven Repayment Plans for Student Loans: Budgetary Costs and Policy Options," Congressional Budget Office, February 2020, https://www.cbo.gov/publication/55968 .

There are several groups of people we should be concerned about in the current student loan program. The first are those who borrow to attend school and either do not earn a degree or do earn a degree but not a sufficient increase in income to justify the loan. Various forms of Income-Driven Repayment programs exist for these borrowers, all of which reduce a borrower's monthly payment to an amount that is considered affordable based on their income, even to the point of having a $0 payment for low incomes. If borrowers participate in these programs, the government forgives their loans after 10, 20, or 25 years.[17] However, the fact that over 9 million borrowers are currently in default shows that simply having these options available is not a cure-all. More can be done to target relief for struggling borrowers. Policymakers could also consider changes to loan availability for schools where a large group of students leave with high debt levels and no increase in income.

The next group of people that policymakers should be concerned about under the current system are parents. The original premise of the student loan program was that the increase in future income from a student's education would allow them to pay back the loan affordably over time, thus justifying taking out a loan in the first place. We don't run credit checks for student loans, because a backward-looking credit score doesn't reflect a student's future earnings potential. However, this same logic does not hold for parents, who experience no increase in income due to their child's education, and thus have no increased ability to pay back the loan after the child graduates. Thus, in the current system, the federal government increasingly acts as a subprime lender to low-income parents, saddling them with high levels of debt that they won't be able to pay back.

There is also concern related to the amount of student debt that Black households are taking on. A higher percentage of Black households hold student debt compared to white and Hispanic households, and the average amount of debt they hold is also higher.[18] Research has also found that Black students with bachelor's degrees are more likely than their white counterparts to pursue graduate education. Black households have less wealth on average and are more likely to borrow for college than white households.[19] The large gap in wealth between Black and white households in the United States is a concerning issue, but student loan relief is a poor mechanism to significantly reduce that gap and does not justify a massive giveaway to wealthier households that have the ability to pay back their loans. While additional targeted economic relief is worthy of consideration, the barriers that Black households face do not justify a poorly targeted and regressive giveaway to other households.

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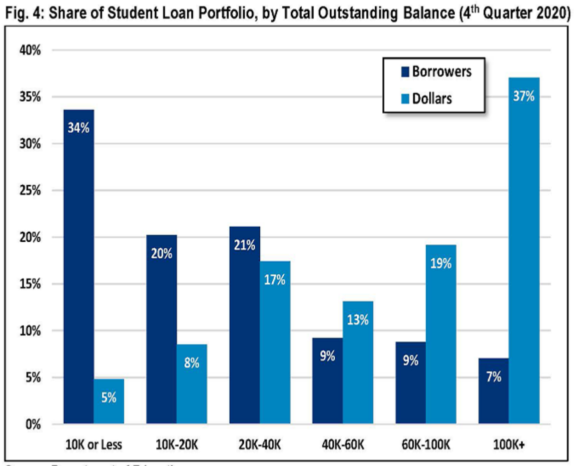
[17] Loans are forgiven after 10 years of payments in an IDR program while working for a full-time for a government or nonprofit employer. This is known as Public Service Loan Forgiveness.

[18] Survey of Consumer Finances Interactive Chartbook, https://www.federalreserve.gov/econres/scf/dataviz/scf/chart/.

[19] Judith Scott-Clayton & Jing Li, "Black-White Disparity in Student Loan Debt More Than Triples After Graduation," Brookings, October 2016, https://www.brookings.edu/wp-content/uploads/2016/10/es_20161020_scott-clayton_evidence_speaks.pdf.

Finally, much of the perceived student loan crisis is related to borrowing for graduate school. Graduate school loans now account for almost half of the federal student loan portfolio in terms of dollars.[20] Graduate students can borrow an unlimited amount up to the cost of attendance, meaning unlike undergraduate loans which have set caps, whatever the school decides to charge determines how much a graduate student is allowed to borrow. The more generous version of IDR enacted in 2012 (and subsequent versions thereafter) represents a windfall for graduate students who accumulate high levels of debt, even after they begin earning high incomes.[21]

Fig. 4: Share of Student Loan Portfolio, by Total Outstanding Balance (4th Quarter 2020)

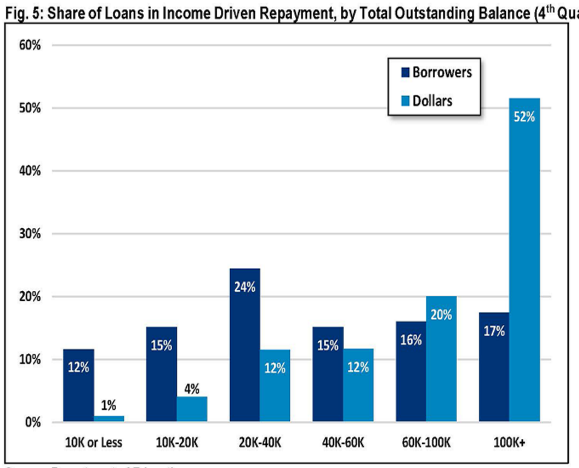


Source: Department of Education

At this point, the IDR program is subsidizing high-debt graduate degrees. Borrowers with over $100,000 of debt, despite attracting a large amount of media attention, represent only a small portion of borrowers in the overall student loan portfolio (7 percent). However, they represent a significant portion of outstanding dollars (37 percent) and an even larger portion of dollars in IDR (52 percent).[22]

[20] CBO, "The Volume and Repayment of Federal Student Loans."
[21] Jason Delisle and Alex Holt, "Safety Net or Windfall? Examining Changes to Income-Based Repayment for Federal Student Loans," New America, October 2012, https://static.newamerica.org/attachments/2332-safety-net-or-windfall/NAF_Income_Based_Repayment.18c8a688f03c4c628b6063755ff5dbaa.pdf.
[22] Office of Federal Student Aid: Federal Student Loan Portfolio, https://studentaid.gov/data-center/student/portfolio.

Fig. 5: Share of Loans in Income Driven Repayment, by Total Outstanding Balance (4th Quarter 2020)



Source: Department of Education

One way to prevent students from amassing these eye-popping amounts of debt is to cap borrowing for graduate students. Uncapped borrowing for graduate school has only been in place since 2006 and is therefore a relatively new phenomenon. If lawmakers think the absence of firm caps on borrowing for graduate school leads to economic gains, then they should structure the IDR program so that graduates who earn high incomes pay back the full amount. If such high levels of debt are considered unconscionable and immoral, then lawmakers should cap graduate student borrowing.

While blanket forgiveness of student debt would be extremely wasteful, additional targeted relief may be necessary due to the variation in outcomes for those attending college. This feature is already reflected in the current IDR system, but more can be done to help struggling borrowers. The IDR system should be reformed and streamlined to be easier to use. Ballooning balances as a result of IDR payments that cover less than accruing interest may also be a significant impediment to enrolling more borrowers into IDR. A variety of proposals to address this issue have been put forward across ideological lines, and a more equitable IDR program could likely make some of these proposals budget neutral or even save money for the government. By ensuring that high-debt, high-income borrowers enrolled in IDR pay their fair share, the program could be restructured so that relief could be more quickly targeted towards borrowers whose loans do not lead to an expected increase in income. In addition, loans that are forgiven under the normal IDR process should not be taxed as normal income. Doing so essentially shifts a portion of a debt that is 20-25 years old from the Department of Education to the IRS. While the current moratorium on that tax will remain in effect for the next 5 years, it should be made permanent in a budget neutral way by getting graduate borrowers to pay back into IDR for longer.

We Should Not Be Borrowing to Fix Student Loans

Policymakers authorized over $5 trillion of additional borrowing for relief and stimulus measures to address the pandemic. By the end of this fiscal year, debt-to-GDP could reach a record high of nearly 108 percent, overtaking the previous record of 106 percent reached just after WWII. Much of that borrowing was the right thing to do in response to such a cataclysmic and unprecedented public health emergency. In fact, one of the reasons the Committee for a Responsible Federal Budget advocates for responsible fiscal policy in good times is to ensure the country has the capacity to borrow in response to emergencies like the one we've collectively experienced for more than a year now. Borrowing both to manage the public health crisis and to help individuals and businesses stay afloat in the face of major economic shocks is responsible fiscal policy. However, debt was on an unsustainably rising path before the pandemic and the nation's precarious fiscal situation should not be denied or ignored. Now, with the economy poised to take off as vaccinations increase and communities reopen, policymakers must return to paying for the fiscal priorities they wish to enact.

There are many worthwhile policies that policymakers should consider, including increasing targeted relief to struggling borrowers. But if a policy is worth doing, it's worth paying for. Paying for a policy helps it become permanent, decreasing uncertainty about future education policy and allowing students to plan for their future.

Blanket student debt forgiveness is not one of those worthwhile policies. It is unfair and unequitable, providing the highest benefit to high-income earners with graduate and professional degrees. Whether the goal is to stimulate the economy, stop the rise in the cost of college, close the racial wealth gap, help low-income families, or reduce reliance on borrowing student loans, blanket debt cancellation is an extremely expensive policy that offers very low or no returns to those policy goals. And not only does it not reduce the cost of education for future students, it may actually increase them. And it could cost up to *$1.6 trillion*.

An economic relief package shouldn't forgive the loans of doctors and lawyers in the name of sending a small fraction of those dollars to struggling borrowers. Even $10,000 in blanket debt forgiveness is still extremely expensive. For the same ten-year cost, the maximum Pell Grant could be doubled. A package of education reforms should provide assistance to those who need it without the giveaway to those that don't.

Each dollar our federal government spends reflects our priorities as a country, and not all of these policies are created equal. While the federal economic response to COVID-19 has thus far proven remarkably successful in many ways, lockdown policies and the virus itself disproportionately affected certain groups of Americans. Those with lower levels of educational attainment and lower earnings were far more likely to lose their jobs during the pandemic, while many with higher levels of education were able to keep their jobs and actually saw their savings increase. As a nation, our priorities should be continuing the economic recovery and ensuring whatever relief our government provides is targeted directly towards those struggling the most.

PREPARED STATEMENT OF ADAM LOONEY

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APRIL 13, 2021

Chair Warren, Ranking Member Kennedy, and Members of the Committee, thank you for the opportunity to testify today.

Federal student loans impose a crushing burden on many borrowers, particularly those who enroll in programs where most students don't finish, programs where most graduates are unable to find a job, or programs where debts incurred are unpayable even with a good-paying job. Because of failures in federal lending programs, millions of Americans are drowning in student debt. The borrowers who struggle are disproportionately from lower-income families, first generation students, and students of color. And many more Americans miss out on the economic opportunities a college education provides out of fear of its cost.

But that is only part of the story. Most borrowers, like college and graduate students in general, earn more, are better educated, live longer, are more likely to own a home, and come from more affluent backgrounds than other Americans.[ii] Most student loans finance high-quality investments that boost borrowers' earnings and economic health. As a result, most debt is owed by well-educated graduates, in higher-income households who have the means to repay their loans.

In short, the economic burden of student loans varies enormously. The white-collar executive with an MBA, for example, is not in the same boat as the for-profit school dropout struggling to find a job. That means that widespread or universal policies to reduce student debt burdens are regressive and disproportionately benefit well-educated, high-income households, expanding inequalities between more and less educated Americans.

The high cost and regressive effects of across-the-board loan forgiveness can be reduced by targeting relief to those in need. For example, income-driven repayment plans reduce or suspend payments to borrowers whose incomes are low or debts too high and offer eventual forgiveness. Today's income-driven plans are flawed and need fixing. But it is essential to get them right because even under the most expansive "free-college" plans, many students would continue to need to borrow to cover living costs while enrolled, or to attend private universities, or graduate and professional schools. A sustainable solution to the student loan crisis requires not just addressing the debts of past students, but ensuring that future borrowers don't wind up in the same circumstances.

The Characteristics of Student Loan Borrowers

For background, more than half of student debt (56 percent) is owed by households with a graduate degree.[iii] That's not because most Americans have a graduate degree—only 13% do.[iv] It's because programs where students borrow large amounts are mostly professional degree programs like MBAs, law school, or medical school. Indeed, a disproportionate amount of student debt is owed by borrowers at a handful of elite colleges with prestigious graduate programs that charge astronomical tuition.[v] While we hear about the struggles of borrowers who owe more than $100,000, the reality is that only

7% of borrowers owe that much, and many of them are white collar professionals who can afford to repay their loans.[vi]

Most borrowers use student loans to finance high-value investments. In 2019, 56% of BA degree recipients from private nonprofit and public four-year colleges graduated with debt; they had had an average debt of $28,800.[vii]

After college, the typical bachelor's degree recipient earns significantly more than a worker with only a high-school diploma—about $1m more over a career.[viii] Today, in the midst of this terrible pandemic, while 6.7 percent of high school graduates are unemployed, only 3.7 percent of college graduates are (and the rate is even lower for those with advanced degrees).[ix] That helps explain why about 36 percent of all student debt is owed by individuals in the top 20 percent of the income distribution.[x]

And it's not just that borrowers do well after college, they often grew up in affluent households. There's no income or wealth test for who can get a federal student loan, and affluent students are more likely to go to an expensive college, complete a degree, and go to graduate school. As a result, the typical student who grew up in a high-income family incurs about 27 percent more debt than the typical student from a low-income family.[xi]

And that's among people who went to college. When you consider who goes to college in the first place, college students are even more privileged. About 80 percent of children who grew up in the top 25 percent of families go to college, compared with 29 percent of children who grew up in the bottom 25 percent.[xii] Those high-income students are six times more likely to complete their degree. Inequities like that helps explain why only 33 percent of Americans have a bachelor's degree.[xiii]

The barriers to going to college and graduating are particularly severe for Black and Hispanic Americans, who enroll in college at lower rates than whites and are less likely to complete a degree. Indeed, the intersection of these inequities mean that for Americans born in the early 1980s, there are more white Americans from the richest 10 percent of the income distribution who went to college than all Black Americans combined.[xiv]

In contrast, borrowers who struggle with student loans are different. Almost 90 percent of borrowers who default on a student loan received a Pell Grant because their income and wealth was low when they applied to college.[xv] Almost 46 percent of defaulted borrowers went to a for-profit school, even though they represent only 9 percent of students.[xvi] Half of defaulters never completed a degree, even though only 8 percent of student debt is owed by households without a degree. Other than the fact of having a student loan, the economic circumstances of struggling borrowers has almost nothing in common with borrowers from higher-income backgrounds and successful careers.

Reducing economic hardship associated with student loans

When considering policies to reduce the economic burdens of student loans, it is important to recognize that even modest student loan forgiveness proposals are staggeringly expensive and consume federal spending that would more effectively address economic hardship and inequities. The sums involved in loan-forgiveness proposals under discussion would exceed cumulative spending on many of the nation's major antipoverty programs over the last several decades.

In terms of its scale in budget and cost to taxpayers, widespread student loan forgiveness would rank among the largest transfer programs in American history. Full forgiveness of existing student debt would cost more than the cumulative amount spent on programs like unemployment insurance, or the Earned Income Tax Credit, or food stamps in total over the last 20 years.[xvii] And in contrast to those targeted programs, the beneficiaries of student loan forgiveness would be vastly richer, whiter, better educated, and of higher socioeconomic status.[xviii]

Indeed, a counterintuitive result of the analysis of who benefits most from student debt is that the money largely flows to borrowers who can and do repay their loans rather than those who cannot. In effect, loan forgiveness pays pennies on the dollar to borrowers without the means to pay or who are enrolled in repayment plans that lead to forgiveness, while paying the full value of the debt plus interest to higher-income borrowers who pay their loans. Without targeting relief, that can increase inequities rather than reduce them.

Helping struggling borrowers does not require providing a windfall to high-income, well-educated students from affluent backgrounds. In other contexts—like when we help struggling families put food on the table with food stamps, or laid-off workers pay the bills with unemployment insurance, or support working families with the earned income tax credit—federal programs target the aid to households in greatest financial need.

An effective way to target loan relief is through income-based repayment plans, which limit student loan repayments to 10 percent of a student's discretionary income (income minus 150% of the poverty line) and forgive undergraduate debt after 20 years. In principle, that program ensures that higher-income borrowers contribute to the cost of their postsecondary education, but provide relief to those who are less fortunate.

In practice, the program is flawed and needs improvement. Too few students enroll in the program because of administrative barriers and the complexity of our repayment program. Defaulted borrowers cannot enroll until their loans are rehabilitated or consolidated, and have limited opportunities to do that. The parameters of today's program and the disproportionate amount of debt owed by graduate borrowers means that the relief offered through income-based plans is heavily tilted to borrowers with expensive graduate degrees (including those with high incomes), rather than to low- and middle-income students with modest debts.[xix] There are many good policies to improve income-based repayment such as by making enrollment and re-enrollment automatic[xx], reducing paperwork burdens[xxi], and accelerating forgiveness for borrowers with smaller balances[xxii]. Likewise, the suspension of payments associated with the pandemic may provide an opportunity to rehabilitate the loans of defaulted borrowers and allow them to enroll in income-based plans, which would eliminate a key source of economic hardship.

In addition, it is important to recognize that federal policies already provide significant debt relief if a borrower's institution closes, if they are defrauded by their institution, if they become disabled, or if they work in public service. The implementation of those programs has been impaired, and relief has been delayed or denied to eligible borrowers. That can be fixed administratively.

Most problems that student borrowers face are predictable based on the institution or program they attend, the cost of the program, and their economic circumstances at enrollment.[xxiii]

For instance, the federal government offers loans to students at low-quality institutions even when we know those schools don't boost their earnings and that those borrowers won't be able to repay their loans. The federal government makes Parent PLUS loans to the poorest families when we know they will almost surely default and have their wages and social security benefits garnished and their tax refunds confiscated, as $4.5 billion were in 2019. The federal government saddles millions of students with loans to enroll in online programs, which seem to have offered no labor market value.[xxiv] It's no surprise that such loans lead to economic catastrophe for the affected borrowers.
Federal lending programs also allow many institutions, particularly those with graduate and professional degree programs, to charge astronomical prices and still attract student enrollment. There is little doubt that overpriced and low-quality institutions would be significant beneficiaries of widespread loan relief as it would justify their decisions to increase costs and eliminate the complaints of their students without requiring them to do anything about tuition or educational quality. In the absence of legislative reform, loan relief would give postsecondary institutions stronger incentives to increase prices and ignore the poor outcomes of their students.

Indeed, we are experiencing this crisis now largely because of changes in federal government policies that gutted accountability rules, expanded lending to online programs, and raised and then eliminated limits on the amounts parents and graduate students can borrow, which encouraged lower-quality institutions to increase enrollment, tuition, and the debts of their students[xxv]. At the same time, states pulled back from funding public colleges and federal grant aid fell behind the rising cost of college, shifting enrollment toward lower-quality schools. The evidence shows that the poor outcomes of students at those institutions are largely not explained by factors like family income, age, race, academic preparation, or other student characteristics but by the quality of the schools themselves. For instance, after controlling for such attributes, students that attend for-profit institutions are roughly 50 percent more likely to default on a student loan than students who attend public community colleges.[xxvi]

Screening out the worst programs and providing better financial incentives for schools to improve quality and control costs would alleviate the worst outcomes, and still provide access to high-quality education for students from all backgrounds. In the past, the accountability rules imposed in the early 1990s shut down many low-quality schools and led their students to enroll at better-performing programs, where students borrowed less, and default rates declined.[xxvii] Across America, there are thousands of institutions that regularly provide upward economic mobility to their students—including low-income, first generation, and minority students.[xxviii] Federal programs could do more to enroll students in such programs and help them to succeed.

Having established criteria that defined which institutions and programs should be eligible for federal aid and in what amount, and which students should be supported with federal grants instead of loans, Congress could use that as a template for targeting relief to existing borrowers who could not have benefited from those changes.

It's important to solve the problems in federal lending programs not only to help the millions currently burdened by student loan debt, but also because each year the federal government lends an additional $100 billion in new loans to Americans. Even if Congress enacted significant new spending to reduce or eliminate undergraduate tuition at public colleges, most of that borrowing would continue to be used to finance living expenses, tuition at private universities, and for graduate and professional degree programs. That means we can't throw the whole system out—we're going to need it. And thus we need to fix it.

The crisis in student lending can't be fixed with a one-size-fits-all approach to forgiveness. To address that, Congress must decide which students, institutions, and degree programs taxpayers should pay for and which should be paid by future students. It should do the same for existing borrowers. Federal aid should flow to those who truly need it and not all borrowers need help.

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RESPONSES TO WRITTEN QUESTIONS OF SENATOR KENNEDY FROM JOHN F. REMONDI

Q.1. Can you discuss your role in the Federal student loan process?

A.1. Thank you for this important question. To best appreciate the reform proposals that Navient presented at the April 13, 2021, hearing, it is critical to understand the origins of the current Federal student loan system and the role of companies, such as Navient, that provide services to the Federal Government for Federal student loans within the larger student loan ecosystem.

The Roles of Congress, the U.S. Department of Education, and Higher Education Institutions

In 2010, Congress passed, and President Barack Obama signed into law, the Health Care and Education Reconciliation Act of 2010 [1] (HCERA), which made the Federal Government, through its Direct Loan program, the exclusive originator and owner of all new Federal student loans. Congress sets the terms and conditions for how Federal loans are issued and repaid, and the Executive Branch is charged with issuing rules and regulations to implement the policy that Congress enacts. Specific terms and conditions that Congress sets include the loan program's interest rates, loan limits, and various repayment and deferment programs, such as income-driven repayment.

Individual colleges and universities set their own tuition and fees, and borrowers decide the amount needed to borrow based on their resources and the institution's cost and financial aid offers. The U.S. Department of Education issues loans according to the terms and conditions set by Congress, disbursing the loan funds directly to a school.

The Role of Loan Servicers

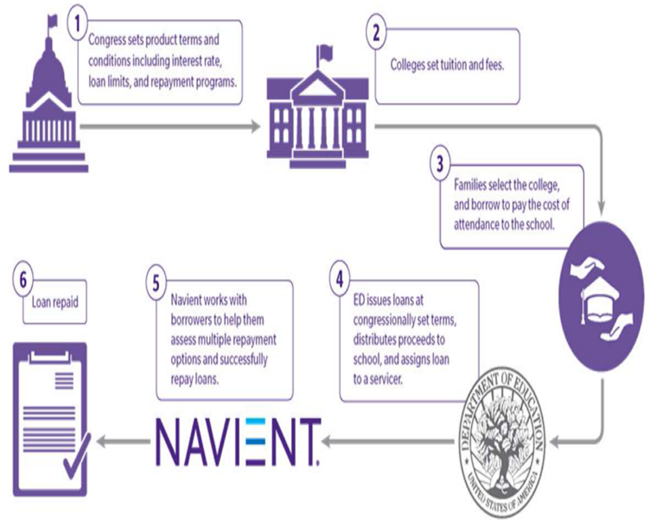
For each loan it issues, the Department of Education appoints a company to track loan balances, post payments, and work with borrowers to help them repay their loans. The work includes responding to borrower problems and questions, and helping borrowers assess their many repayment options based on their individual circumstances—all with the objective of helping them to successfully pay off their loans.

The Department of Education selects student loan servicers as Government contractors through an extensive and rigorous Federal Government procurement process. [2] Student loan servicers begin to work with students only after they have borrowed—after Congress has set the loan terms, the higher education institution has set the tuition cost, and the loan proceeds have been spent.

The graphic below provides a helpful summary of the life cycle of a student loan, detailing the roles of various players within the system.

[1] Health Care and Education Reconciliation Act of 2010, 42 U.S.C. 1305 (2010): *https://www.govinfo.gov/content/pkg/PLAW-111publ152/pdf/PLAW-111publ152.pdf.*

[2] The Department of Education currently works with multiple servicers: Nelnet/Great Lakes ($469 billion in ED volume), PHEAA ($381 billion in ED volume), Navient ($234 billion in ED volume), and several other smaller organizations including MOHELA, OSLA, and ED Financial (which, combined, service $152 billion in ED volume).



Q.2. Are student loan servicers to blame for problems the Federal Government created?

A.2. Many blame student loan servicers for the complexity of the Federal student loan program. However, the program's complexity is largely the result of layers of good intentions. It is not helpful nor productive to cast blame when it will require collective action to simplify the program and eliminate hurdles for borrowers' success.

The role of student loans servicers is narrowly defined by the specific terms of our contract with the Department of Education. We recognize that, because we engage with and help borrowers every day, some observers erroneously believe that we have influence over loan policy and rules; when in fact we do not set these policies and rules. Our analysis of Federal student loan borrower complaints submitted through the Consumer Financial Protection Bureau (CFPB) portal shows that more than 97 percent of complaints related to Federal policy or loan term disagreements, while only 2.7 percent related to loan servicer error.[3] In fact, Federal student loan servicers have no say in interest rates or repayment terms, and we do not benefit from the interest paid on loans as they are owned by the Federal Government. Federal student loan servicers also have no authority to waive credit bureau reporting, lower interest rates or forgive student debts, which are some of the major concerns that borrowers identify.

This confusion over the role of servicers led to false and unfounded allegations at the April 13, 2021, hearing that require a response.

[3] Navient, "Analysis of Submissions From the CFPB Consumer Response Portal", 2019, *https://news.navient.com/static-files/f440450e-bb37-46e2-a314-2c52d82b8713.*

First, Navient's subsidiary readily implemented all of the new guidance on reporting borrower complaints that came from a 2013 Department of Education Inspector General report as soon as it was issued. Contrary to assertions at the hearing, our subsidiary was in full compliance with the Department's requirements—and, as a contractor should, made adjustments as the Department gave new guidance. Prior to the report, the Department's Federal Student Aid office only required private collection agencies, such as our subsidiary, to report written complaints, but not verbal complaints. The IG report found that FSA should require reporting on verbal complaints. FSA agreed and our subsidiary quickly implemented this new instruction.

Second, Navient's primary mission has always been to help borrowers navigate a complicated student loan repayment process, helping borrowers to identify the best option that works for them in their particular situation. That is why Navient is the industry leader in helping borrowers avoid default. In fact, our borrowers are 34 percent less likely to default than borrowers served by other companies. We're also a leader in helping borrowers navigate the complexity of the approximately 60 Federal repayment options as 34 percent of all Federal borrowers we serve—51 percent of balances—are enrolled in income-driven repayment (IDR) plans. While certain cherry-picked accusations from the CFPB's lawsuit against Navient was referenced at the hearing, court discovery has shown that every borrower the CFPB identified had in fact received information from Navient about IDR plans, including before and immediately after enrolling in forbearance.

Finally, despite statements made at the hearing otherwise, there has been no final finding that Navient owes the Federal Government $22 million for alleged overpayments. The U.S. District Court for the Eastern District of Virginia is reviewing this matter—the first independent judicial review of this issue to date. The case involves a technical issue that dealt with unique financing issued in 1993 and retired more than 15 years ago where we relied on guidance issued by the Department of Education. The outcome will have no effect on the terms of any student loan borrower accounts. Our practices at the time were consistent with Department of Education guidance, which was codified in a formal letter the Department had issued.

Q.3. In your opinion, what hurdles do student loan borrowers face in our current system? What can the Federal Government do better?

A.3. Through my regular call listening, I hear the challenges some borrowers face. The list below identifies some of the major drivers of student borrower struggles.

Student Borrower Hurdles

First, college enrollment has increased with each generation and by more than 60 percent during the past 30 years.[4] While this has resulted in a record high college-educated adult population, it has

[4] U.S. Bureau of Labor Statistics, "Consumer Price Index for All Urban Consumers: Tuition, Other School Fees, and Childcare in U.S. City Average" [CUSR0000SEEB]. Washington, DC: *https://fred.stlouisfed.org/series/CUSR0000SEEB.*

also been accompanied by lower Government investment in education, resulting in more students needing student loans to attend school.

Second, the cost of college has skyrocketed. Since 1983, college costs have grown by more than 700 percent, an amount that both outpaces health care cost increases[5] and is five times greater than the rate of inflation.[6] While there are multiple components to higher education tuition pricing, the simple fact remains that the ever-increasing cost of attendance drives an increased need to borrow.

Third, even as the college enrollment rate has surged, many students do not graduate, and the data show that leaving school without a degree is the single largest factor driving student loan defaults. Department of Education data show that only 62 percent of students pursuing a bachelor's degree graduate within 6 years, and the rate is even lower at less competitive or open enrollment colleges.[7]

Fourth, graduate degree borrowing has been a significant factor in the growth in student debt. In 2006, graduate students became eligible to borrow the full cost of attendance (including living expenses) through the Government's Grad PLUS program. Graduate programs enroll only 15 percent of all students in higher education, yet they account for 40 percent of Federal student loans issued each year.[8] The program has increased access for more people to pursue advanced degrees but has also caused a significant increase in outstanding student debt.

Fifth, loan repayment options have grown exceedingly complex, and some of the options create confusion and challenges for borrowers. There are now nine different IDR plans—each with different pros and cons and eligibility requirements. These payment plans greatly increase monthly affordability. However, they also have the effect of stretching out payments to as long as 25 years and often increase total loan costs and the outstanding balance on the loan.

Actionable Solutions

The good news is that there are several practical, achievable measures that Congress can pass to help current and future borrowers avoid or overcome these challenges. We group these in three categories here, and more detail is in the written testimony submitted for the April 13, 2021, hearing.

First, Congress and the Administration should consider several targeted, practical loan forgiveness programs for those who have been attempting to pay for over 30 years and for those in default

[5] U.S. Bureau of Labor Statistics, "Consumer Price Index for All Urban Consumers: Medical Care in U.S. City Average" [CPIMEDSL]. Washington, DC: *https://fred.stlouisfed.org/series/CPIMEDSL.*

[6] U.S. Bureau of Labor Statistics, "Consumer Price Index for All Urban Consumers: All Items in U.S. City Average" [CPIAUCSL], Washington, DC: *https://fred.stlouisfed.org/series/CPIAUCSL.*

[7] U.S. Department of Education, National Center for Education Statistics, "The Condition of Education Undergraduate Retention and Graduation Rates". Washington, DC: April, 2020. *https://nces.ed.gov/programs/coe/indicator-ctr.asp*

[8] Ben Miller, Center for American Progress, "Graduate School Debt; Ideas for Reducing the $37 Billion in Annual Student Loans That No One Is Talking About". Washington, DC: January, 2020. *https://www.americanprogress.org/issues/education-postsecondary/reports/2020/01/13/479220/graduate-school-debt/*

for over 10 years. We also recommend making student loans dischargeable in bankruptcy after a good faith period of repayment.

Second, Congress should implement faster forgiveness programs for current and future borrowers, through enactment of a "Forgive-As-You-Go" plan. Congress can simplify the numerous repayment programs by combining similar programs into one that prevents loan balances from increasing over time and eases the enrollment process. Rather than wait for years to realize loan forgiveness, under Forgive-As-You-Go, borrowers would see their balance decline each month as they make their payments adjusted to their income and receive monthly loan forgiveness.

Third, students should receive better support before they borrow and while enrolled in school to help more students achieve their goal of graduation. Simply put, borrowers who do not graduate face greater challenges than those who do. Increased education about borrowing would help students and their families understand the total cost to earn their degree, the amount they need to borrow, and how their program of study and career choices will help them repay their loans. The Government and higher education institutions can work together to improve these outcomes for current and future students.

Navient stands ready to work with policymakers, members of Congress, and the Biden–Harris administration to bring about these and other important reforms.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR KENNEDY FROM JAMES H. STEELEY

Q.1. Can you discuss your role in the Federal student loan process?

A.1. PHEAA is a multifaceted Pennsylvania State agency offering student financial aid services throughout the Commonwealth, while also serving as an administrator of Pennsylvania student aid programs—all of which help students and families as they pursue an affordable postsecondary education.

As you know, there are many facets within the Federal student loan and student aid programs. Congress initiates and passes legislation establishing Federal student loan programs such as the Federal Family Education Loan Program (FFELP)—which the Federal Direct Loan program eliminated in 2010—the Public Service Loan Forgiveness Program (PSLF), and Teacher Loan Forgiveness, among others.

Congress sets the terms for these loan programs, including interest rates, loan limits, borrower qualifications, and repayment and deferment plans, such as Income-Driven Repayment (IDR) and Income-Based Repayment (IBR). Congress has, over time, created multiple student loan repayment options, including nine different IDR plans, all with nuances and subparts which can be extremely complex and confusing to borrowers.

Students choose where they purse their postsecondary education, be it a 4-year, 2-year, or other training opportunity. These institutions establish their tuition costs and fees, which is what a student uses to determine how much money they will need to borrow to fund their higher education.

The U.S. Department of Education disburses the student's Federal loan directly to schools according to the loan program's terms as set by Congress. The Department of Education hires student loan servicers as Government contractors to perform loan servicing activities on those loans, such as tracking loan balances, applying payments, and counseling borrowers through their individual circumstances, with the goal of successfully achieving full repayment (or loan forgiveness).

The hiring process to become a Federal loan servicer is a rigorous and competitive procurement process. Currently, there are six Federal student loan servicing entities.

PHEAA became a Federal student loan servicer in 2009 and has since worked closely with student loan borrowers to help them achieve successful repayment. While this has been challenging as the Federal loan programs have undergone many complex expansions and revisions over the last 12 years, we remain steadfast in our mission as a public service State agency to assist borrowers throughout the Commonwealth and the Nation to responsibly manage their debt.

PHEAA's role as a student loan servicer is just one of the areas in which we operate and assist students and families in navigating the student aid system, while creating affordable access to higher education for Pennsylvania students and their families.

As a trusted public servant for nearly 60 years, PHEAA has helped generations of Pennsylvanians to afford higher education, while minimizing their reliance on student loan debt.

PHEAA uses its earnings to support a variety of critical outreach and student aid awareness initiatives focused on helping students make wise choices early in the career and college planning process so they can avoid unnecessary student loan debt.

Q.2. Are student loan servicers to blame for problems the Federal Government created?

A.2. As a Federal student loan servicer, PHEAA is required to adhere to the laws as written by Congress and the rules and regulations set forth by the U.S. Department of Education. PHEAA is strictly bound by those laws and the terms of our servicing contract with the Department of Education; therefore, it is not within PHEAA's purview to unilaterally change or override any program rule or eligibility requirement. Nevertheless, PHEAA regularly advocates on behalf of borrowers with the Department of Education and continues to put forward proposed policy changes and collaborative suggestions that can positively improve both experiences and outcomes for students and borrowers.

As a longstanding public servant and Federal loan servicer, PHEAA finds no value in assigning blame; rather, we endeavor to be part of the solution to any problem or challenge created by or associated with the Federal student aid programs.

PHEAA has a history of providing Congress and the Department of Education with sound proposals for addressing issues, specifically within the PSLF program, that were most impactful for borrowers. We also established with the Department of Education a joint Task Force that meets biweekly to review borrower issues and implement further improvements to the PSLF Program.

Since the Task Force's first meeting in December 2019, PHEAA has delivered on several crucial enhancements that have increased speed, accuracy, transparency, and flexibility for borrowers, including:

- A change in the lump sum requirements thereby allowing borrowers to make a single payment to cover and satisfy several monthly payments (which is especially beneficial for military members)
- Supporting interaction with FSA's first tool allowing borrowers to determine eligibility of most qualifying employers
- The development of a single combined form for Employment Certification for TEPSLF and PSLF
- Major enhancements to our borrower portal providing full transparency for a PSLF borrower to review their loan level payment history, the status of each payment in terms of being eligible, qualifying or denied for PSLF with further information as to reasons a payment may not "count." This level of detail provides every PSLF borrower with the opportunity to submit a request for an additional review on any nonqualifying payments.

Q.3. In your opinion, what hurdles do student loan borrowers face in our current system? What can the Federal Government do better?

A.3. The Federal loan programs are complex, confusing, and frequently changing. These changes make it difficult for borrowers to fully understand all the elements and nuances of the programs. Multiple repayment plans, various complicated forgiveness programs, and inconsistent messaging are all elements that should be improved for the borrower's benefits. Of course, the continued rising costs of a postsecondary education remains a difficult barrier for many.

What is often lost in the press and among policy makers in regard to student loans and student loan servicers is, servicers only become involved after the debt is taken on by the borrower.

Individuals make decisions about which school to attend, how much money to borrow and what career they intend to pursue, long before a servicer has any involvement in the repayment of their debt. Federal Direct Loans are often bundled together as part of an aid package so student borrowers frequently do not have the level of transparency that consumers have with other types of loans. As stated earlier, institutions of higher education determine their costs and fees and, again, servicers are not party to any of those decisions. Therefore, servicers are not able to influence costs, loan debt, repayment programs, or determine ability to repay.

PHEAA works with borrowers to assist them in gaining a footing, within the parameters set forth by Congress and the Department of Education, in meeting the debt obligations they have in a manner that will be successful for them. The programs, as outlined here are complex and overwhelming for some; but, at the same time, serve as the only means by which many students can pursue their postsecondary goals.

One example of program complexity is the PSLF Program. The premise for PSLF may sound basic, but the reality of the program's complexities has made the process challenging and continually frustrating for all involved.

Congress created PSLF in 2007; however, the first servicing contract for PSLF was not awarded until late 2011, at which time PHEAA became the sole servicer. Prior to PHEAA being selected as the servicer for PSLF, public information on the program was largely limited to what was expressly written in the law; there was no Department of Education published guidance for borrowers to follow to ensure that all the program rules were being met—including having the right type of loan, being in the right repayment plan, and being employed by the right type of qualifying employer.

It's important to note, that in 2007, when PSLF was created, approximately 75 percent of Federal borrowers had FFELP loans, loans that were ineligible for participation in PSLF as designated by Congress. In 2010, through the Health Care and Education Reconciliation Act of 2010 (HCERA), the FFELP program was eliminated and the Federal Government, through the Direct Loan program, became the exclusive originator and owner of all new Federal student loans. To qualify for PSLF, a borrower must have a Direct Loan; thus, it was not until the 2010–2011 academic year that all new Federal loan borrowers became Federal Direct Loan borrowers. This is highly relevant to the timing of when borrowers could become eligible for forgiveness.

It was through PHEAA's partnership and collaboration with the Department of Education that resulted in the creation of the first Employer Certification Form (ECF), 5 years after establishment of the program. This form is critical to beginning the process towards loan forgiveness for a borrower interested in PSLF. While there was, and still is, no Department requirement for this form to be submitted on a regular basis, PHEAA encourages borrowers to recertify annually, which triggers a regular review of their eligibility status.

Because employment must be verified to confirm eligibility for PSLF, PHEAA has long recommended the establishment of a publicly available eligible employer database to provide a tool to borrowers when considering their eligibility for PSLF. That database, first discussed in 2012, was implemented by the Department in 2020, 13 years after the program's inception.

In 2018, Congress passed the Consolidated Appropriations Act, which provided additional conditions under which borrowers may become eligible for loan forgiveness through the Temporary Expansion of Public Service Loan Forgiveness (TEPSLF) Program.

TEPSLF alleviated some of the confusion created by the lack of early program support by addressing which repayment plans may or may not be eligible for PSLF. However, while again, the premise was simple, complexities remain around TEPSLF.

While the Office of Federal Student Aid (FSA) designated PHEAA as the only servicer of the PSLF and TEPSLF Programs, borrowers are not required to transfer their loans to PHEAA from their current servicer until they express interest in or apply for forgiveness. PSLF is, by its nature, a retroactive program looking at the employment and payment histories of individuals—in some cases long before PHEAA becomes their servicer.

PSLF requires 120 qualifying payments to be eligible for forgiveness. There have been many headlines and statements made about a "99 percent denial" rate, which unfortunately, is quite misleading. Most of the "denials" to date have simply been due to the overwhelming majority of applicants having not yet been in repayment on an eligible direct loan for 10 years and made the necessary 120 qualifying payments while being employed by a qualifying employer. Therefore, rather than a "hard denial", most of these applicants are just not eligible—yet. Since November 2020 (the date of the last published figures by the Department of Education), we have seen a steady upward trend of borrowers successfully achieving forgiveness and we expect to see more than $1 billion in loan forgiveness within the next 12 months.

Much like "Public Service Loan Forgiveness" sounds like a simple concept, so does the idea that you "make 120 payments and you are finished." This gives rise to such questions as, "Why does it take so long to count those payments" or "I made the payment, why doesn't it count?" We fully understand the frustration of borrowers and of Congress seeking answers to those questions. Unfortunately, the rules of the Program as established by the Department, have various, mandated conditions with defined terms, including:

- Was the payment made on time?
- Was the payment early?
- Were there forbearance or other status changes on the account?
- Was the repayment plan a qualifying plan?
- Does the employment qualify?

PHEAA has worked diligently with the Department of Education to address these pain points and the confusion they cause for borrowers and has had some success in simplifying and streamlining the process.

As stated here and in my hearing testimony, PHEAA has a great deal of experience and information in the operation these programs and strives to assist borrowers and families through what is too often a stressful process. We continue to offer our expertise to you, your colleagues, the Department of Education and others interested in finding real solutions to issues impacting students, families, and the aid programs. There is much we can do working together to make real improvements that will have immediate and long-lasting positive impacts on borrowers.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR KENNEDY FROM BETH AKERS

Q.1. If we cancel student loans today, what about next year's graduating class? What about those that have just paid off their loans?

A.1. Response not received in time for publication.

Q.2. Who stands to benefit most from student loan cancelation?

A.2. Response not received in time for publication.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR DAINES FROM BETH AKERS

Q.1. Can you expound on why canceling debt is a poor idea beyond the fact that it is unfair to those who paid their loans off? More specifically, if we go down this road, how likely is this to become a recurring handout that distorts lending and borrowing practices?

A.1. Response not received in time for publication.

Q.2. I grew up on construction sites with my father, so I know how important hard skills learned by builders, plumbers, electricians, welders, roofers, and technicians are. Many of these folks secure high paying jobs before graduating, and are able to discharge their loans far more quickly than other elements of the labor force. Can you each explain how career and technical education should be prioritized as part of the strategy to address student debt?

A.2. Response not received in time for publication.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR KENNEDY FROM CONSTANTINE YANNELIS

Q.1. What kind of boost to income would debt cancelation even have for borrowers?

A.1. In regards to the effects of student debt on incomes, there is not a lot of evidence showing that canceling student debt would increase incomes. One of the most cited studies is actually by the current Chair of the Council of Economic advisers and former Dean of the Princeton policy school, Cecilia Rouse. The study actually finds that debt causes graduates to choose substantially higher salary jobs. So if we take the results of that study written by the Chair of Biden's Council of Economic advisers at face value, we would expect student debt cancelation to actually lower incomes. Now, there are a lot of reasons why the results in that study may not apply to the general population, and there are other studies including my own, for the sake of brevity let me just say that the evidence is mixed and there is not strong evidence that student debt cancelation, for the general population, will increase incomes.

Q.2. Is debt cancelation an effective method of stimulating the economy?

A.2. On the issue of student debt stimulating the economy, I think Jason Furman, the Chair of former President Obama's Council of Economic advisers put it best when he said that the effects would be "close to zero." The reason why student debt cancelation is a poor form of stimulus is that most of the canceled payments would come far in the future, so we aren't really putting any money in anyone's pocket today. Even worse, for each dollar of canceled payments, the Government has to issue an additional dollar of debt or raise taxes. This could have negative effects on spending canceling out any potential positive effects of student debt cancelation.

In sum, claims that student debt cancelation will have massive stimulative effects on the economy are at best uncertain, and in some cases clearly incorrect. Some of the claims being made today by those in favor of student loan cancelation appear detached from reality and the expert consensus.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR DAINES FROM CONSTANTINE YANNELIS

Q.1. Many students are compelled to attend the best schools that will accept them regardless of their financial circumstances. Soaring tuition has made attending college prohibitively expensive. Will you share with me how debt cancelation fails to address the underlying causes of crushing student debt, and perpetuates the cost of education?

A.1. I agree that rising costs of college are an important issue. One thing to note is that canceling student debt might further increase the costs of college, if students anticipate future forgiveness.

Predatory colleges might even use loan forgiveness as a recruiting tool to encourage students to take on more debt. A large body of recent academic work has shown that colleges capture Federal loans and grants by raising tuition. This is often referred to as the "Bennett hypothesis." Simply canceling debt will do nothing to fix the ultimate cause of rising debt—high tuition and other expenses—and in several years we will be in the exact same situation.

Q.2. I grew up on construction sites with my father, so I know how important hard skills learned by builders, plumbers, electricians, welders, roofers, and technicians are. Many of these folks secure high paying jobs before graduating, and are able to discharge their loans far more quickly than other elements of the labor force. Can you each explain how career and technical education should be prioritized as part of the strategy to address student debt?

A.2. While there are many high-earning professions that do not require a college degree, individuals with higher educational attainment tend to earn more. While on average those who attend college and graduate school earn more, an important point is that there are large differences across school and degree types. Many students, particularly at less selective institutions and degrees might be better served attending shorter technical or vocational programs, rather than borrowing heavily for degrees with low returns. Separating which programs and degrees have high returns is an area where more data and analysis is needed.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR KENNEDY FROM ALEXANDER HOLT

Q.1. How would the Federal Government find the money to cancel student loan debt?

A.1. Canceling student debt would immediately increase the Federal deficit. Because the Federal Government itself owns most outstanding Federal student loan debt, it would not need to immediately raise additional funds to cancel that debt in the short term. Instead, policymakers would need to increase taxes, cut spending, or increase borrowing over time to replace lost debt repayments. The Committee for a Responsible Federal Budget estimates that canceling \$10,000 of debt would cost about \$245 billion, with a range of \$210 billion to \$280 billion. Canceling \$50,000 would cost \$950 billion, with a range of \$675 billion to \$1.04 trillion. Full cancelation of the Federal student loan portfolio would cost around

$1.57 trillion. From an accounting perspective, the cost is added to the deficit immediately, while the impact on the debt would be more gradual.

Q.2. What are the fiscal trade-offs for forgiving student loan debt?

A.2. Blanket cancelation of student loan debt is trading debt for one group (individual borrowers today) with another (future taxpayers and beneficiaries of other Government programs). Unfortunately, student debt cancelation is both extremely expensive and regressive. For instance, a study by Sylvain Catherine and Constantine Yannelis shows that the top income decile receives more benefit than the bottom 30 percent of earners for either $10,000, $50,000, or full cancelation. As for the macroeconomic benefit, a new analysis published by the Committee for a Responsible Federal Budget shows that for each dollar spent on debt forgiveness, it would result in only about 10 to 13 cents of economic output while most stimulus measures produce 50 cents to two dollars of output.

The cost of canceling all Federal student debt itself is about 7 percent of 2021 GDP (though that cost would be added to the debt gradually). This cost rivals the size of the Tax Cuts and Jobs Act and the American Rescue Plan, which both cost $1.9 trillion, and comes in the context of already high and rising national debt. Debt held by the public currently exceeds the size of the economy and is projected to reach a new record as a share of Gross Domestic Product (GDP) by the end of this fiscal year—eclipsing the previous record set immediately after World War II—before rising to a record 113 percent of GDP by the end of the decade under current law.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR DAINES FROM ALEXANDER HOLT

Q.1. Can you expound on why canceling debt is a poor idea beyond the fact that it is unfair to those who paid their loans off? More specifically, if we go down this road, how likely is this to become a recurring handout that distorts lending and borrowing practices?

A.1. If some amount of student debt is canceled, it would be reasonable for a future student to think that there is at least a chance that their debt could be canceled. That will mean that some students will probably borrow more than they otherwise would have. This puts less pressure on higher education institutions to keep tuition down and therefore makes it easier to raise tuition and fees. As institutions increase prices, students would be forced to borrow more. And as students borrow more, calls for another round of debt forgiveness would increase, especially since students would be borrowing more since the last cancelation. This could evolve into an endless cycle of cancelation that would effectively render student borrowing meaningless. To the extent lawmakers are concerned about a student loan crisis, it would be more effective to correct for the causes of the crisis, as opposed to intermittently canceling debt without doing anything to control for the rising costs of higher education.

Q.2. I grew up on construction sites with my father, so I know how important hard skills learned by builders, plumbers, electricians, welders, roofers, and technicians are. Many of these folks secure high paying jobs before graduating, and are able to discharge their loans far more quickly than other elements of the labor force. Can you each explain how career and technical education should be prioritized as part of the strategy to address student debt?

A.2. Career and technical education is an important aspect of higher education. In certain instances, shorter-term programs can lead to high-paying jobs in important sectors in the economy.

Apprenticeship programs can also be an effective way to teach skills while on the job. Overall, the Government should prioritize Federal financial aid to programs that lead to positive outcomes for students and scrutinize programs that leave students with high debt but no increase in earning potential. This is true for all types of programs in the Federal financial aid system. It's also worth noting that some career and technical education programs that operate outside of the Federal financial aid system can be quite successful when connected to employer needs in the communities the schools serve.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR KENNEDY FROM ADAM LOONEY

Q.1. Is student loan debt a major contributing factor for the decline in home ownership among young adults? What about marriage?

A.1. Young Americans face headwinds from two major recessions in the last decade, which has made it harder to embark on a successful career, and from surging home prices, which has delayed their ability to afford a home. However, individuals with a good quality college degree fared much better than other Americans in the labor market, are more likely to find a job, and typically earn higher incomes. That is an important reason why college graduates and even student loan borrowers are more likely to be able to purchase a home and are more likely to be married.

Even among similarly situated individuals who have gone to college, the best evidence suggests that rising student loan balances are not the central cause of the decline in home ownership among younger Americans and can account for only a small share of the decline.

Moreover, the effect of student debt may stem not directly from the amount of debt owed itself, but because some borrowers default on their loans, which impairs their credit and ability to take out a mortgage.

Q.2. Can you explain the correlation between college-educated individuals and income levels? How do they fair in comparison to those who never graduated college or only have a high school diploma?

A.2. College-educated individuals earn significantly more than those who never graduated from college or have only a high school diploma. They also are less likely to become unemployed, are healthier, wealthier, live longer lives, and enjoy many other benefits. For instance, the average bachelor's degree recipient earns about $1m more over a career than a worker with only a high school diploma. According to the Bureau of Labor Statistics, in May 2021, the unemployment rate of high school graduates was 6.8 percent, more than double the unemployment rate of individuals with a college degree (3.2 percent). According to the Federal Reserve's Survey of Consumer Finances, in 2019 the median net worth of households headed by a college graduate was $308,200. For households headed by an individual with a high school diploma, it was $74,000. A 25 year old with a college degree can expect to live more than 3 years longer than a 25 year old with only a high school diploma. For these and other reasons, postsecondary educational attainment rewards typical students with tangible benefits that outstrip the cost of tuition.

ADDITIONAL MATERIAL SUPPLIED FOR THE RECORD

LETTER FROM MARION ROSS FEDRICK, PRESIDENT, ALBANY STATE UNIVERSITY

Office of the President

Monday, April 12, 2021

The Honorable Jon Ossoff
United States Senate
455 Russell Senate Building
Washington, D.C. 20510

Dear Senator Ossoff,

Thank you for the opportunity to share the impact that student loan debt has on students at Albany State University (ASU), one of our nation's historically black colleges and universities (HBCUs). At ASU we focus on student success, including the financial success of our students.

Considering many of our students come from lower-income households and are also first-generation students, we remain concerned about the rising debt for our students. These students are faced with the impossible position of either,

1. Exhausting their student loan eligibility before completing their course of study and, or,
2. Dropping out of school resulting in inability to satisfy their financial obligations to the institution.

Both groups of students are negatively impacted as they do not complete their degrees and are unable to attend another institution because of the outstanding debt, making them unable to seek a rewarding career that will allow them to repay their student loans or earn a living wage successfully.

ASU Numbers

In 2019-2020, ASU enrolled 6,122 students, of which 75.2% or 4,601 of those students depended on federal student loan programs to satisfy part of their financial obligation. The total amount awarded to these students was nearly $36.4M. The average student loan was over $2,300. First-generation students in this same cohort fared worse with over 1,200 students borrowing almost $10M with a slightly higher average loan amount of $2,400 per student. After all financial aid was exhausted, 711 (15.4%) students remained who still had an outstanding balance of more than $2,400 owed to the institution. Unfortunately, many of these students would later have to leave the university for financial reasons.

Loan programs are essential and are the only way that many students can afford to attend college. However, in their current state, loans leave students with debt that they cannot satisfy upon

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graduation. Many of these students are strapped with loan debt well into their careers, hindering them from starting families and purchasing homes.

We strive to make college education more affordable for all students. The University System of Georgia has one of the lowest tuition rates in the nation. However, our students, particularly those from lower-income homes and first-generation families, face these financial challenges and are unable to remain enrolled and complete their degrees. We will continue to search for ways to financially support students through college. However, it has become untenable for them to attend without incurring long-term and debilitating debt. This directly impacts their ability to support a growing economy.

We appreciate your support and dedication to addressing the student loan challenge. We are here to support your work and are happy to provide any additional information you may need. Please do not hesitate to give me a call if you have questions.

Sincerely,

Marion Fedrick

Marion Ross Fedrick
President

JOINT LETTER FROM MARY SCHMIDT CAMPBELL, PRESIDENT, SPELMAN COLLEGE

Spelman College®
OFFICE OF THE PRESIDENT
PHONE: 404-270-5001
FAX: 404-270-5010

MARY SCHMIDT CAMPBELL, Ph.D.
President

April 13, 2021

The Honorable Jon Ossoff
US Senate
Subcommittee on Economic Policy
Committee on Banking, Housing, and Urban Affairs
Dirksen Senate Office Building, Room 534
Washington, D.C. 20510

Dear Senator Ossoff:

On behalf Spelman College, Morehouse College, and Fort Valley State University, we thank you for holding the hearing titled *"The Student Debt Burden and Its Impact on Racial Justice, Borrowers, & The Economy"* to examine the student loan debt crisis as a whole and specifically analyze the impact student loan debt has on racial justice, borrowers, and the economy. As you look to develop policy proposals and solutions to reduce the burden of debt on borrowers, we encourage you to take a targeted approach in examining methods that will focus on both removing racial inequities and reducing the disproportionate impact of student loan debt on borrowers of color and institutions that seek to serve these individuals.

When examining student loan demands and the behavioral trends of borrowers, it is essential that policy makers examine all facets of data particularly the socio-economic differences among racial and ethnic groups. In the United States Department of Education scorecard, data revealed that 80 percent of students who attend HBCU's receive federal student loans in comparison to the 55 percent of students attending non-HBCU's[1]. Moreover, the individuals who are attending HBCU's are predominantly African American and 41 percent of these borrowers are first-generation colleges students who are more than twice as likely to be behind on student loan payments as those with a parent who completed a bachelor's degree.

As you are aware, the value of obtaining a college degree has continued to increase due to workforce demands and employers who actively seek college-educated individuals to fulfill their workforce needs. In order to obtain a college-degree and enter into the workforce that will support individuals' access to high-quality jobs, many students have to seek out financial aid. According to a report released by the Federal Reserve, fifty-four percent of young adults who went to college took on some debt, with 93 percent of debt presenting itself in the form of student loans[2]. Although student loan debt impacts the vast majority of student borrowers, the disparate impact on borrowers of color and individuals who attend Historically Black Colleges and Universities (HBCUs) must be addressed to ensure equal opportunity for all individuals.

[1] Author's calculations using U.S. Department of Education College Scorecard: median family income, 2005.
[2] Student loan borrowing has declined since its peak in 2010–11 but remains substantially above the levels from the mid-1990s (Sandy Baum, Jennifer Ma, Matea Pender, and Meredith Welch, Trends in Student Aid 2017(New York: The College Board, 2017)

Letter to Senator Jon Ossoff - Committee on Banking, Housing, and Urban Affairs Subcommittee on Economic Policy
Re: Student Loan Debt
April 13, 2021
Page 2

The rising cost of education and student loan payments presents a challenge to all student borrowers and racial inequities simply exacerbate the issue for our students and institutions. We appreciate your time and attention to this important issue and look forward to working with you to create a system that promotes economic viability and equal opportunity for all individuals.

Mary Schmidt Campbell, Ph.D., President
Spelman College

David A. Thomas, Ph.D., President
Morehouse College

Paul Jones, Ph.D., President
Fort Valley State University

JOINT LETTER SUBMITTED BY SENATOR ELIZABETH WARREN

April 13, 2021

The Honorable Joseph R. Biden, Jr.
President of the United States
The White House
1600 Pennsylvania Avenue, NW
Washington, DC 20500

The Honorable Kamala D. Harris
Vice President of the United States
The White House
1600 Pennsylvania Avenue, NW
Washington, DC 20500

Dear President Biden and Vice President Harris,

We, the 416 undersigned community, civil rights, climate, health, consumer, labor, food and farm, and student advocacy organizations write to urge you to boost the economy, tackle racial disparities, and provide much-needed stimulus to help all Americans weather the pandemic and the associated recession by using executive authority to cancel federal student debt immediately.

Before the COVID-19 public health crisis began, student debt was already a drag on the national economy, weighing heaviest on Black and Latinx communities, as well as women. That weight is likely to be exponentially magnified given the disproportionate toll that COVID-19 is taking on both the health and economic security of people of color and women. To minimize the harm to the next generation and help narrow the racial and gender wealth gaps, bold and immediate action is needed to protect student loan borrowers, including Parent PLUS borrowers, by cancelling existing debt.

There is growing energy and strong bipartisan public support for immediate broad-based debt cancellation. Such executive action is one of the few available tools that could immediately provide a boost to upwards of 44 million borrowers and the economy. Lawmakers and advocacy groups have introduced several proposals to provide various levels of student debt cancellation. In February, Senate Minority Leader Chuck Schumer, Senator Elizabeth Warren, House Financial Services Chairwoman Maxine Waters, and Representatives Ayanna Pressley, Alma Adams, Ilhan Omar, Jamaal Bowman, Mondaire Jones, and Ritchie Torres introduced a bicameral resolution calling on the President to use executive action to cancel $50,000 in federal student loans for individual borrowers.[1] They were joined by 14 other Senators and 51 other Representatives, and received the support of a multi-state group of attorneys general.[2] The resolution highlights that the Higher Education Act empowers the Secretary of Education to cancel federal student debt administratively.

During the campaign, you endorsed $10,000 of relief while Congress negotiated the CARES Act, and subsequently promised to provide broad student debt cancellation "immediately" as a coronavirus response. Administrative debt cancellation will deliver real progress on your racial equity, economic recovery, and COVID-19 relief campaign priorities.

Student debt exacerbates existing racial inequities; cancellation will help reduce the racial wealth gap. The disproportionate impact of student debt on borrowers of color exacerbates existing systemic inequities and widens the racial wealth gap. Black Americans—and particularly Black women—are more likely to take on student loan debt and struggle with repayment. This burden is particularly acute for those Black students who are targeted by for-profit institutions, which also target veterans and often deliver poor instructional quality and outcomes at a high cost, causing a high proportion of students to drop out. Even for those students who do graduate, gainful employment in the field that they trained for is frequently elusive, leaving students with a lot of debt but not much to show for it. Student debt cancellation has the potential to increase the net wealth of Black households and could even help reduce the racial wealth gap.

Cancellation will provide a much-needed economic stimulus. Today's graduates face a dual crisis: in addition to the ongoing stagnation of wages, the pandemic has impacted their ability to earn income. Students who graduate into a recession face a "scarring" effect on their entire careers, leading to permanently lower employment and earnings. Data from before the pandemic showed that when subtracting all of their debts from all of their assets, today's young adults with college degrees and student debt were left with a *median net wealth of -$1,900* – a decline of approximately $9,000 from 2013. Student debt also impacts seniors, the nation's fastest-growing group of student debtors. 37% of seniors with student loans are in default, and in 2015 alone, 40,000 borrowers over 65 had their Social Security garnished due to student loans. The mere presence of student debt on households' balance sheets can make it harder or more expensive for families to get other types of credit and fully participate in the economy. Meanwhile, research shows that student debt cancellation catalyzes drastic, positive changes for borrowers, particularly for those not current on their loans. When borrowers' student debt is

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[1] https://www.warren.senate.gov/newsroom/press-releases/warren-schumer-pressley-colleagues-president-biden-can-and-should-use-executive-action-to-cancel-up-to-50000-in-federal-student-loan-debt-immediately

[2] https://ag.ny.gov/sites/default/files/multistate_letter_in_support_of_administrative_student_debt_cancellation_final.pdf

cancelled, their ability to pay down other debts increases; their geographic mobility and ability to stay in rural communities improves, as do their opportunities to pursue better jobs.

Cancelling student debt would jumpstart small business formation at a time when tens of thousands of small businesses have closed. These small business closures have most affected Black and Latinx business owners. Student debt cancellation would boost GDP, create jobs, and reduce unemployment.

Federal student debt cancellation could have a positive impact on health outcomes. A growing body of research suggests that debt is linked to negative health outcomes and contributes to existing public health disparities. Debt is associated with negative mental and physical health outcomes such as stress, depression, worse self-reported general health, higher diastolic blood pressure, obesity, and even mortality. High blood pressure and obesity, in particular, are both mentioned by the Centers for Disease Control and Prevention (CDC) as conditions that can increase the risk of severe illness from the virus that causes COVID-19. Another study found a connection between debt and foregone medical care. Thus, broad-based student debt cancellation could have profound positive effects on health outcomes.

Cancelling student debt would disproportionately help borrowers of color, respond to the coronavirus crisis, and provide much needed economic relief and stimulus. We call on you to deliver on the promise of the Biden-Harris Racial Economic Equity plan by cancelling federal student debt by executive action immediately.

Thank you for your leadership, and we look forward to working with you to address the critical issues facing our nation.

Sincerely,

National groups:

350.org
ACLU
Action Center on Race and the Economy (ACRE)
Advocates for Youth
Affordable Homeownership Foundation, Inc.
African American Ministers In Action
AFT Local 1904--Montclair State University
AFT- Local 5222
Agroecology Research-Action Collective

Alliance for Youth Action
American Academy of Social Work & Social Welfare (AASWSW)
American Association of Colleges for Teacher Education
American Association of University Professors (AAUP)
American Association of University Women (AAUW)
American Economic Liberties Project
American Federation of State, County and Municipal Employees (AFSCME)
American Federation of Teachers
American Medical Student Association
American Psychological Association
Americans for Democratic Action (ADA)
Americans for Financial Reform
Asian Pacific American Labor Alliance, AFL-CIO
Asset Funders Network
Association of Flight Attendants-CWA
Association of Latino Administrators and Superintendents
Augustus F. Hawkins Foundation
Autistic Women & Nonbinary Network
Bayard Rustin Liberation Initiative
Bend the Arc: Jewish Action
Campaign for America's Future
Center for American Progress
Center for Justice & Democracy
Center for Law and Social Policy (CLASP)
Center for LGBTQ Economic Advancement & Research
Center for Responsible Lending
CFPB Union NTEU 335
Change to Win
Children's Defense Fund
Clearinghouse on Women's Issues
Coalition on Human Needs
Color Of Change
Communications Workers of America
Community Organizing and Family Issues
Community Oriented Correctional Health Services (COCHS)
Consumer Federation of America
Consumer Reports
Council on Social Work Education
Demand Progress
Demos
Disability Rights Education & Defense Fund (DREDF)
Emgage Foundation Inc
EMPath: Economic Mobility Pathways
Faith in Action National Network

Family Equality
Food Insight Group
Forum for Youth Investment
Franciscan Action Network
Friends of the Earth U.S.
Fund for Community Reparations for Autistic People of Color's Interdependence, Survival, & Empowerment
Generation Progress
Girls Inc.
Greenpeace
Groundwork Action
HEAL (Health, Environment, Agriculture, Labor) Food Alliance
Hip Hop Caucus
Hispanic Federation
Human Impact Partners
IfNotNow
In Our Own Voice: National Black Women's Reproductive Justice Agenda
Indivisible
Insight Center for Community Economic Development
Invest in Women Entrepreneurs
Japanese American Citizens League
JFI - Jain Family Institute
Jobs With Justice
Labor Council For Latin American Advancement
Lawyers for Good Government (L4GG)
League of United Latin American Citizens (LULAC)
Legal Aid at Work
Liberation in a Generation
Main Street Alliance
Media Voices for Children
Minority Veterans of America
MomsRising
MoveOn
MyPath
NAACP
NACBHDD - National Association of County Behavioral Health and Developmental Disability Directors
NARMH - National Association for Rural Mental Health
National Action Network
National Advocacy Center of the Sisters of the Good Shepherd
National Alliance for Partnerships in Equity (NAPE)
National Association for College Admission Counseling
National Association for Latino Community Asset Builders
National Association of Consumer Advocates

National Association of Consumer Bankruptcy Attorneys (NACBA)
National Association of Social Workers (NASW)
National Black Justice Coalition
National Center for Law and Economic Justice
National Center for Lesbian Rights
National Children's Campaign
National Coalition for the Homeless
National Community Reinvestment Coalition (NCRC)
National Consumer Law Center (on behalf of its low-income clients)
National Council of Asian Pacific Americans (NCAPA)
National Disability Rights Network (NDRN)
National Domestic Violence Hotline
National Education Association
National Employment Law Project
National Equality Action Team (NEAT)
National Fair Housing Alliance
National Immigration Law Center
National Indigenous Women's Resource Center
National Latino Farmers & Ranchers Trade Association
National League for Nursing
National Partnership for Women & Families
National Resource Center on Domestic Violence
National Sustainable Agriculture Coalition
National Urban League
National WIC Association
National Women's Law Center
National Young Farmers Coalition
NETWORK Lobby for Catholic Social Justice
New Entry Sustainable Farming Project
NextGen America
Nonprofit Professional Employees Union, IFPTE Local 70
OCA – Asian Pacific American Advocates
Oil Change U.S.
Organic Consumers Association
Our Revolution
Parents Organized to Win, Educate and Renew – Policy Action Council
ParentsTogether
PDK International
People For the American Way
People's Action
People's Parity Project
Poverty & Race Research Action Council
Progressive Change Campaign Committee (BoldProgressives.org)
Progressive Leadership Initiative

Project on Predatory Student Lending
Protect All Children's Environment
PsychArmor
Public Advocacy for Kids (PAK)
Public Citizen
Public Counsel
Public Good Law Center
Rachel Carson Council
Restaurant Opportunities Centers United
Revolving Door Project
Rise
SaverLife
School Social Work Association of America
Service Employees International Union (SEIU)
Sikh American Legal Defense and Education Fund (SALDEF)
SisterSong National Women of Color Reproductive Justice Collective
Social Security Works
Social Work Helper PBC
Southeast Asia Resource Action Center (SEARAC)
Southern Rural Black Women's Initiative for Economic and Social Justice
SparkAction
Student Action
Student Borrower Protection Center
Student Debt Crisis
Student Defense
Student Voice
SumOfUs
Sunrise Movement
Swipe Out Hunger
Take on Wall Street
Tax March
The Climate Mobilization
The Coalition of Labor Union Women
The Congress of Essential Workers
The Debt Collective
The Education Trust
The Feminist Front (FF)
The Forum for Youth Investment
They Keep Bees
Towards Justice
U.S. Federation of Worker Cooperatives
UE, United Electrical, Radio and Machine Workers of America
UnidosUS
United Church of Christ, Justice and Local Church Ministries

United for a Fair Economy
United for Respect
United Parents And Students
United State of Women
United States Student Association
UnKoch My Campus
URGE: Unite for Reproductive & Gender Equity
Voices for Progress
Women Advancing Nutrition Dietetics and Agriculture
Working Families Party
Young Invincibles
YWCA USA

State and Local groups:

AAFF South Region
ACTION Tulsa
AFGE Local 3354 (AFL-CIO)
AFGE Local 704
AFSCME 3299
AFT-Oregon
AKPIRG
Alaska PIRG
Alliance of Rhode Island Southeast Asians for Education (ARISE)
Amara Legal Center
American Federation of Teachers, Local 2274 Ramapo College of New Jersey
American Federation of Teachers, Washington
Anti-Poverty Network of New Jersey
Arkansas Community Institute
Arkansas Community Organizations
Asian American Resource Workshop
Association of Legal Aid Attorneys - UAW Local 2325
Black Leaders Organizing for Communities (BLOC)
Bucks County Womens Advocacy Coalition
California LULAC
Cambodian Association of Greater Philadelphia
Cambodian Mutual Assistance Association of Greater Lowell, Inc.
Campus Action for Democracy
Carolina Jews for Justice
CASA
Cascadia Community College Federation of Teachers, AFT-Local 6191
Cash Campaign of Maryland
Center for Economic Integrity
Center for Popular Democracy Action

Central Florida Jobs with Justice
Charlotte Center for Legal Advocacy
Chicago Foundation for Women
Chicago Jobs with Justice
Chicago United for Equity
Chicago Urban League
Children's Defense Fund Southern Regional Office
Children's Defense Fund-CA
Chinese-American Planning Council (CPC)
Church Women United in New York State
Citizen Action of Wisconsin
CitySeed
Civil Service Bar Association
Cleveland Jobs with Justice
coasap
Colorado Jobs with Justice
Communities for Our Colleges, WA
Community Health Councils
Community Legal Advocates of NY
Community Legal Services, Inc. of Philadelphia
Community Service Society of New York
Community Voices Heard
Comprehensive Youth Services Inc.
Consumer Federation of California
Convencion Bautista Hispana de Texas
Cooperative Baptist Fellowship of Texas
Cultiva La Salud
Debt-Free MD, INC.
Delaware Association of Colleges for Teacher Education
Delaware Campaign for Achievement Now
Delaware Community Reinvestment Action Council, Inc.
Denver Area Labor Federation, AFL-CIO
East Bay Community Law Center
Education Minnesota
Empire Justice Center
Equality North Carolina
Every Texan
Evolve California
Fayetteville Police Accountability Community Taskforce
Florida Asian Services
Florida Asian Women Alliance
Florida Student Power Network
Forward Montana
Fossil Fuel Divest Harvard

Fresno Building Healthy Communities
Friendship of Women, Inc.
Generation Hope
Georgia Association of Colleges for Teacher Education (GACTE)
Georgia Watch
Grassroots Action NY
Greenlining Institute
Henry Ford College Fed of Teachers, AFT 1650
Hildreth Institute
Homeless and Housing Coalition of Kentucky
Hometown Action
Hoosier Action
Housing and Economic Rights Advocates
Hudson County Central Labor Council
IFPTE Local 194
Improve Your Tomorrow
Indivisible San Diego
Inversant
Iowa Citizens for Community Improvement
Iowa Student Action
Jacksonville Area Legal Aid, Inc.
Just-A-Start Corporation
Kanawha Valley National Organization for Women
Kentucky Center for Economic Policy
LatinxEd
Leaders Igniting Transformation
Leadership Counsel for Justice and Accountability
Legal Aid Society of Milwaukee
Legal Aid Society of the District of Columbia
Legal Services Staff Association, NOLSW/UAW 2320
Long Beach Alliance for Clean Energy
Los Amigos of Orange County
Louisiana Budget Project
LSCNY, Inc.
LULAC of Simi Valley
MAHA
Maine Center for Economic Policy
Mainers for Accountable Leadership
Maryland Association of Colleges for Teacher Education
Maryland Consumer Rights Coalition
Massachusetts Affordable Housing Alliance
Massachusetts Budget and Policy Center
Massachusetts Communities Action Network
Massachusetts Jobs with Justice

MD Chapter, NASW
Miami Valley Fair Housing Center, Inc.
Michigan Poverty Law Program
Millennial Rhode Island
Mission Possible Community Services, Inc.
Mississippi Center for Justice
Mobilization for Justice
Montana Fair Housing
Morgantown Pastoral Counseling Center, Inc.
Mountain State Justice
MS Black Women's Roundtable and MS Women's Economic Security Initiative
National Association of Social Workers New Hampshire Chapter
National Association of Social Workers New Mexico Chapter
National Association of Social Workers Vermont Chapter
National Association of Social Workers, California Chapter
National Council on Alcoholism and Drug Dependence-Maryland Chapter
NC Climate Justice Collective
Network for Victim Recovery of DC
New Economics for Women
New Economy Project
New Energy Economy
New Era Colorado
New Georgia Project Action Fund
New Hampshire Youth Movement
New Jersey Advocates of Education (NJAE)
New Jersey Association of Mental Health and Addiction Agencies, Inc.
New Jersey Citizen Action
New Jersey Institute for Social Justice
New York Legal Assistance Group (NYLAG)
New York Public Interest Research Group (NYPIRG)
NextGen California
NJ Communities United
North Carolina Council of Churches
Northeast Organic Farming Association-Interstate Council (NOFA-IC)
Northeast Sustainable Agriculture Working Group
OCA - Asian Pacific American Advocates: San Francisco Chapter
OCA Asian Pacific Advocates - Greater Seattle
OCA Greater Chicago
OCA Greater Cleveland - Asian Pacific American Advocates
OCA South Florida Chapter
Ohio Student Association
Oklahoma Association of Colleges for Teacher Education (OACTE)
Olive Hill Community Economic Development Corporation, Inc
Our Revolution Michigan

PA Stands Up
Pennsylvania Council of Churches
Piedmont Alliance for the Prevention of Substance Abuse (PAPSA)
Premier Women's Council
Progress Virginia
Progressive Leadership Alliance of Nevada
Public Higher Education Network of Massachusetts (PHENOM)
Public Justice Center
Public Law Center
Quiet Creek Herb Farm & School of Country Living
Reinvestment Partners
Rhode Island College AFT Local 1819
S.C. Appleseed Legal Justice Center
Save Us Now Inc
SEIU Local 500
SEIU Local 509
SOULS
Southern Echo Inc.
Southern Maryland Community Network
SPACEs In Action
Strong Economy For All Coalition
SW Action
The Collaborative
The Freedom BLOC
The Health, Education and Legal assistance Project: A Medical-Legal Partnership at Widener University Delaware Law School (HELP: MLP)
The Midas Collaborative
The New York Women's Foundation
THE ONE LESS FOUNDATION
The Recovery Council
Triangle Community Foundation
Tzedek DC
United Action for Idaho
United College Employees of FIT
United Vision for Idaho
United Way of Greater Greensboro
United Way of Southern Cameron County
Unity Fellowship of Christ Church NYC
University of California Student Association
Virginia Association of Colleges for Teacher Education (VACTE)
Virginia Organizing
VOCAL-NY
VOICE - OKC
Washington Bar Association

Washington Bar Association, Young Lawyers Division
Wayne State University, AAUP-AFT Local 6075
We All Rise
West Virginia Center on Budget and Policy
Western Center on Law and Poverty
Wisconsin Faith Voices for Justice
Wisconsin Network for Peace and Justice
Women Employed
Women's March Ann Arbor
Women's Rights and Empowerment Network
Women's Foundation of Arkansas
Women's Foundation of Minnesota
Women's Fund of Rhode Island
WV Citizen Action Education Fund
YWCA Great Falls
Zero Debt Massachusetts
Zonta Club of Concord, NH

FINAL ALERT MEMORANDUM FROM PATRICK J. HOWARD, ASSISTANT INSPECTOR GENERAL FOR AUDIT, DEPARTMENT OF EDUCATION, OFFICE OF INSPECTOR GENERAL

UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

AUDIT SERVICES

May 8, 2013

FINAL ALERT MEMORANDUM

To: James W. Runcie
Chief Operating Officer
Federal Student Aid

From: Patrick J. Howard /s/
Assistant Inspector General for Audit

Subject: Verbal Complaints Against Private Collection Agencies
Control Number ED-OIG/L06M0012

The purpose of this final alert memorandum is to inform you of our concerns regarding Federal Student Aid's (FSA) lack of enforcement of a contract requirement that Private Collection Agencies (PCAs) report verbal complaints from borrowers to FSA.

We became aware of this issue during our audit of the Handling of Borrower Complaints Against PCAs (ED-OIG/A06M0012), which covers October 1, 2009, through September 30, 2012. During our site visits to three PCAs, Pioneer Credit Recovery, Performant Financial Corporation, and NCO Financial Systems, Inc., we learned that none of the PCAs reported verbal complaints to FSA even though they each received verbal complaints. Prior to our site visit, Performant Financial Corporation was in the process of developing procedures for reporting verbal complaints.

The U.S. Department of Education (Department) contracts with 22 PCAs. The current contracts between PCAs and the Department state that each of the contractors will adhere to all complaint procedures required by the Department.

The PCA Procedures Manual dated July 12, 2012, specifies the procedures PCAs must follow when a PCA receives a complaint from a borrower; whether the complaint is verbal or written, the PCA will:

- suspend collection activity on the account,
- forward a copy of the complaint to the Atlanta Regional office within 1 business day via internal mail form, and then
- forward a response, including collector's notes, regarding the complaint to the Atlanta Regional Office within 5 business days of receipt via internal mail form.

Although each PCA visited had a slightly different process for addressing verbal complaints, according to the three PCAs, they did not consider verbal complaints to be actual complaints because they believed they had been able to "appease" the borrower and defuse the complaints. In addition, none of the PCAs tracked or reported verbal complaints. Unless a borrower followed up on a verbal complaint by submitting a written complaint, FSA was not notified of the verbal complaint or whether the complaint was resolved. As a result, FSA is unaware of the number or severity of verbal complaints that are filed by borrowers against PCAs and how these complaints are resolved.

We recommend that the Chief Operating Officer for FSA:

1.1 Begin enforcing the contract requirement that PCAs submit verbal complaints to FSA.

1.2 Develop a quality assurance program to verify that FSA is receiving all verbal complaints.

FSA Response

We provided a draft of this alert memorandum to FSA for comment. FSA stated that it shares the concerns identified in this alert memorandum and is committed to taking steps to address our recommendations. In its response dated April 10, 2013, FSA provided a series of corrective actions.

For Recommendation 1.1, FSA will:

- provide more specific guidance and customer-related criteria in the contract concerning the types of activities that fall within the definition of a complaint,
- expand the PCA Procedures Manual definition of unacceptable PCA behavior, and
- initiate a series of progressive disciplinary or administrative actions against offending PCAs.

For Recommendation 1.2, FSA will:

- add a provision in the PCA Procedures Manual to require PCAs to develop internal controls around identifying and reporting all verbal complaints,
- require PCAs to submit internal controls for verbal complaints for review and approval,
- require PCAs to report detailed information on all verbal complaints received on a monthly basis,
- increase the number of reviews of random phone calls to assist in corroborating suspected complaints, and
- increase the number of reviews of random phone calls to identify verbal complaints received by a PCA and whether the PCA has reported the complaint and taken appropriate action to resolve the complaint.

FSA believes it can successfully implement a more controlled monitoring environment around verbal complaints within 45 days.

In addition, FSA provided comments on the body of the draft alert memorandum regarding the definition of a complaint. According to FSA, any system for collecting and evaluating verbal complaints received by PCAs will be limited to "complaints" as defined in the PCA Procedures Manual that fall under the following three parameters:

1. Ensure that all attempts to collect on an account are fair and reasonable and do not involve harassment, intimidation, or false or misleading representation.
2. Unnecessary communication concerning the existence of any debt information will not be given to persons other than the borrower or borrower's attorney.
3. Requests for information from third parties must be supported by borrower authorization.

FSA does not expect PCAs to report verbal complaints that fall outside of these parameters. Specifically, FSA does not believe that borrower issues and misunderstandings related to program requirements and not to PCA activities should be included in the definition of complaints against PCAs.

We included FSA's response in its entirety as an attachment to this memorandum.

OIG Response

We consider FSA's comments to be responsive to our concerns and FSA's proposed corrective actions to resolve our recommendations. As FSA finalizes its corrective actions for the resolution process, we note that the PCA Procedures Manual currently has no definition of what constitutes a complaint against a PCA. The three parameters that FSA discussed do not provide sufficient guidance on what constitutes a complaint.

Administrative Matters

Corrective actions proposed (resolution phase) and implemented (closure phase) by your office will be monitored and tracked through the Department's Audit Accountability and Resolution Tracking System.

Alert memorandums issued by the Office of Inspector General will be made available to members of the press and the general public to the extent information contained in the memorandums is not subject to exemptions in the Freedom of Information Act (5 U.S.C. § 552).

We conducted our work in accordance with the Office of Inspector General quality standards for alert memorandums.

For further information, please contact Keith M. Maddox, Regional Inspector General for Audit at (214) 661-9540.

Attachment

cc: Susan Szabo, Chief Business Operations Officer, FSA
Phillip Rosenfelt, Acting General Counsel, Office of the General Counsel
John Kane, Deputy Director, Business Operations, FSA
Bradley Bumgarner, Executive Business Advisor, Mission Procurement Division/Acquisitions, FSA
John Ramsey, Contracting Officer, Mission Procurement Division/Acquisitions, FSA
Dawn Dawson, Audit Liaison Officer, FSA

Attachment

UNITED STATES DEPARTMENT OF EDUCATION
Federal Student Aid

April 10, 2013

TO: Keith M. Maddox
Regional Inspector General for Audit
Office of Inspector General

FROM: James Manning /s/
for James W. Runcie
Chief Operating Officer

SUBJECT: Draft Alert Memorandum, – "Verbal Complaints against Private Collection Agencies," Control Number ED-OIG/L06M0012

Thank you for providing us with an opportunity to respond to the Office of Inspector General's (OIG) concerns expressed in the draft alert memorandum regarding the process for collecting and evaluating verbal complaints received by Private Collection Agencies (PCAs). Federal Student Aid's (FSA) management shares these concerns and is committed to taking steps to address the recommendations included in the memorandum.

More specifically, FSA will address the OIG's recommended corrective actions as follows:

Recommendation 1.1: Begin enforcing the contract requirement that PCAs submit verbal complaints to FSA.

Response to Recommendation 1.1: FSA will provide more specific guidance and customer-related criteria in the contract concerning the types of activities that fall within the definition of a complaint. FSA will also expand the *PCA Procedures Manual's* definition of unacceptable PCA behavior in attempting to collect a debt and increase the number of phone calls it reviews (see below) to help determine if a PCA is submitting all verbal complaints. If FSA determines that a PCA is not reporting all of its verbal complaints, FSA will initiate a series of progressive disciplinary or administrative actions against the offending PCA(s) which will include warning notices, recalling or limiting transfer of accounts, or suspension or termination from the contract.

Recommendation 1.2: Develop a quality assurance program to verify that all verbal complaints are being received.

Response to Recommendation 1.2: FSA is adding a provision in the *PCA Procedures Manual* that covers borrower complaints to require the PCAs to develop internal controls around the identification and reporting of all verbal complaints. These internal controls must be submitted to FSA for review and approval.

FSA will require each PCA to report to FSA all verbal complaints it receives on a monthly basis. This reporting will include detailed information regarding each complaint, including:

1) the borrower name and account number,
2) the date the complaint was received,
3) the name and title of the representative who received the complaint,
4) the nature of the complaint,
5) the date the complaint was resolved,
6) the name and title of the individual who resolved the complaint,
7) any actions the PCA has taken to resolve the complaint, and
8) the PCAs assessment of the validity of the complaint.

FSA will increase the number of phone calls it reviews for each PCA to assist in corroborating any suspected complaints. This will be accomplished by listening to recordings (or samples) of the verbal complaints reported. FSA will also increase the number of random phone calls it reviews for the express purpose of identifying verbal complaints a PCA has received and whether or not the PCA has reported the complaint and taken appropriate action to resolve the complaint.

FSA believes it can successfully implement a more controlled monitoring environment around verbal complaints within 45 days. This will include implementing the changes discussed above, addressing any PCA misunderstandings about what constitutes a verbal complaint, and clarifying acceptable debt collection behavior.

In closing, we should note that any system for collecting and evaluating verbal complaints received by PCAs will be limited to "complaints" as defined in the *PCA Procedures Manual*. The manual defines complaints as items falling under the following three parameters:

1. Ensure that all attempts to collect on an account are fair and reasonable and do not involve harassment, intimidation, or false or misleading representation.

2. Unnecessary communication concerning the existence of any such debt information will not be given to persons other than the borrower or the borrower's attorney.

3. Requests for information from third parties must be supported by borrower authorization.

FSA does not expect PCAs to report verbal complaints that fall outside these parameters. Many borrower issues and misunderstandings do not relate to PCA activities, but rather to program requirements such Administrative Wage Garnishment or Treasury Offset. FSA does not believe these issues are appropriate for inclusion in the definition of PCA complaints.

Thank you again for the opportunity to comment on your draft alert memorandum.

cc: W. Christian Vierling, Director, Student Financial Assistance Advisory Team

LETTER FROM MARC EGAN, DIRECTOR OF GOVERNMENT RELATIONS, NATIONAL EDUCATION ASSOCIATION

April 12, 2021

The Honorable Elizabeth Warren
United States Senate
309 Hart Senate Office Building
Washington, DC 20510-2104

Dear Senator Warren:

The 3 million members of the National Education Association, who teach and support students in public K-12 schools and higher education institutions across America, thank you for the opportunity to submit comments for the record for the April 13 hearing on the $1.5-trillion crisis in student loan debt.

During the COVID-19 pandemic, suspension of student loan payments—most recently extended under Executive Order by President Biden—has been a lifeline for borrowers, many of whom have lost jobs or had their work hours or salaries reduced. However, the long-term effects of this crisis will be with us for some time, and those effects will be exacerbated when loan payments resume. Black, Hispanic, and Indigenous borrowers will bear the brunt of these effects because they have suffered greater job losses than have White Americans during this period. These effects will add to the already existing racial wealth gap, caused by generations of discrimination in employment and other areas, that has narrowed opportunities for people of color.

Cancellation of *at least* $50,000 in student loan debt will strengthen families' financial security, help close the racial wealth gap, and bolster our economy due to increased consumer spending.

Black Americans, especially Black women, are more likely to have to take on student debt and are more frequently targeted by predatory for-profit institutions. These institutions often leave borrowers with little to show—by way of good-paying jobs or high-quality education—for the debt they have accumulated. Research by D?mos has found that the typical White male borrower has paid off 44 percent of his loan balance 12 years after beginning college; for the typical Black female borrower, the loan balance has actually *grown* over this time by 13 percent. College debt is particularly burdensome for educators, who are among our society's most crucial and impactful professionals, yet are woefully underpaid. Teachers earn an average of 19 percent less than comparably educated workers in other fields, according to the Economic Policy Institute.

Many senators have taken steps to address the debt crisis, including Senator Warren, who has called for much-needed reforms to the Public Service Loan Forgiveness (PSLF) program, ending predatory practices in the student loan industry, and cancellation of at least $50,000 in student debt. NEA has been a longtime champion of these goals.

Toward that end, NEA and 17 other labor unions, collectively representing more than 10 million workers, requested in a letter to Education Secretary Miguel Cardona that the Department of Education invoke an immediate 90-day review of the PSLF program. We asked that during this review, the department hear the heartbreaking stories from borrowers who have fulfilled their service obligations, yet been failed by the program. We furthermore asked that after the review, the department cancel student loan debt for all public service workers with a decade or more of service.

The cancellation of at least $50,000 in student loan debt would assist individual borrowers and their families while also improving our nation's economic growth and stability. Again, thank you for turning your attention to this important topic. NEA members are eager to work with you on meeting the tremendous challenge of the crisis in student loan debt.

Sincerely,

Marc Egan
Director of Government Relations
National Education Association

LETTER FROM JUSTIN DRAEGER, PRESIDENT AND CEO, ASFAA

NASFAA
NATIONAL ASSOCIATION OF STUDENT FINANCIAL AID ADMINISTRATORS

February 15, 2019

The Honorable Kamala D. Harris
112 Hart Senate Office Building
United States Senate
Washington, D.C. 20510

The Honorable Doug Jones
326 Russell Senate Office Building
United States Senate
Washington, D.C. 20510

The Honorable Catherine Cortez Masto
204 Russell Senate Office Building
United States Senate
Washington, D.C. 20510

The Honorable Elizabeth Warren
317 Hart Senate Office building
United States Senate
Washington, D.C. 20510

Dear Senators Harris, Jones, Masto, and Warren:

On behalf of the National Association of Student Financial Aid Administrators (NASFAA), I thank you for the opportunity to provide thoughts and ideas on how to address the racial disparities that exist within higher education financing. NASFAA represents nearly 20,000 financial aid professionals who serve 16 million students each year at approximately 3,000 colleges and universities in all sectors of higher education throughout the country. NASFAA member institutions serve nine out of every ten undergraduates in the U.S., and a central part of our mission is to advocate for policies that increase student access and success, particularly for low-income and underrepresented students.

While our country has made great strides in providing access to an affordable college education over the past several decades, we know that disparities still exist between who is able to access and afford postsecondary education. Of particular concern, found across the entire college-going lifecycle, is the disparity that exists by race. Students of color are more likely to go into loan debt for their educations, borrow more than their peers, and have more difficulty repaying their loans. Compounding these issues are data that indicate that students of color are also less likely to obtain their degrees, which is one of the leading indicators for future economic stability and successful student loan repayment.

According to the National Center for Education Statistics (NCES), in 2016 an estimated 77.7 percent of African American students borrowed for postsecondary education, compared to only 57.5 percent of their white peers.[1] When it comes to degree attainment, of those who began their postsecondary degree in 2008, 63 percent of white students graduated within 6 years, as opposed to only 42 percent of African American students and 56 percent of Hispanic students. One long-range study shows that 49 percent of African American students defaulted on at least one loan within 12 years, compared to only 20 percent of their white counterparts.[2] The data are clear, and it is our responsibility as a community to consider policies to reduce these disparities so that education may be, as it was always intended, an equalizer.

[1] Safier, R. (2018). Student Loans Weigh the Heaviest on Black and Hispanic Students. *Student Loan Hero*. Retrieved from https://studentloanhero.com/featured/study-student-loans-weigh-heaviest-black-hispanic/
[2] Kelchen, R. (2017) New Data on Long-Term Student Loan Default Rates. *Kelchen on Education*. Retrieved from https://robertkelchen.com/2017/10/06/new-data-on-long-term-student-loan-default-rates/.

Opening Doors of Educational Opportunity

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Policy Solutions

Students of color face different challenges at different stages of the postsecondary process, from application all the way to repayment. It becomes important then to offer solutions for each stage of the higher education lifecycle, rather than trying to tackle the issue wholesale. NASFAA respectfully offers the following policy recommendations, divided into application, borrowing, and repayment, to be considered as ways to help address the racial disparities that exist within higher education. While our recommendations are not specifically focused on students of color, they reflect our mission of promoting access to and success in higher education for our country's neediest students, and we believe they can make a strong impact for underrepresented populations.

The Application and Verification Process

The Free Application for Federal Student Aid (FAFSA) is the first point of access to higher education, yet it still remains a barrier for many students, disproportionately impacting the most vulnerable student populations. NASFAA has long been interested in ways to make the FAFSA and the overall application process more efficient and streamlined for students and families. While improvements to skip-logic questions and the implementation of the IRS Data Retrieval tool have improved the application, NASFAA has developed a model for the FAFSA itself that would ensure program integrity and accurate targeting of federal funds, while simplifying the application for federal financial aid as a whole.

NASFAA's proposal would, after an applicant answers basic demographic and dependency status questions, steer applicants down one of three pathways based on their predicted financial strength.[3] Under this model, applicants who have a low predicted financial strength based on means-tested benefits and tax-filing status would not have much of an application at all, since their data could be matched against existing federal databases to which they've already provided information. Applicants with higher levels of predicted financial strength and more complex financial situations would be presented with more questions. Filtering in this way targets FAFSA questions about certain types of income or assets to the population most likely to have those income sources. Under NASFAA's proposal more income information would be brought over directly from the IRS, as well, decreasing the likelihood of user-error when supplying FAFSA information. We encourage Congress to approach FAFSA simplification with a focus not just on the number of questions, but on making better use of existing technology to make the form more accurate and efficient.

Congress has already made important steps toward aiding some of the country's most vulnerable students by introducing the FAFSA Fairness Act of 2019[4], which would allow students who are unable to provide parent information because of situations such as parental abandonment, abuse, or neglect, to submit their FAFSA after answering a single screening question, as a "provisionally independent" student. Currently, a FAFSA submitted without parent information is considered incomplete. If this bill is enacted, these students would no longer face the barrier of the FAFSA in getting the federal aid they need to achieve their educational goals.

Unfortunately, the complexities of the financial aid process do not end with FAFSA. If an application is selected for verification, the process used to check the accuracy of information provided by the applicant on the FAFSA, the student must provide specific documentation to their institution in order to receive any federal need-based funds.

[3] https://www.nasfaa.org/uploads/documents/fafsa_report_1.pdf
[4] https://www.nasfaa.org/news-item/17419/Democratic_Lawmakers_Aim_to_Help_Students_Without_Access_to_Parental_Information_Complete_the_FAFSA

The large majority of applicants selected for verification are eligible for the Pell Grant, and according to data from the Department of Education (ED), over half of Pell-eligible applicants were selected for verification in 2015-16.[5] Unfortunately, this means many of the lowest income students, or those most in need of financial aid, are targeted with heightened complexity, additional scrutiny, and delayed aid notification. It is estimated that more than 1 in 5 low-income students selected for verification never complete the process.[6]

For those that do take the necessary steps to complete verification, depending on the time of year, the ability and responsiveness of the student to obtain and provide requested documentation, and the processing ability of the institution's financial aid office, can make verification take a substantial time to complete, holding up the awarding and disbursing of a student's financial aid. In the fall of 2018 the Senate passed the Faster Access to Federal Student Aid (FAFSA) Act[7] that would allow for direct data-sharing between ED and the IRS. The FAFSA Act is the lynchpin to further simplification and reduction of verification burden, and we urge Congress to reintroduce and consider this important piece of legislation in the 116th session.

Borrowing

As the data above show, students of color borrow more, on average, than their white peers. While many factors account for the amount of debt students amass when seeking a postsecondary education, there are commonsense policies that can be put in place at the federal level to help reduce indebtedness. The below recommendations stand to aid all borrowers, but those with higher debt stand to benefit the most.

First, for many years NASFAA has advocated for the elimination of origination fees. Before a federal student loan is disbursed, the loan proceeds are reduced by the origination fee percentage, and those funds are withheld by ED. They are a relic of the bank-based guaranteed student loan program, a program where the fees offset subsidies to lenders. In 2016-17, the federal government charged $1.6 billion in origination fees, and collected more than $8.1 billion in origination fees from students and parents from 2012-13 to 2016-17. Parent PLUS loans generate the most revenue for the federal government at 29 percent of all origination fee revenue.[8]

Origination fees add to overall indebtedness and are nothing more than a tax on students and parents. Several bills have been introduced calling for the elimination of origination fees, including the Eliminating the Hidden Student Loan Act of 2017[9], and we implore Congress to revisit this issue and pass legislation that ends this unnecessary added debt.

Second, we encourage Congress to provide financial aid administrators with the authority to limit loan amounts in certain scenarios. Institutions are increasingly being held accountable for student repayment and default rates but have no practical tools to curb indebtedness. By allowing financial aid administrators to limit loan amounts to specific populations, academic programs, credential levels, or other categories established by the school (such as enrollment status, living arrangement, and dependency status), a school can better control borrowing and help their students keep student loan borrowing to a minimum. Several

[5] http://www.nasfaa.org/issue_brief_verification#f2
[6] http://www.collegeaccess.org/BlogItem?dg=25a2dd88-a0a9-4198-9fbe-1da7a06d290e
[7] https://www.congress.gov/115/bills/s3611/BILLS-115s3611es.pdf
[8] https://www.nasfaa.org/uploads/documents/Issue_Brief_Origination_Fees.pdf
[9] https://www.congress.gov/115/bills/hr3835/BILLS-115hr3835ih.pdf

bills have provided this authority, including the Financial Aid Simplification and Transparency Act[10] and the Promoting Real Opportunity, Success, and Repayment through Education Reform (PROSPER) Act.[11]

Finally, we cannot fully address the issue of racial disparity in indebtedness without examining the Parent PLUS Loan Program. According to New America, "Approximately a third of white PLUS borrowers come from household AGIs of more than $110,001, with about one in 10 coming from families with AGIs less than $30,000. For Black families, about one in 10 have AGIs over $110,001, with approximately one-third having an AGI of less than $30,000."[12] These numbers tell the story: Black families are at a much higher risk for insurmountable intergenerational debt, and the Parent PLUS program, as structured, allows for it, if not exacerbates it.

Currently, Parent PLUS borrowers can borrow up to their students' cost of attendance, so long as they simply maintain no "adverse credit history". Federal Parent PLUS loan underwriting does not take into account a parent's ability to repay their loan. In determining credit worthiness, NASFAA recommends parent eligibility credit criteria should include some measure of likely ability to manage their debt and repay the loan, such as a debt-to-income measure, use of FICO scores, or another test of adequate resources. In an acknowledgement that students and families now depend on loans to provide access to a postsecondary education, debt-to-income ratios or other underwriting metrics need not mirror private loan standards, but not accounting for ability to repay does not offer sufficient protections for parents.

Importantly, any underwriting changes made to parent eligibility criteria should be applied to new borrowers only, to protect current borrowers already in the system. This was made abundantly clear when ED in 2011, without making anyone aware, tightened the credit check for Parent PLUS borrowers, resulting in nearly 400,000 unexpected Parent PLUS denials, with 28,000 of those being for students at HBCUs.[13]

Finally, but perhaps most importantly, the most progressive student loan system would be one where low-income students need not borrow at all. That requires additional grants upfront to provide equal access to postsecondary options. According to the United Negro College Fund, the Pell Grant purchasing power dropped to its lowest point in history in 2015, covering less than one-third of the average cost of attending postsecondary education.[14] We must do better than this.

Repayment:

No matter the amount a student borrows, if they cannot navigate the existing complicated student loan repayment system, they will not be successful in repaying their loans. NASFAA recommends consolidating the multiple existing repayment plans we have now, many of them income-driven, into a simpler system. There are multiple ways this can be achieved, and likely several options that would work well, including moving to one income-driven plan and one standard plan. Congress has explored this idea in multiple pieces of legislation, including the Help Students Repay Act,[15] and we believe it is a critical component of reducing confusion and ultimately, default.

In developing any new repayment system, Congress must pay careful attention to the design and

[10] https://www.congress.gov/115/bills/hr3835/BILLS-115hr3835ih.pdf
[11] https://www.congress.gov/115/bills/hr4508/BILLS-115hr4508rh.pdf
[12] https://www.newamerica.org/education-policy/reports/wealth-gap-plus-debt/introduction/
[13] Carlton Brown, "Negotiated Rulemaking for Higher Education 2013" (testimony given at the U.S. Department of Education Office of Postsecondary Education Public Hearing, Atlanta, GA, June 4, 2013).
[14] https://www.uncf.org/the-latest/the-purchasing-power-of-federal-pell-grants-has-dropped-to-its-lowest-level
[15] https://www.congress.gov/115/bills/hr4372/BILLS-115hr4372ih.pdf

implementation of the programs and their respective forgiveness options. Can we, for example, simplify and streamline income-driven plans by automatically recertifying income, as was proposed in the Streamlining Income-Driven, Manageable Payments on Loans for Education (SIMPLE) Act.[16] As with almost everything touching the Title IV programs, the devil is in the details, and we encourage Congress to fully explore all aspects of repayment, along with potential unintended consequences, before developing a new system. We are also intrigued and supportive of recent announcements to explore allowing student loan payments through payroll withdrawal and the tax system. Given the overwhelming number of borrowers who are also W-2 wage earners, this could be a more effective way to keep borrowers' repayment amounts affordable and easy to make, all while keeping them out of delinquency or loan default.

Before closing, we would be remiss to not offer a note of caution on the broad topic of accountability in higher education, and our concerns related to how efforts to achieve more "risk-sharing" and "skin-in-the-game" could disproportionately impact students of color. While well-intentioned, the recent discussions around risk-sharing, such as the proposal to require schools to pay back a portion of their students defaulted dollars, have the potential to be catastrophic to under-resourced schools that are more likely to admit riskier students. A poorly designed risk-sharing program that does not consider institutional mission and the level of risk a school already assumes will end up being regressive in nature, harming the very students it seeks to help. Accountability is important and should be sought, but it will require thoughtful design that allows for the differences among institutions.

We thank you for the opportunity to share policy recommendations that we believe will help students of color better navigate the financial aid application, borrowing, and repayment processes. We are continually looking for ways to further develop our policy work and to collaborate within the community and are hopeful that these recommendations provide a strong base for beginning to tackle the issue of racial disparities in postsecondary education. This issue is not one that will be solved in a vacuum or by one proposal alone; in that vein, we look forward to continuing to work with you and our colleagues on this important topic.

Sincerely,

Justin Draeger, President & CEO

[16] https://www.congress.gov/115/bills/s1712/BILLS-115s1712is.pdf

LETTER FROM SHERRY G. TAGGART, STUDENT LOAN BORROWER

FedLoan Servicing
P.O. Box 69184
Harrisburg, PA 17106-9184

FOCA

Pennsylvania Higher Education Assistance Agency
The Office of Consumer Advocacy
1200 North 7th Street
Harrisburg, PA 17102

RE: Account [redacted] Sherry G. Taggart Thank YOU!!!

Dear Federal Loan Servicing, Pennsylvania Higher Education Assistance Agency, and The U.S. Department of Education,

I wanted to take this opportunity to sincerely thank you for working with me, communicating with me over many years, advocating for me, explaining the process many times, and following up with me on my Student Loan Forgiveness under the Temporary Expanded Public Service Loan Forgiveness (TEPSLF); specifically, helping me to qualify for this program and have my very large student debt, [redacted] forgiven!!

I can't accurately describe the utter relief I feel to have my student loans forgiven with this program. The weight of the debt carried with me for many years. I sincerely hope that I can do something for your organization to show my sincere gratitude.

If there is anything I can do - write a letter that will be published about the success of the program, write a review, or forward this letter to a specific individual or agency, I would be more than happy to do it! I appreciate your hard work and perseverance with accounts such as mine. I hope many people get to see this letter to know how much they are appreciated and what they do really does make a difference. If there is anything I can do, please contact me at my home address, email address, or phone number below.

Thank you again for your assistance and good communication so that I could access this program!

Sincerely,

Sherry Taggart

Sherry G. Taggart

[redacted]

Attachment 21-04_James_Steeley_Testimony